



**T.Y.B.A.**  
**RURAL DEVELOPMENT**  
**PAPER -V**  
**RURAL MARKETING AND**  
**FINANCE**

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# **I**

## **T.Y.B.A. RURAL DEVELOPMENT PAPER NO. V**

### **Rural Marketing & Finance (Implementation from June 2011)**

#### **Section - 1 Rural Marketing**

##### **1) Rural Marketing :**

- Concept - characteristics & scope of the rural marketing, significance of rural marketing.
- Factors of Rural Markets-Marketing Problems of Rural industries - Marketing for rural services.
- Problem of Rural Marketing.

##### **2) Agricultural Marketing :**

- Concept, Nature & types of Agriculture Product.
- Concept, Types & Factors of Agriculture Marketing
- Significance & Problems of Agriculture Marketing

##### **3) Agencies in Agriculture Marketing :**

- Marketing Agents
- Commission or Agriculture costs & prices (CACP)
- Agricultural Agencies
- FCI (Food Corporation of India)
- APMC (Agriculture Price & Marketing Council)
- NAFED (National Federation)

#### **Section - 2 Rural Finance**

##### **4) Rural Finance :**

- Concept, Nature types of Rural finance
- Rural indebtedness - causes, consequences & remedies
- Source of Rural Finance

## **II**

### **5) Institutional Finance :**

- Co-operative Financial Institution
- NABARD
- Rural Regional Bank

### **6) Self Help Group & Micro Finance :**

- Concept & Revolution of Self Help group
- Self Help Group - NGO - Bank linkage
- Significance of Self help Group in Rural Development

### **Practical Work**

**(Any three of following)**

1. Visit to primary market
2. A visit of marketing of local product
3. A study of self help group
4. A visit to APMC
5. A study to agricultural co-operative credit society
6. Preparation of application for agricultural finance



### III

## तृतीय वर्ष कला - ग्रामीण विकास

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(जून २०११ पासून अंमलात)

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- संकल्पना-वैशिष्ट्ये आणि ग्रामीण विपणनाची व्याप्ती-ग्रामीण विपणनाचे महत्त्व
- ग्रामीण विपणनाचे घटक - ग्रामीण उद्योगाच्या विपणन विषयक समस्या-ग्रामीण सेवा विषयक विपणन
- ग्रामीण विपणन विषयक समस्या

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- कृषी विपणनाची संकल्पना आणि पूरक घटक
- कृषी विपणनाचे महत्त्व आणि समस्या

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- कृषी मुख्य आयोग
- कृषी विपणन संस्था
  - i) भारतीय खाद्य निगम
  - ii) कृषी उत्पन्न बाजार समिती
  - iii) नाफेड

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- ग्रामीण कर्जबाजारीपणा - कारणे - परिणाम - उपाययोजना
- ग्रामीण वित्तपुरवठ्याची साधने

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- नाबार्ड
- रिझर्व्ह बँक ऑफ इंडीया

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५. कृषी सहकारी पतपुरवठा संस्थेस भेट
६. कृषी वित्तपुरवठ्यासाठी आवेदन पत्र तयार करणे



# **RURAL MARKETING: CONCEPT, CHARACTERISTICS, SCOPE AND SIGNIFICANCE**

## **Unit Structure**

- 1.0 Objective
- 1.1 Introduction
- 1.2 Concept
- 1.3 Characteristics of Rural Marketing
- 1.4 Scope of Rural Marketing in India
- 1.5 Significance/Importance of Rural Marketing
- 1.6 Exercises

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## **1.0 OBJECTIVES**

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The *marketing concept* is the philosophy that firms should analyze the needs of their customers and then make decisions to satisfy those needs, better than the competition. As per our syllabus objectives of this chapter are

- a) To know the meaning and concept of Rural marketing.
- b) To understand the characteristics of Rural marketing
- c) To learn the scope of Rural Marketing
- d) To know the significance of Rural Marketing

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## **1.1 INTRODUCTION**

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India is country of villages where more than 70% peoples are staying in villages. As per ancient text the term "Rural" is known in classical literature as "GRAM" Historically this term is known as village. Village means location situated on the bank of river, a small group of people having large homogeneity of cultural and living traits.

As a result of the "Green Revolution" there is a socio-economic revolution taking place in Indian villages since last three decades. The knowledge of fertilizers, water resources, pesticides, and better quality seed has been increased. Methods of farming



have changes the villages far better. Per capita income is also increased which change the manner to spend the money by rural people. The villages have accepted modern technology in agricultural. At the same time rural people accepted modern living. People in villages are demanded from fast foods to cars. In short life style of rural people has change in passage of time. These changes in villages have led villagers to think of material well being. The expanding rural market is important to the growth of economic development of India. With the change of attitude of the Indian farmers the marketing focus is also changing towards villages. The slogan of Mahatma Gandhi "Go to villages" came in truth in modern marketing concept.

An attempt is made in this chapter, to understand the basic concept of Rural marketing, its characteristics, scope, significance, factors, and problems of Rural marketing.

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## 1.2 CONCEPT

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### **Marketing:**

The *marketing concept* is the philosophy that firms should analyze the needs of their customers and then make decisions to satisfy those needs, better than the competition. Marketing generally involves a series of planned activities involved in moving goods from point of production to the point of consumption. It includes all the activities involved in the creation of demand, time frame, place, form of possession and utility, marketing is undisputedly the most important function of all business organizations worldwide. Marketing starts with human needs, wants and demands. Substantially, met with the availability of products and solutions in the form of goods, services and ideas.

**Marketing** is the promotion of business products or services to a target audience. It is, in short, an action taken to bring attention to a business offerings they can be physical goods for sale or services offered.

In 1776 in *The Wealth of Nations*, Adam Smith wrote that the needs of producers should be considered only with regard to meeting the needs of consumers. While this philosophy is consistent with the marketing concept, it would not be adopted widely until nearly 200 years later.

### **Definition of Marketing**

The word market is derived from Latin word 'Marcatus' means trade or a place where business is conducted. The term marketing is defined as a "Business activity planned at satisfying to a reasonable extent, consumer or customer needs and wants, generally through an exchange process"

Philip Kotler defines marketing as “a social and managerial process by which individuals and groups obtain what they need and want through creating, offering and exchanging products of value with others”

As per the definition by the American Marketing Association “Marketing is the process of planning and executing the conception, pricing promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational goals.

### **Rural Marketing:**

Rural marketing is now a two-way marketing process. There is inflow of products into rural markets for production or consumption and there is also outflow of products to urban areas. The urban to rural flow consists of agricultural inputs, fast-moving consumer goods (FMCG) such as soaps, detergents, cosmetics, textiles, and so on. The rural to urban flow consists of agricultural produce such as rice, wheat, sugar, and cotton. There is also a movement of rural products within rural areas for consumption.

National commission on Agricultural of India defines “Rural marketing as a process which starts with a decision to produce a saleable farm commodity and it involves all the aspects of market structure or system both functional and institutional based on technological and economic considerations and includes pre and post harvest operations assembling grading storage transportation and distribution”.

A large variety of transactions are considered as a part of Rural marketing.

These are marketing of:

- a) Agricultural inputs like fertilizers, pesticides, farm equipments.
- b) Products made in urban centers and sold to rural areas like soaps, toothpastes, TVs etc.
- c) Products made in rural areas sold to urban centers like khadi cloth handcrafted products, etc.
- d) Products made and sold in rural areas like milk and milk products locally manufactured toothpowder, cloth etc.

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## **1.3 CHARACTERISTICS OF RURAL MARKETING**

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Rural marketing is the process of developing, pricing, promoting distributing rural specific goods and a service leading exchanges between urban and rural markets which satisfies consumers demand and also achieves organizational objectives. Indian Rural Marketing in twenty first century offers great challenge

and promise to all people in the rural marketing chain. Rural marketing in India is a complex mix of factors such as, social, historical, cultural technical, economical and business. Good Rural marketing gives a multiplier effect and act as a booster to the economy. Some of the important characteristics of rural marketing are specified as under.

### **1. Large and scattered population:**

According to the 2011 census, 741.7 millions India's population lives in rural areas. The rate of increase in rural population is also greater than that of urban population. The rural population is scattered in over 6,38,365 villages. The rural population is highly scattered, but holds a big promise for the marketers.

### **2. Rising disposable income of Rural Customers**

New tax structures, good monsoon, the green revolution and the administered pricing mechanism have raised disposable incomes in rural areas. Today the rural consumer shops for value. This income attracts companies for marketing their products in rural areas.

### **3. Higher purchasing capacity:**

Purchasing power of the rural people is on the rise. Marketers have realized the potential of rural markets, and thus are expanding their operations in rural India. In recent years, rural markets have acquired significance in countries like China and India, as the overall growth of the economy has resulted into substantial increase in purchasing power of rural communities.

### **4. Market growth:**

The rural market is growing steadily over the years. Demand for traditional products such as bicycles, mopeds and agricultural inputs, branded products such as toothpaste, tea, soaps and other FMCGs and consumer durables such as refrigerators, TV and washing machines have also grown over the years.

### **5. Development of infrastructure:**

There is development of infrastructure facilities such as construction of roads and transportation, communication network, rural electrification and public service projects in rural India, which has increased the scope of rural marketing. Even today most villages in the country are inaccessible during the monsoons. Moreover 3 lakh villages in the country have no access to telephones. Other communication infrastructure is also highly under developed. Many rural areas are not connected by rail transport. 50% of roads have been poorly surfaced and majority is severely damaged by monsoons.

**6. Low standard of living:**

The standard of living of rural areas is low and rural consumers have diverse socio-economic backwardness. This is diverse in different parts of the country. A consumer in a village area has a low standard of living because of low literacy, low per capita income, social backwardness and low savings.

**7. Traditional outlook:**

The rural consumer values old customs and traditions. They do not prefer changes. Gradually, the rural population is changing its demand pattern, and there is demand for branded products in villages.

**8. Marketing mix:**

The urban products cannot be dumped on rural population separate sets of products are designed for rural consumers to suit the rural demands. The marketing mix elements are to be adjusted according to the requirements of the rural consumers.

**9. Diverse socio-economic background:**

This is different in different parts of the country and brings diversity in rural markets.

**10. Changing demand pattern:**

Demand pattern of rural customer is fast changing due to increasing in income and credit facilities offered by banks like 'Kisan credit card'.

**11. Major income from agriculture:**

About 60% of the rural income is from agriculture and hence the demand for consumer goods is high during harvesting season.

**12. Saving habits:**

Rural consumer is now having saving habits due to the efforts of co-operative and commercial banks. In place of purchasing high price products they preferred low price product and unspent amount is save for future needs.

**13. Media reach:**

The reach of print media is 10% followed by TV 31%, radio 31% and cinema 33%. The growth of satellite TV channels has had a major impact on villagers. It has led to a change in lifestyle. Consumption of non-food items has increased. Since to accessibility of television is high compared to other media, its capacity to arouse interest is also high. Rural consumers now aspire to by brands rather than just purchase commodities.

**14. Communication:**

There is substantial improvement in all communication fields since one decade. Even though as per Indian Express report about 6 lakhs villages are without telephone facilities. Today, some of the mobile companies reach to villages which increase communication facilities for rural consumers. This help for increase in purchasing power of villagers.

**15. Electrification:**

When India became independent in 1947, electricity was available in a few villages and merely touched a few town and cities. At the time of five year plans in 1951 about 3000 villages were provided electricity and nearly 21000 irrigation pump sets were energized. In 1965-67, a rural electrification programme was devised for increasing the infrastructural inputs for agricultural production programmes. To implement the programme effectively the Rural Electric Corporation was set up. At present 88% of villages have been electrified and rest will soon get electricity by "Rural Electricity Corporation". Due to improve of this technical service the standard of living of rural peoples has been increased.

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**1.4 SCOPE OF RURAL MARKETING IN INDIA**


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The new generation is no longer shying away from agriculture as a career. Many government initiatives like MNREGS and minimum support prices for various agriculture products have also given rural people a healthy income. There is no scarcity of job opportunities for the urban youth as well. In sectors like FMCG, automobile, retail, research and advertising, there are numerous prospects which are available at various levels in major companies having their operations in the rural sector.

The incursion of national and local brands into rural areas provides employment opportunities to the masses there. To exist in these markets, companies are coming up with money-spinning business models and are also appealing to the local population, as people in rural areas buy things based on the recommendation of others or those they are comfortable with.

The unappreciated rural story is now fast catching up and has opened the floodgates of prospects for those interested in making careers in this field.

Below are the few points why organizations are looking at rural marketing with a positive attitude.

**1. Population**

The rural population is large and its growth rate is also high. Despite the rural urban migration, the rural areas continue to be the

place of living for a vast majority of Indians. According to 2011 Census rural population is 72% of total population and it is scattered over a wide range of geographic area. That is 12% of the world population which is not yet fully utilized.

## **2. Rising rural prosperity**

Average income level has unproved due to modern farming practices, contract farming industrialization, migration to urban areas etc. There has been an overall increase in economic activities because during the planned rural development heavy outlay of resources on irrigation, fertilizers, agricultural equipment's and agro processing industry has been made. Saving habits in rural people also has increased. This too contributes in higher purchasing power

## **3. Growth in consumption**

There is a growth in purchasing power of rural consumers. But, the average per capita house hold expenditure is still low compared to urban spending. The average per capita household expenditure is Rs. 382. The average rural house hold spend on consumables excluding food grains, milk and vegetable is Rs. 215 with the most affluent households, the rich spending around Rs. 333 and the least affluent ones spending about Rs. 166.

## **4. Change in life style and Demands**

Life style of rural consumer changed considerably. There has been increase in demand for durables and non-durables like table fans, radios, mopeds, soaps, etc. by rural consumers. This provides a ready market for the producers. Rural market is expanding day after day.

## **6. Life cycle advantage**

The products which have attained the maturity stage in urban market is still in growth stage in rural market, e.g. popular soaps, skin cream, talcum powder, etc.

## **7. Decision-making Units**

Women in rural areas are beginning to make fast decisions for purchases. Studies reveal that 72.3% decisions are taken jointly in a family. With education and mass media, role of children in decision making is also changing

## **8. Market Growth Rate Higher than Urban**

As per the survey made by NCAER the growth rate of FMCG market and durables market is higher in rural areas. The rural market share is more than 50% for products like body talcum powder, toilet soaps cooking oil, hair oil etc. The durable market offers an excellent proposition. Following table compares the durable owned and estimates of future sales along growth rates in

rural and urban areas. The growth rates for all the three groups of durable for rural areas are much higher than those in urban area.

### Consumer Durables Rural Vs Urban

Groups	Areas	Million units			Growth % change over previous period	
		1994-95	2001-02	2010-11	2001-02	2010-11
I	Urban	140.10	195.15	245.09	39.29	25.59
	Rural	224.17	330.63	430.93	47.49	30.34
II	Urban	61.44	95.54	122.70	55.50	28.42
	Rural	43.54	100.13	144.83	129.97	44.64
III	Urban	35.99	83.05	138.31	130.76	66.54
	Rural	11.24	29.90	57.10	166.01	90.97

For analysis purpose the durable are classified in the following three groups.

Group I- Less than Rs. 1000 in value. Items like transistors, pressure cooker, wrist watches and bicycles.

Group II- Rs.1001-Rs.6000 in value. Items like sewing machines, Mixers and Cassette recorders, etc.

Group III- Above Rs. 6000 Items like Color TVs, Refrigerators, Two wheelers, Mashing machines. etc.

### **9. Rural Marketing is not expensive**

Conventional wisdom dictates that since rural consumers are mostly dictates that selling in rural India is not expensive. According to the research by Anurag-Madison it costs roughly Rs. 1 crore to promote a consumer durable inside a state. This includes the expenses of advertising in vernacular newspapers, television spots, in-cinema advertising radio, van operation and merchandising and point of purchase promotion. Campaign like this which can be reaching millions cost twice as much in urban area.

### **10. Skill Development**

The Indian government in the past few years has begun concentrating on providing vocational education to rural men and women. These skill development curricula help them to get employment and many of them, with the help and financial support of the government, start their own small businesses. Many private companies are also training these masses in various fields and later give them jobs in their own organisations. This is helping

people in getting employment in their own localities and companies are also gaining as they get this workforce at a very reasonable price. Even the farming community has been endowed by many technological inventions, and many private companies have started using mobiles as their means of business.

### **11. Education and Training**

The growing requirement of skilled professionals in these markets has led to the outgrowth of rural marketing as a subject and now it is taught in almost all major management colleges in the country. Degree and diploma courses in rural management are offered by numerous management institutes in the country.

The most accepted among them are MBA in Rural Management, Master of Rural Management (MRM), Post Graduate Diploma Programme in Rural Development Management, and Post Graduate Diploma in Rural Marketing. Admission into these courses is through the All-India entrance tests followed by group discussions and a personal interview. The least qualification to appear in these tests is a graduation or an equivalent degree from any recognized institute.

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## **1.5 SIGNIFICANCE/IMPORTANCE OF RURAL MARKETING**

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In recent years rural markets have gained prominence in countries such as China and India, the overall growth of the economy has resulted in a substantial increase in purchasing power of rural communities. Due to green revolution in India rural areas consume a large amount of industrial and urban. Rural markets coincides with the marketing of agricultural products, shows the first commercialization of rural areas for urban consumers or businesses, while the rural markets is to provide products or processed inputs or services, rural producers and consumers.

### **1) Huge Rural Market**

In the 21<sup>st</sup> century, the rural markets have acquired significance. The green revolution and the white revolution combined with the overall growth of Indian economy have resulted into substantial increase in the purchasing power of the rural communities. Rural marketing denotes flow of goods and services from rural producers to urban consumers at possible time with reasonable prices, and agricultural inputs and consumer goods from urban to rural.

National sample survey data shows that out of the total expenditure on manufactured consumer goods, 75 percent is spent



in Rural India. This percentage is remaining constant since 1960-61. Though per capita consumption and expenditure on manufactured consumer items is low in rural areas, the market is times larger than urban areas.

## **2. Rural target population**

Distribution of wealth in Rural India is uneven and the top 13 percent of the farmers land holding account for 37% of the cultivated area. The top 10 % of the rural population accounts for above 37% of the expenditure on consumer goods. However with the increasing spread of the total income, consumer goods are expected to make substantial penetration into the lower income strata by the normal percolation effect. There is an increasing cross flow of population between urban and project town centers which act as conduits for cross flow of products and ideas thus supplementing the demand for such products.

## **3. Increase market for Agricultural Inputs**

The demand for agricultural inputs is rapidly expanding in rural market. This refers to marketing of products required for agricultural production. Unlike urban market, rural areas are production centers. To produce food grains, vegetables, fruits, etc. a large number of inputs are needed. These include seeds, fertilizers, pesticides, agricultural implements (tractors, pump sets, etc.), cattle feed, poultry feed. Input marketing also includes marketing services such as diesel engine repair and health care.

## **4. Diverse markets.**

It is of paramount importance in the Indian marketing environment as rural and urban markets in India are so diverse in nature that urban marketing programmes just cannot be successfully extended to the rural market differs from that of the urban Indian. Further the values aspiration and needs of the rural people hasty differ from that of the urban population.

## **5. Influenced buying decisions**

Buying decisions are highly influenced by social customer's tradition and beliefs in the rural communities. As regards the purchasing power, the urban markets are segmented according to income levels, but in rural areas, the family incomes are grossly underestimated.

## **6. To understand the rural consumer**

Farmers and rural artisans are paid in cash as well in kind, and their misrepresent their purchasing power. For their reason, a marketer must therefore, make an attempt to understand the rural consumer better before meaning any marketing plans.

## **7. Untapped potential**

Rural markets in India have untapped potential. There are several difficulties confronting the effort to fully explore the rural markets. The concept of rural markets in India is still in evolving shape, and the sector faces a variety of challenges. Distribution costs and non-availability of retail output are major problems faced by marketers.

## **8. Product Plan as per requirement of Rural People**

Many successful brands have shown high rate of failure in the rural markets because the marketers try to extend marketing plans that they use in urban areas. The unique consumption pattern, tastes, and need of the rural consumers should be analysed at the product planning stage so that they match the needs of the rural people.

## **9. Sources of Rural Marketing Capacity**

There are certain factors which contribute to purchasing capacity in rural areas. Some factors are as under.

### **a) Surplus of marketable agricultural and Rural/Urban terms of Trade**

Consumption of consumer goods rise 0.7 percent for every one percent increase in marketable surplus of food grains. As the surplus is increasing every year there will be increasing purchasing capacity with farmers.

### **b) Remittances**

The traditional remittances from within the country are now being supplemented in several states by remittances from overseas. This creates new consumption and purchasing patterns.

### **c) Dispersal of Industry.**

The investment in the development of backward areas will greatly speed up the income generation process in rural areas.

### **d) Increase in government support**

Indian Government increase support for investment in flood control, irrigation facilities and central outlay for rural development. These will generate income and increased purchasing power of rural areas can be expected to support consumption of manufactured items. These investments are expected to augment the income generation process from land in future years, which in turn will accelerate the growth of rural markets. This will encourage the income generation process.

## **10. Helpful in the Food processing Industry**

India's land is suitable for agriculture, horticulture, sericulture which produces a number of varieties of food grains, fruits,

vegetables, commercial crops and flowers. For development of food processing industry government has taken many efforts by giving a number of benefits including tax benefits, incentives, subsidies, and transportation and marketing facilities. Primarily food industries engaged in adding farm utility to raw farm products. . Wheat is milled into flour, livestock is converted into meat products, fruits and vegetables are canned. These industries play important role in transforming bulky, raw, perishable farm products into storable concentrated and more appealing good products. Today food processors become involved in several supportive marketing functions, such as transportation, storage and financing. By purchasing farm commodities their activities are closely linked to farmers. Government is developing food processing industries in the state of Punjab, Himachal Pradesh, Jammu & Kashmir, Gujarat, Kerala, Karnataka, Maharashtra, etc, which is being responded as per expectations.

### **11. Helpful in Economic Development**

Rural marketing plays an important role in accelerating the pace of economic development. The functions of rural marketing are important in promoting economic development. The development of an efficient marketing system is important in ensuring that scarce and essential commodities reach different classes of consumers. The objectives of price stability, rapid economic growth and equitable distribution of goods and services cannot be achieved without the support of an efficient rural marketing.

### **12. Increase in Farm Income**

Rural marketing ensures higher levels of income for the farmers by reducing the number of middlemen or restricting the commission policies on marketing services and malpractices adopted by mediators in the marketing of farm products. An efficient rural marketing system guarantees the farmers better prices for farm products. Investment in purchase of modern inputs increases production and productivity of farm products.

### **13. Proper utilization of resources and better output Management**

An efficient marketing system helps for optimization of resource use and output management. Rural marketing system contributes to an increase in the marketable surplus by scaling down the losses arising out of inefficient processing, storage and transportation. A well designed system of marketing can effectively distribute the available stock of modern inputs and thereby sustain a faster rate of growth in the rural sector.

### **14. Growth of Agro- Based Industries**

Efficient rural marketing system helps for growth of agro based industries and stimulates the overall development process of

the economy. Many producers have installed their industrial units near the village side and are also interested to install the units in the rural areas so as to minimize the transportation cost, easily availability of raw material and some benefits which are specially meant for rural producers.

#### **15. Extension of Markets**

A well rural marketing system widens the market for the products by taking them to remote corners of the country.

The widening of the market helps in increasing the demand on a continuous basis, and thereby guarantees a higher income to the producer.

#### **16. Good price Indicator**

Efficient rural marketing system helps the farmers in planning their production in accordance with the need of the economy. This is possible through price indicators. For protection to farmers every year government announces minimum support prices for agriculture products. To obtained good prices the farmers directed to produce as per the requirements of the economy.

#### **17. Use of New technology**

The marketing system help to farmers for use of new and advance technology for produce of agricultural products. Our past experience shows that our rural areas were underdevelopment because of the lack of mechanization of agricultural. With the advancement of technology, mechanization, introduction of high yielding varieties, development of fertilizer and pesticides and proper government policy has increased the agricultural production to a greater extent which is the back bone of rural industries.

#### **18. Increased employment in rural sectors**

The marketing system provides employment to number of people engaged in various activities such as packaging, transportation and processing. Many persons are engage in providing services related to agricultural products like commission agents, brokers, traders, retailers, Wightman, hamals and regulating staff in rural marketing system. Cooperative marketing system provides employments to a number of employees. Storage of agricultural products, warehousing, transportation, middlemen, provides employments to a number of prospects.

#### **19. Increase standard of living**

The marketing system is essential for the success of the development programmes, which are designed to uplift the rural population in India. Government of India takes special efforts to diminishing the poverty of the agricultural population, reducing consumer food prices. More foreign exchange can be earned by

efficient export system of agricultural products. With rising agricultural income, standard of living of rural people has been increased.

## **20. Creation of Various Utilities**

Marketing is essential for every type of production. It is necessary to reach the production at needy place from production place. Marketing system increase the cost of the product at certain level, but at the same time, it adds various utilities to the products. Marketing creates following utilities.

### **a) Form Utility**

The processing function of marketing adds form utility to the products by changing raw material into finished products. Due to this change, products become more useful, for e.g. oil seeds are converted into oil, sugarcane into sugar, cotton into cloth, wheat into flour and bread etc.

### **b) Place Utility**

The transportation function creates place utility of the products by shifting them to a place of need from the place of plenty. Products get higher prices at the place of need than at the place of production because of the increased utility of the product.

### **c) Time Utility**

The storage function adds time utility to the products by making them available at the time when they are needed. There are certain products which are manufactured regularly but their demand is only for a particular period for e.g. manufacturing of seeds, fertilizers etc. similarly certain products are manufactured in particular season but they are used for the entire period as like sugar, pulps of various fruits etc. due to better storage system products can be preserved for a long period in better conditions.

### **d) Possession Utility**

The marketing function of buying and selling helps in the transfer of ownership from one person to another, Products are transferred through marketing to persons having a higher utility from persons having a low utility.

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## **1.6 EXERCISES**

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- 1) Define Rural marketing. State the characteristics of Rural Marketing
- 2) Explain the scope of Rural marketing.
- 3) State the significance or importance of Rural Marketing.



## **RURAL MARKETING: FACTORS OF RURAL MARKET, MARKETING PROBLEMS OF RURAL INDUSTRIES AND MARKETING OF RURAL SERVICES**

### **Unit Structure**

- 2.0 Objectives
- 2.1 Factors of Rural Markets
- 2.2 Marketing Problems of Rural Industries
- 2.3 Marketing for Rural Services
- 2.4 Exercises

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### **2.0 OBJECTIVES**

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The rural markets have acquired significance, as the overall growth of the economy has resulted into substantial increase in the purchasing power of the rural communities. There are some factors which are responsible for the growth of rural market in India. Today rural industries faced various marketing problems. Marketing of rural services is one of the challenges in today's LPG scenario.

The main objectives of this chapter are,

- a) To understand the factors of rural market.
- b) To know the marketing problems of rural industries.
- c) To learn marketing strategies of rural services.

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### **2.1 FACTORS OF RURAL MARKETS**

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India is a land of agricultural and basically she resides in the villages.

According to the 2011 census, 741.7 millions India's population lives in rural areas. This population makes its both ends by cultivating, selling the agricultural products, working on agricultural which is called agricultural labours, some are involved in the processing of agricultural products and allied activities, some are rendering the services to the villagers by providing them seeds, fertilizers, pesticides and some are doing the job work on the

agriculture. In short rural marketing has taken place only in agricultural field.

The rural markets have acquired significance, as the overall growth of the economy has resulted into substantial increase in the purchasing power of the rural communities. The price sensitivity of a consumer in a village is something the marketers should be aware of. The rural audience has matured enough to understand the communication developed for the urban markets, especially with reference to FMCG products. Television has been a major effective communication system for rural mass as a result, companies should identify themselves with their advertisements. There are some factors which are responsible for the growth of rural market in India which are as under.

### **1) Occupation in Rural India**

Different types of occupation in Indian village reflect the base of their socio-economic culture. since the ancient period the Indian villagers have been involved in various occupations out of which agricultural is one of the main occupation. In the contemporary period the evolution and advancement in different industrial and technological sectors in India have opened new job opportunities for the Indian villagers, Agriculture however, remain the principal occupation in Indian villages from the ancient period. In the changing time agriculture has been replaced by other occupations in different parts of India in the contemporary period. Other occupations in Indian villages includes the priests, carpenters, blacksmiths, barbers, weavers, potters, oil pressers, leatherworkers, sweepers, water bearers, toddy-tappers, etc. However rural Indian scenario has been changed by taking up the non-traditional occupations. This includes academics as teachers, truckers, clerks or getting engaged with various cottage industries, regardless of which caste or class they belong to. Different types of occupations are found in the modern Indian villages apart from agricultural or farming or the traditional occupations. The climate and location influence occupations in Indian villages to a large extent. Many villagers are involved in various kinds of art and crafts works. The villagers produce different types of handicrafts products and many of them are earning their livelihoods by marketing them. The occupations like artisan in pottery, wood, cloth, metal and leather have been in existence in Indian villages, since the ancient period and are found even in the modern times. The women in the rural areas too are actively getting involved in different industries like matchbox and firework industries, Bidi making, agate and slate industries, coffee and tea industry, etc. Tourism sector has emerged as one of the major occupations in Indian villages, in the contemporary period. The rich cultural diversity in the villages attracts many tourists from all over the world every year. This has

encouraged many villagers to get involved in various tourism related occupations.

The villagers work as tourist guides or run different kinds of business in the famous tourist spots or even provide accommodation facilities to the tourists to earn their livelihoods. The occupations scenario in Indian villages has changed mainly due to the changing economical scenario of the Indian villages.

## **2) Farming**

From ancient period agriculture has been the main occupation of rural India. In ancient India farming in Indian villages was mainly dependent on the monsoon condition and hence most of the crops cultivated during the monsoon. In the modern age the dependency on weather has lessened with the advancement of irrigation technology and different types of crops that are being cultivated in India. There are some people who do not have and own land but they help others to cultivate crops in their lands. Another form of farming in Indian villages that provides occupation to the villages is organic farming. The organic farmers mostly rely on crop rotation, crop residues, animal organics and mechanical cultivation to maintain soil productivity and farmland. The main objective behind this is to supply plant nutrients and to control weeds, insects and other pests. The dependency of Indian villagers on agriculture and the suitable climatic condition has made India the largest producer of milk, cashew nuts, coconut, tea, ginger, turmeric and black pepper of milk in the world. India is the second highest producer of farm products in the world. The farming in Indian villages is the backbone of the entire economical structure of India.

## **3) Teaching**

Teaching is one of the important profession in India. Many people of villages and cities are engaged in this profession. The rural population of India receives education from the government and non-government schools. The teachers usually hold a position of respect and honor in the villages of India. In the recent period there are numerous schools established in the Indian villages to provide primary and secondary education to the children's in villages. Teaching in Indian village schools is being given more and more importance by the government of India. The government sends young and devoted peoples to the rural areas for giving better education to under privileged villagers. All this efforts being improve the educational status of rural India.

## **4) Fishing**

India is a land of water lands that include several rivers and seas. The rivers and seas flowing through and along with the



border of India are home to a huge variety of fishes. In rural areas fishing has been a major source of income for the people living in rural areas. This is one of the occupations of Indian villagers. Peoples in south India are mostly depending on this occupation due to most of the villages are located along the coastal line. A majority of the fish is marketed abroad by which huge foreign exchange amount received to India.

In the recent period the government of India is encouraging the Indian villagers to take up ocean fishing as their occupation. The occasional fishermen are mostly those who are usually involved in the agricultural. Number of peoples involved in this occupation is increased day to day by which rural markets have been developed.

### **5) Handicrafts**

As far as arts and culture India is one of the riches countries in the world. High quality handicrafts products are made by Indian people. Handicraft is one of the important occupation in Indian villages. Villages in different parts of India are famous for producing different types of handicrafts. Handicrafts in Indian villages are practiced since the ancient period. The governments authorities in India are encouraging people to take up handicrafts as their occupation in the recent years as the Indian handicrafts products bring a huge amount of foreign currency to the country.

### **6) Literacy in Rural India**

Literacy in India is key for socio-economic progress and the Indian literacy rate grew to 68% in 2007 from 12% at the end of British rule in 1947. Literacy rate of India in 2011 is 74.04%. The Male literacy rate is 82.14% and Female literacy rate is 65.46% according to Census 2011. Among the Indian states, Kerala has the highest literacy rate 93.91% and then Mizoram 91.58%.

Among the Union Territories, Lakshadweep has the highest literacy rate of 92.28%. Bihar has the lowest literacy rate in India with 63.82%. The Male literacy is highest in Lakshadweep 96.11% and Kerala 96.02%. The Female literacy is highest in Kerala 91.98% and Mizoram 89.40%. Lowest male literacy is in Bihar 73.39%. Lowest female literacy is in Rajasthan 52.66%. Women in rural villages in India today tend to be treated as second class citizen. Their primary responsibilities are to look after the family and household and work in the fields.

### **7. Infrastructure**

India's economic growth and development is predicated to large extent upon the development of its strong rural population. Majority of the population lives in small villages and are engaged

primarily in agriculture. A substantial portion of India's current agricultural labour force has move to non-agriculture sectors for incomes in all sectors to go up. The challenge is to manage the transition of 80% of the rural population from a village-centric agricultural based economy to an industry based economy. The government has launched 'Bharat Nirman' for the development of rural infrastructure. The government prepared plan for the development of India Rural Infrastructure in the sector of Irrigation, Roads, Housing, Water supply, Electrification and Telecommunication. After independence the government took upon itself the major responsibility of development. Hence, the central and state government carried out development projects as like Radio for rural development. Satellite Instructional Television Experiment is considered to be one of the biggest techno-social communication experiments in education and rural development. Rural adults viewed television programmes on improved agricultural practices, health and family planning. Television was considered as window to the world. But it is sad that in spite of best efforts satellite television has been used for entertainment more than rural development.

## **8. Rural communication**

Internet and Mobile have played the most important role for the growth of Rural Markets. The companies like BSNL, Airtel, and Reliance etc have given maximum attention on villages for expansion of network. Broad-band and 3G mobile and internet services are easily available in rural area. These facilities have opened the doors for companies to use latest technologies for brand promotion. Gone are the days when pamphlets distributions, exhibition, door to door selling techniques were used to bring awareness among rural consumers. Now it's the time of online marketing where customer can place order on net. Social networking sites have also provided a right platform for sales promotion.

Around 50 percent of the villages are today connected by all weather roads and can be accessed throughout the year. But there are states, which are almost 100 percent connected with the metal roads. Road networking besides enhancing the mobility of rural consumers has increased their exposure to products and services. By watching such a scenario in these areas Korean consumer durable companies have decided to look beyond their noses. They are now placing their bets on rural markets. Two giants namely LG and Samsung have already made their strategies for entering into rural India. As per survey conducted by Indian Market Research Bureau (IMRB) 77 percent of the villages are covered by TV network. Now even villages are going for DTH like Dish TV, TATA Sky and they have already been enjoying exposure to various products through advertisements.

### **9. Emerging Role of Bio-Tech. in Indian Agriculture Sector**

It is evident from the facts that Indian agriculture is trailing in terms of yield when compared with leading countries of the world. Countries like USA, Canada, Israel and Germany have achieved high yield in agriculture production but countries like India, Brazil and Nigeria are having agriculture yield much lower than international average. The major difference created in this respect is the use of the applications of bio-technology. Bio-technology has vital role to play in so far as enhancement of agriculture yield is concerned. For instance the yield of wheat in USA per hectare is almost three times more than that of India and the yield of sugar cane is two and half times more if compared with the Indian yield of sugar cane per hectare. These advance countries have been making an extensive use of bio-technology whereas in developing countries the concept is not yet very popular. When we are living in the era of globalization everything is becoming globally competitive and therefore, we cannot live in isolation in terms of agriculture yield also. We have to make use of the applications of the bio-technology in an agriculture sector both in terms of generating quality seeds and cropping the same in compliance with the theories of biotechnology. Our farmers, who are normally not aware of this fact, have to be educated and the responsibility lies on the shoulders of researchers, scientists, administrators and the policy makers of the country. It will provide more discretionary income in the hands of the rural farmers.

### **10. Green Revolution**

The substantial attention accorded to agriculture during the successive five-year plans has helped in improving agricultural productivity. Adoption of new agronomic practices, selective mechanization, multiple cropping, inclusion of cash crops and development of allied activities like dairy, fisheries and other commercial activities have helped in increasing disposable income of rural consumers. Over 75 percent villages in India have been electrified. There is also a shift from rain dependence to irrigation. Farmers are getting high return for their cash and food crops. In the whole process, the dependence on seasonality has reduced, and in return there has been increasing disposable income. By observing this scenario, India is one of the biggest giant Hindustan Lever Ltd. has entered into rural market for more penetration through the operation "Bharat". Since December 1999, HLL has reached out to 35,000 villages, 22 million households and spent Rs. 20 crore. This has been one of the largest sampling exercises in recent times conducted by a big business house.

### **11. Development programmes**

The five-year plans have witnessed massive investments in rural areas in terms of number of development programmes

implemented by the central and state Government. These programmes have generated incomes to rural peoples and helped them to change their life-styles. Some of these programmes are:

- Intensive Agricultural District Programme (IADP- Package Programme)
- Intensive Agricultural Area Programme (IAAP)
- High Yielding Varieties Programme (HYVP- Green Revolution)
- Drought Prone Areas Programme (DPAP)
- Small Farmers Development Agency (SFDA)
- Hill Area Development Programme
- Operation Flood I, II and III (White Revolution)
- Fisheries Development (Blue Revolution)
- Integrated Rural Development Programme (IRDP)
- Jawahar Rojgar Yojna (JRY).

These programmes are related with agriculture and allied activities but there are certain other policies which are specifically meant to raise the standard of the rural people in the field of health, education, sanitation etc. After the beginning of economic reforms in 1991, the Government has been giving special attention to the rural India by providing certain developmental schemes for these areas. Some announcements were made by the finance minister in the Union Budget 2000 to enrich the existing programmes and to initiate some new schemes for the rural areas like Kisan Credit Cards, Micro Finance and hence, we can see that today changes are taking place rapidly in all walks of life and rural areas are no exception to this. Improved infrastructure facilities, economic liberalization, renewed emphasis on agribusiness and small industries, fast changing agricultural technology, scope for commercialization of agriculture, greater budgetary provision for rural people are few reasons to mention. Moreover, various socio-cultural, psychological and political aspects of rural life are also changing. Rural people today are less fatalistic, less attached to religious beliefs, getting more individualistic, achievement-oriented and aspiring than before. All this has opened up new vistas for the marketers of millennium at least in the states, which are leading in per capita income with a sustained growth, like Punjab, Haryana, Maharashtra, Tamilnadu, Karnataka, Gujarat, Delhi and Western UP etc.

## **12. Professionalisation of the marketing**

Marketing has been recognized as profession in the early 1950. People are now preferring the jobs in the marketing department and accepting the challenges of the marketing management. People are now more interested to acquire knowledge of the marketing and apply it in the field of marketing. The government is also motivating the people who are the graduates in marketing and also the institutions which are providing

marketing education by allowing fellowship to the graduates and a huge amount of grants to the institutions.

### **13. Urbanisation**

Today the rural population is moving to the urban areas for the purpose of acquiring education seeking employment, Business purposes and selling the agricultural and rural products in the urban areas. As the demand of rural products in urban areas is more and by selling these products in the areas they can earn their livelihood. Urban people are the main buyers of agricultural commodities.

### **14. Cooperative Marketing system.**

Marketing committee system and cooperative marketing are the two parallel institutions framed for the purpose of rural marketing. The marketing system is working under the direct control for the respective state governments having its three tier system, the apex institution is state marketing board, at district level central marketing committee and at block level primary marketing committees are functioning. On the other hand cooperative marketing system is developed in rural India. Cooperative markets are working very successfully and as a result it has increased the share of sales of rural products in the regulated markets. This system increasing the spirit of the producers as their interests is protected through the marketing system in India. So this is the main reason that rural marketing is gaining more and more attention in the Indian market scene.

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## **2.2 MARKETING PROBLEMS OF RURAL INDUSTRIES**

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Rural Industries are playing very important role in the development of economy. Today the growth of rural industries is not very healthy due to some serious problems. These problems faced by rural industries in day to day work. As the thorns are part of roses, similarly every flourishing business has its own kind of problems. Some of the major problems faced by rural Industries are as under.

### **1) Shortage of funds**

Most of the rural entrepreneurs fail to get external funds due to absence of tangible security and credit in the market. The procedure to avail the loan facility is too time-consuming that its delay often disappoints the rural entrepreneurs.

Lack of finance available to rural entrepreneurs is one of the biggest problems which rural entrepreneur is bearing now days especially due to global recession. Major difficulties faced by rural entrepreneurs include low level of purchasing power of rural consumer so sales volume is insufficient, lack of finance to start

business, reduced profits due to competition, pricing of goods and services, Financial statements are difficult to be maintained by rural entrepreneur, stringent tax laws, lack of guarantees for raising up of loans, difficulty in raising capital through equity, dependence on small money lenders for loans for which they charge discriminating interest rates and huge rent and property cost.

These all problems create a difficulty in raising money through loans. landlords in Punjab proved to be major source of finance for rural entrepreneurs but the rates of land are reduced due to global recession so they also lack hard cash now a days. Some banks have not ventured out to serve rural customers because banks are expensive to be reached by rural customers and, once reached, are often too poor to afford bank products. Poor people often have insufficient established forms of collateral (such as physical assets) to offer, so they are often excluded from traditional financial market. Government is providing subsidies to rural areas but due to high cost of finance, these subsidies are not giving fruitful results.

Major sources of finance in rural areas are loans from regional rural banks or from zamindars but their rate of interest are usually very high. Government has various institutions for this purpose but the results are not up to the level expected. Industrial Finance Corporation of India (IFCI), Industrial development bank of India, Industrial Credit and Investment Corporation of India (ICICI), Small Scale Industry development bank of India (SIDBI) are some of the national level (SFC) institutions that are helping out rural entrepreneurs. Some state level institutions are also working like State Financial Corporation and State Industrial Development Corporation (SIDC). These institutions are providing assistance for setting up of new ventures and side by side for modernization and expansion of existing ones but their terms and conditions are very strict to be handled.

Various schemes like composite loan scheme, tiny unit scheme, scheme for technical entrepreneurs etc. had started but they are unable to meet the expectation of rural entrepreneur. Raising funds through equity is little bit difficult for rural entrepreneurs because of lack of financial knowledge and also their financial corpus is also low, so loans are primary source of finance for them which proved to be a greatest obstacle in developing rural entrepreneurship. Various policies of RBI regarding priority sector lending failed to achieve its objectives. Micro financing movements started in India worked well. Self help groups form the basic constituent unit of micro finance movement in India. Self help groups are a group of a few individuals who pool their savings into a fund from which they can borrow as and when necessary. Such a

group is linked with banks but joining an existing SHG is often costly affair for an aspiring villager as in order to maintain parity among the members, a new member has to join by depositing the total accumulated individual savings and interest of groups. So starting new SHG is an easy as compared to join existing one. NGO's also played important role for rural development. These NGO's are usually registered as societies and trust. They have less capital resources as they cannot raise equity capital.

## **2) Lack of Infrastructural Facilities**

The growth of rural entrepreneurs is not very healthy in spite of efforts made by government due to lack of proper and adequate infrastructural facilities. Rural areas are characterized by poor infrastructural facilities in the field of roads, electricity, street lighting, road transport etc. which hampers the smooth movement of various industrial activities. This is a major problem faced by rural entrepreneurs.

## **3) Risk Element**

Rural entrepreneurs have less risk bearing capacity due to lack of financial resources and external support.

## **4) Problem of Marketing**

Marketing of rural products has not been well developed. Promotion, distribution and implementation of customer feed-back is lacking. Rural industries cannot compete with their urban counterparts. Dealers exploit the rural industries in the traditional sector. Lack of proper communication facilities and marketing information adds to the problem to large extent. Following are the two major marketing problems of Rural Industries.

Most of the Rural Industries, except a few urban-based units which act as ancillaries to the large industry, are forced to restrict their sales to the local market, tailoring their supplies to the local needs. Not infrequently, a lack of demand and accumulating stocks leave with them no working capital to procure more raw materials and other physical resources to keep the production units moving. Ancillary industries have their own problems, like (i) delayed payments by parent units, (ii) inadequacy of technological support extended and / or supply of critical raw materials by parent units, (iii) non-adherence to quality and delivery schedules, thus disturbing the programme of the parent units, (iv) frequent changes in fiscal levies, and (v) absence of a well-defined pricing system and regulatory agency.

## **5) Problem of Competition**

Rural entrepreneurs face severe competition from large sized organizations and urban entrepreneurs. They incur high cost of

production due to high input cost. Major problems faced by marketers are the problem of standardization and competition from large scale units. They face the problem in fixing the standards and sticking to them. Competition from large scale units also creates difficulty for the survival of new ventures. New ventures have limited financial resources and hence cannot afford to spend more on sales promotion. These units are not having any standard brand name under which they can sell their products. New ventures have to come up with new advertisement strategies which the rural people can easily understand. The literacy rate among rural consumer is very low. Printed media have limited scope in the rural context. The traditionally bounded nature, cultural backwardness and cultural barriers add to the difficulty of communication. People in rural areas mostly communicate in their local dialects and English and Hindi are not understood by many people. It has been seen in recent past that in spite of enough food stocks with government warehouses, people are dying of starvation. This indicates problem with the public distribution system. The producers are not collective in their approach for marketing their products because they are too widely scattered and uneducated.

#### **6) Problem of Middlemen**

Middlemen exploit rural entrepreneurs. The rural entrepreneurs are heavily dependent on middlemen for marketing of their products who pocket large amount of profit. Storage facilities and poor means of transport are other marketing problems in rural areas. In most of the villages, farmers store the produce in open space, in bags or earthenware etc. So these indigenous methods of storage are not capable of protecting the produce from dampness, weevils etc. The agricultural goods are not standardized and graded.

#### **7) Problem of dealing with Government Agencies**

What is true of raw materials is true probably of assistance granted by the State to the industries. It is an admitted fact that no type of State assistance is available in relation to needs. Therefore, there is a general practice to ration it out. In the process of rationing there is ample scope for discrimination, made possible by Government rules, regulations and red-tapism.

The Rural Industries sector still faces problems in exports which make it difficult for it to undertake exports in an organised and appreciable manner.

#### **8) Lack of IT Knowledge**

Information technology is not very common in rural areas. Entrepreneurs rely on internal linkages that encourage the flow of goods, services, information and ideas. The intensity of family and



personal relationships in rural communities can sometime be helpful but they may also present obstacles to effective business relationships. Business deals may receive less than rigorous objectivity and intercommunity rivalries may reduce the scope for regional cooperation. Decision making process and lines of authority are mostly blurred by local politics in rural areas.

### **9) Problems of Legal Formalities**

Rural industries need compliance of various legal formalities in obtaining the government's approval and license for carrying out industrial activities. But rural entrepreneurs find it extremely difficult to comply with various legal formalities due to sometimes complex legal provisions or illiteracy and ignorance.

### **10) Procurement of Raw Materials**

Rural industries face a tough task in procuring and storing raw materials. Since rural industries are small they procure raw materials from middlemen at higher prices. They may also supply poor quality raw materials. Lack of warehousing facilities in the rural sector also costs more towards storing of raw materials.

### **11) Lack of Technical Knowledge:-**

Rural entrepreneurs suffer a severe problem of lack of technical knowledge. Lack of training facilities and extension services create a hurdle for the development of rural entrepreneurship. As rural industries are labour intensive, they cannot afford to introduce sophisticated techniques and methods of production which is very expensive. Lack of technical know-how, appropriate technology and training create immense problem in the growth of rural industries. Without this, productivity and increased profit is a distant dream.

### **12) Poor Quality of Products**

Another important problem is growth of rural entrepreneurship is the inferior quality of products produced due to lack of availability of standard tools and equipment and poor quality of raw materials.

### **13) Shortage of Power**

The problem of shortage of power has become so widespread that for the last few years it has been among the most glaring and telling problems. But its impact is decidedly fatal on rural producers. Large industries manage to escape somehow. There are two aspects to the problem, one, power supply is not always, everywhere, available to the rural industry on the mere asking, and wherever it is available, it is rationed out, limited to a few hours in a day. It means that if a small rural unit can manage to take advantage of the supply at fixed hours, well and good,

otherwise, it will have to let its capacity go unutilised, thus adding to cost.

#### **14) Low Skill Level of Workers**

Most of the entrepreneurs of rural areas are unable to find workers with high skills. Turnover rates are also high in this case. They have to be provided with on the job training and their training is generally a serious problem for entrepreneur as they are mostly uneducated and they have to be taught in local language which they understand easily. The industries in rural areas are not only established just to take advantage of cheap labour but also to bring about an integrated rural development. So rural entrepreneurs should not look at rural area as their market, they should also see the challenges existing in urban areas and be prepared for them. Rural entrepreneurs are generally less innovative in their thinking. Youths in rural areas have little options “this is what they are given to believe”. This is the reason that many of them either work at farm or migrate to urban land.

#### **15) Negative Attitude of Peoples**

The environment in the family, society and support system is not conducive to encourage rural people to take up entrepreneurship as a career. It may be due to lack of awareness and knowledge of entrepreneurial opportunities. The young and well educated mostly tend to leave. As per circumstances, rural people by force may be more self sufficient than their urban counterparts, but the culture of entrepreneurship tends to be weak. Continuous motivation is needed in case of rural employee which is sometime difficult for an entrepreneur to impart with.

#### **16) Lack of adequate knowledge and information:**

Though information technology has substantially developed in the modern world and has penetrated into the rural areas through internet, rural people hardly availed its benefits. Rural people do not have adequate information avenues. They are not knowledgeable, trained and motivated to achieve more and more in their own sphere.

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## **2.3 MARKETING FOR RURAL SERVICES**

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Marketing of rural services is one of the big challenge before services provider, because the rural market in India is a huge unorganized market as well as much of it is still untapped in various domains. There is a large scope for services in rural areas hence major companies have directed their focus in rural market. Since major of Indian population exists in rural segment, prospects of huge demand exists for the products offered by various companies

or service providers. But the demand and supply pattern in the rural segment is majorly different than those in the urban segment.

This difference is due to following factors Income level.

- Expenditure capacity
- Taste and preferences
- Educational level
- Social, Cultural and environmental

These differences results in Gaps between Service provider and the consumers/customers in both the market segments. Hence a service provider clearly needs to understand these gaps and the strategies to fill these gaps effectively. Therefore the mantra for successful strategy implementation in rural markets for service delivery is “Think Global Act Local” Analysis of Services Requirements in Rural Markets.

Following Service areas have great potential in rural markets.

#### **1. Agricultural consultancy:**

Agriculture is main business in rural India. But due to change in climate, changing prices of agriculture products and uncertainty are increasing day by day in this field. Hence Rural customers who are farmers require proper consultancy services about the best methods, timings and seasons, technology, tools, prices and best markets for selling their farming products. Traditional media would serve as a great driver to generate awareness among rural consumers. Skits magic shows and educational drives are better sources for marketing of agriculture consultancy service.

#### **2. Banking, microfinance and loan facilities:**

The rural market has huge potential for banking services for providing following facilities at affordable prices:

##### **• Agricultural loans**

Farmers have required loan for meeting of various agricultural needs in various seasons for cultivation, purchase of seeds, development of irrigation system, construction of well, purchase of fertilizers, purchase of agricultural instruments, etc. These loans are provided by rural banks in the form of crop loan, short term loan, midterm loan and long term loan. Various strategies are use by banks for providing of these services as like advertisement through local media, organizing mela of farmers, display of banking services banners at important places like Tahasil office, ST stand, Panchayat samiti office etc.

- **Educational loans**

Educational loan is need of today's rural consumers. This facility is provided by bank for child of farmer's for their higher education with low interest rate.

- **Housing loans**

In last some decades housing loan is given by banks only to consumers in city areas but due to privatization in banking sector competition is raised then the banks are turn in rural areas for providing housing loans . RBI is also take lead to providing funds at large scale for providing of housing loan in rural areas. Hence there is a large scope for these services in rural areas.

- **Savings accounts and safe deposits**

Bank encourages to rural consumers for opening of saving accounts in banks as well as convey for safe deposits. Due to increase in saving accounts and safe deposits bank financial capacity is increased and available funds are used for better performance of banking services.

- **Automobile loans**

Due to 5<sup>th</sup> and 6<sup>th</sup> pay rural employee's income level is also increased. Even though, these employees cannot purchase cars, motor cycle, and other automobiles in cash. Banks are encouraged to such consumers for automobile loans at a low rate of interest.

- **Personal loans**

Rural banks provide personal loan facilities to rural consumers for meeting of their personal needs for temporary period.

Following strategies are used for marketing of services by rural banking sector

- The focus of the service quality should be customer driven and hence need to be customized as per the rural requirements of customers having low income group as major target group. Hence more of benefits driven by the customer from savings schemes should be included in the Services provided through accounts maintenance with the banks.
- The service providers should be clearly aware of the local languages, culture and behavior of the rural customers. Thus the inclusion of local employees would be beneficial for the banks to deal effectively with the customers.
- The banks should be able to provide these banking services such as loan and microfinance services at lowest and most profitable interest rates with flexible and customized repayment options to the customers. The Bank need to clearly understand

the best possible location for its setup and operations as the location and facility layout of the service provider plays a very significant role in rural banking because the rural areas do not have sufficient transport facilities like urban markets.

- The customers should be made aware clearly about the services provided by the bank through effective physical evidence and promotions that should be made as simple as possible to the rural customers to understand properly. The assistance should be provided regularly to the customers to educate them about the current as well as prospective facilities and benefits derived from the banking services provided.
- Do not put much focus on providing any complex and unessential services like corporate loans and credit card facilities as still the market demand for such services are much lesser as compared to other banking services.
- Do not use any illegal or unethical means for repayment of loans and other services as this would result in more of customer dissatisfaction and grievance which would harm the brand equity and image of the banking company
- Do not provide services to the customer before properly educating the customer about the details product and process of the service so as to avoid confusion and discrepancy.
- Do not focus on the short term profitability but the bank needs to focus on the building long term relationship with the customer by putting more concentration on:
  1. Service quality
  2. Service recovery
  3. Reach to the customer and building prospective future customers
  4. Improving market share
  5. Building Brand loyalty
  6. Providing new facilities as per the customer needs and requirements

### **3. Healthcare:**

There is a huge demand for medical and health facilities in rural markets as there is large population in India that resides in rural areas and lack of proper facilities for proper health care. The availability and location of these services are of great concern as most of the areas either do not have any or many rural and remote areas needs to be dependent on very few and distantly located Hospitals.

#### **4. Telecom services:**

Due to increased awareness and improved telecom infrastructure across India, the demand for telecomm (Fixed and wireless) and internet services have increased drastically. Even the government's policies for reduced tariffs, call rates, lesser mobile handset prices and private participation involvement has helped in increasing the level of competition, continuous improvement in technology and thus has resulted in the growth of the rural telecom market. Hence the rural market has now become attractive and lucrative for many National and Global telecomm companies, who now are focusing more on this huge untapped market.

#### **5. Automobiles Services:**

There has been a huge increase in the number of two wheeler, four wheeler and agricultural tools and vehicles in past few decades because of reduction in prices and government support to the rural population. This has given rise to a new business for providing maintenance and repair services to these vehicles with more attractive service quality, location and availability. This segment has huge potential in the upcoming trends of services to the rural markets.

#### **6. T.V. Channels Services:**

Due to the increased awareness, arenas of interest, leisure requirements, and number of entertainment options like televisions and computers due to reduced & affordable prices, the demand for entertainment services like T.V. entertainment channels have increased. This provides a huge potential for cable and Direct to Home services providers to tap the rural markets to meet their demands. Many companies have already gained profits by targeting rural markets which include Airtel (DISH TV), Reliance (BIG TV), and Tata (SKY).

#### **7. Travel and reservation Services:**

The travel and reservation booking and organizing services for booking train, busses, taxis and tour consultancy has also been observed to create a huge demand in last few decades as more and more rural population need to mobilize for business and personal needs. Hence these services hold a huge potential for service providers.

#### **8. Low Cost Hotels:**

Due to increased mobilization because of business and personal needs, there is also increased demand for hotel and lodging services to the travelers but majorly driven by the pricing of such services and facilities. Hence provide a great platform for the service providers to focus on these demands to capture a big untapped market.

### **9. Event Managements:**

The rural population are majorly involved in celebrating and organizing festivals, which require lightning arrangements, venue decoration, food, lodging, transportation, catering and event planning etc. for

- i. Family gatherings, Marriages, engagements, birthday parties, etc.
- ii. Festivals like Diwali, Onam, Christmas, Iorhi, Eid, Dushera, Kannada Rajamahotsava, Navratri, Garba and Dandia mahotsava etc.
- iii. Religious/Caste based events like poojas, various ceremonies, etc.

Hence these services also have great potential to meet the rural customer's demand for even management.

### **10. Beauty Parlors:**

As there has been major improvement in the quality of life style and increased awareness among the rural customers (especially females), there has been great demand observed for beauty products and services. A huge increase in the demand for FMCG products like shampoos, beauty soaps, beauty creams, cosmetics, etc. has also been observed lately in rural India. This market is still dominated by unorganized and local players who lack adequate tools, methods, skills, and process, technology and beauty products to meet the demand of rural population. Hence focusing on this segment would be a profitable business for any company.

### **11. Affordable Movie theatres:**

Till now the entertainment service providers for movie theatres at affordable prices in rural markets are dominated by local and unorganized players who lack proper facilities and infrastructure as well as quality delivered. Focusing on this market is a good profitable business

### **12. Educational and Career consultancy:**

The rural markets lack adequate and quality educational services which are majorly catered by government agencies and bodies. But due to lack of proper infrastructure, expertise, knowledge, talent, funds and participation of the service provider, this sector is unable to meet the desired level of service expectation of the rural customer for career building. Hence there a great business opportunity for any company if it is able to fill this gap effectively and would also is imparting its social responsibility to the growth of the society and country.

With all the above mentioned areas for Services in rural markets, there is a huge demand and growth opportunities that exists to be exploited by the companies which can make best market expansion and profitability by investing in Rural India.

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## 2.4 EXERCISES

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- 1) What are the factors influences on Rural Market?
- 2) Which marketing problems are faced by Rural Industries?
- 3) State the strategies applied by marketers for Rural services.





## **RURAL MARKETING: PROBLEMS OF RURAL MARKETING**

### **Unit Structure**

- 3.0 Objectives
- 3.1 Introduction
- 3.2 Problems of Rural Marketing
- 3.3 Exercises

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### **3.0 OBJECTIVES**

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Rural marketing is a two- way marketing process. There is inflow of products in to rural market for production and there is also out flow of products to urban areas. Today rural marketing has facing many problems. To Discuss and know various problems of Rural marketing are the objectives this topic.

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### **3.1 INTRODUCTION**

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Rural marketing is a time consuming affair and requires considerable investments in terms of evolving appropriate strategies. There are many problems to be tackled in rural marketing, despite rapid strides in the development of the rural sector.

The main objective of this topic is  
To discuss and know various problems of rural marketing.

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### **3.2 PROBLEMS OF RURAL MARKETING**

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The rise of rural markets has been the most important marketing phenomenon in today's environment. Many corporators are interested to enter in the rural markets. Although the rural market does offer vast potential, it should also be recognized that it is not easy to operate there. Rural marketing is a time consuming affair and requires considerable investments in terms of evolving appropriate strategies. There are many problems to be tackled in rural marketing, despite rapid strides in the development of the rural sector. Some of the common problems are discussed below.

### **1) Transportation**

Transportation is an important aspect in the process of movement of products from urban production centers to remote villages. The transportation infrastructure is extremely poor in rural India. Due to this reason, most of the villages are not accessible to the marketing man. In our country, there are six lakhs villages. Nearly 50 per cent of them are not connected by road at all. Many parts in rural India have only kachcha roads. During the monsoons, even these roads become unserviceable. Regarding rail transport, though India has the second largest railway system in the world, many parts of rural India however, remain outside the rail network.

### **2 ) Communication**

The development of appropriate communication systems to rural market may cost up to six times as much as reaching an urban market through established media, need rural communication facilities..

Marketing communication in rural markets suffers from a variety of constraints. The literacy rate among the rural consumers is very low. Print media, therefore, have limited scope in the rural context. Apart from low levels of literacy, the tradition-bound nature of rural people, their cultural barriers and their overall economic backwardness add to the difficulties of the communication task. Post, telegraph, and telephones are the main components of the communication infrastructure. These facilities are extremely inadequate in the rural parts of our country. In rural areas, the literacy percentage is still low, compared to urban areas. In India, there are 18 recognized languages. All these languages and many dialects are spoken in rural areas. English and Hindi are not understood by many people. Due to these problems, rural consumers, unlike urban consumers do not have exposure to new products. Television has made a great impact and large audience has been exposed to this medium. Radio reaches large population in rural areas at a relatively low cost. However, reach of formal media is low in rural households; therefore, the market has to undertake specific sales promotion activities in rural areas like participating in melas or fairs.

### **3) Availability of Appropriate Media**

It has been estimated that all organized media in the country put together can reach only 30 per cent of the rural population of India. The print media covers only 18 per cent of the rural population. The radio network, in theory, covers 90 per cent. But, actual listenership is much less. TV is popular, and is an ideal medium for communicating with the rural masses. But, it is not available in all interior parts of the country. It is estimated that TV

covers 20 per cent of the rural population. But, the actual viewership is meager. The cinema, however, is a good medium for rural communication. But, these opportunities are very low in rural areas.

#### **4) Warehousing**

A storage function is necessary because production and consumption cycles rarely match. Many agricultural commodities are produced seasonally, whereas demand for them is continuous. The storage function overcomes discrepancies in desired quantities and timing. In warehousing too, there are special problems in the rural context. The central warehousing corporation and state warehousing, which constitute the top tier in public warehousing in our country, have not extended their network of warehouses to the rural parts. It is almost impossible to distribute effectively in the interior outlets in the absence of adequate storage facilities. Due to lack of adequate and scientific storage facilities in rural areas, stocks are being maintained in towns only.

#### **5) Village Structure in India**

In our country, the village structure itself causes many problems. Most of the villages are small and scattered. It is estimated that 60 per cent of the villages are in the population group of below 1,000. The scattered nature of the villages increases distribution costs, and their small size affects economic viability of establishing distribution points.

#### **6) Rural Markets and Sales Management**

Rural marketing involves a greater amount of personal selling effort compared to urban marketing. The rural salesman must also be able to guide the rural customers in the choice of the products. It has been observed that rural salesmen do not properly motivate rural consumers. The rural salesman has to be a patient listener as his customers are extremely traditional. He may have to spend a lot of time on consumer visits to gain a favorable response from him. Channel management is also a difficult task in rural marketing. The distribution channels in villages are lengthy involving more intermediaries and consequently higher consumer prices. In many cases, dealers with required qualities are not available.

#### **7) Inadequate Banking and Credit Facilities**

In rural markets, distribution is also handicapped due to lack of adequate banking and credit facilities. The rural outlets require banking support to enable remittances, to get replenishment of stocks, to facilitate credit transactions in general, and to obtain credit support from the bank. Retailers are unable to carry optimum stocks in the absence of adequate credit facilities. Because of this

problem, they are not able to offer credit to the consumers. All these problems lead to low marketing activities in rural areas. It is estimated that there is one bank for every 50 villages, showing the poor banking facilities in rural areas.

### **8) Market Segmentation in Rural Markets**

Market segmentation is the process of dividing the total market into a number of sub-markets. The heterogeneous market is broken up into a number of relatively homogeneous units. Market segmentation is as important in rural marketing as it is in urban marketing. Most firms assume that rural markets are homogeneous. It is unwise on the part of these firms to assume that the rural market can be served with the same product, price and promotion combination.

### **9) Branding**

The brand is the surest means of conveying quality to rural consumers. Day by day, though national brands are getting popular, local brands are also playing a significant role in rural areas. This may be due to illiteracy, ignorance and low purchasing power of rural consumers. It has been observed that there is greater dissatisfaction among the rural consumers with regard to selling of low quality duplicate brands, particularly soaps, creams, clothes, etc. whose prices are often half of those of national brands, but sold at prices on par or slightly less than the prices of national brands. Local brands are becoming popular in rural markets in spite of their lower quality.

### **10) Packaging**

As far as packaging is concerned, as a general rule, smaller packages are more popular in the rural areas. At present, all essential products are not available in villages in smaller packaging. The lower income group consumers are not able to purchase large and medium size packaged goods. It is also found that the labeling on the package is not in the local language. This is a major constraint to rural consumers understanding the product characteristics.

### **11) Physical Distribution and Channel Management**

The problems of physical distribution and channel management adversely affect the service as well as the cost aspect. The existent market structure consists of primary rural market and retail sales outlet. The structure involves stock points in feeder towns to service these retail outlets at the village levels. But it becomes difficult maintaining the required service level in the delivery of the product at retail level.

An effective distribution system requires village-level shopkeeper, Mandal/ Taluka- level wholesaler or preferred dealer, distributor or stockiest at district level and company-owned depot or consignment distribution at state level. The presence of too many tiers in the distribution system increases the cost of distribution.

## **12) Rural Culture and Traditions**

Culture is a system of shared values, beliefs and perceptions that influence the behavior of consumers. There are different groups based on religion, caste, occupation, income, age, education and politics and each group exerts influence on the behavior of people in villages. Life in rural areas is still governed by customs and traditions and people do not easily adapt new practices. For example, even rich and educated class of farmers does not wear jeans or branded shoes. Rural consumers are cautious in buying and decisions are slow and delayed. They like to give a trial and only after being personally satisfied, do they buy the product.

As a general rule, Rural marketing involves more intensive personal selling efforts compared to urban marketing. Marketers need to understand the psyche of the rural consumers and then act accordingly. To effectively tap the rural market a brand must associate it with the same things the rural folks do. This can be done by utilizing the various rural folk media to reach them in their own language and in large numbers so that the brand can be associated with the myriad rituals, celebrations, festivals, melas and other activities where they assemble.

## **13) Seasonal Demand for Products**

Demand for goods in rural markets depends upon agricultural situation, as agriculture is the main source of income. Agriculture to a large extent depends upon monsoon and, therefore, the demand or buying capacity is not stable or regular.

## **14) Different Way of Thinking**

There is a vast difference in the lifestyles of urban and rural people. An urban customer has many more choices than his rural counterpart. The rural customer usually has two or three brands to choose from, whereas the urban one has many more choices. There is also a difference in the way of thinking. The rural customer lives fairly simply compared to his urban counterpart. Life in rural areas is still governed by customs and traditions and people do not easily adopt new practices.

## **15) Low Level of Literacy**

Literacy in India is key for socio-economic progress and the Indian literacy rate grew to 68% in 2007 from 12% at the end of

British rule in 1947. Literacy rate of India in 2011 is 74.04%. The Male literacy rate is 82.14% and Female literacy rate is 65.46% according to Census 2011. But Literacy rate are low in rural areas compared to urban areas. This leads to the problems of communication. The print medium is ineffective in rural areas since its reach is poor.

#### **16) Low per Capita Income**

Near about 26% of GDP is generated in rural areas. It is shared by 74 percent of the population. So, per capita incomes are low. Moreover, demand for goods in rural markets depends upon the agricultural situation, as agriculture is the main source of income and it depends upon the monsoon to a large extent. Therefore demand is not stable or regular.

#### **17) Many Languages and Dialects**

The number of languages and dialects vary widely from state to state, region to region and probably from district to district. Messages have to be delivered in local language and dialects. Even though the number of recognized languages is only 18 but there are an estimated 1700 dialects. It is very difficult to marketers to design promotional strategies in different languages and local dialects. Facilities such as phone, telegram and fax are less developed in the villages, adding to the communication problems faced by marketers in the distribution of goods, etc.

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### **3.3 EXERCISES**

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- 1) State the problems faced by Rural marketing



## **AGRICULTURE MARKETING - CONCEPT NATURE AND TYPES / CLASSIFICATION**

### **Unit Structure :**

- 4.0 Objectives
- 4.1 Introduction
- 4.2 Concept of Agriculture Marketing
- 4.3 Nature of Agriculture Marketing
- 4.4 Classification of Agriculture Marketing
- 4.5 Marketing Channels
- 4.6 Summary
- 4.7 Questions for practices

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### **4.0 OBJECTIVES**

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- 1) To understand the concept of Agriculture marketing.
- 2) To learnt about the nature of Agriculture Marketing.
- 3) To understand the various types of Agriculture Marketing.
- 4) To learnt about methods of sales of Agriculture product.

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### **4.1 INTRODUCTION**

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Agricultural Marketing is critical to better agriculture as forming itself. It is different from the marketing of manufactured goods, because of the special characteristics of agricultural product. These characteristics are affect by the supply and demand of agricultural product.

Agriculture marketing is a process which starts with a decision to produce a saleable farm commodity and it involves all aspects of market structure, supply of farm inputs to farmers and movement of agricultural product from the farm to the consumers. It's also include assembling, grading, storage, transportation, distribution, packaging, warehousing / storage, cleaning, standardization etc.

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## 4.2 CONCEPT OF AGRICULTURAL MARKET

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I) “Agricultural marketing is the process which starts with a decision to produce a suitable farm commodity or product and its involves all aspects of market structure or systems, both functional and institutional, based on technical and economic considerations and include pre and post harvest operations like assembling, grading, storage, transportation and distribution.”

- National Commission on Agriculture.

II) As per Indian council of Agricultural Research ‘Agricultural Marketing involves three important functions.’

- a) Assembling of goods.
- b) Preparation for consumption
- c) Distribution of agricultural products.

III) According to American Association defines “Marketing includes all activities having to do with affecting changes in a ownership and possession of goods and services. It is that part of economics with deals with creation of time, place and possession utilities and that phase of business activity through which human wants are satisfied by exchange of goods and services for some valuable considerations.”

IV) Narrow definition of Agricultural is “agricultural market is a place, where agricultural produce is brought and sold.”

Simply agricultural marketing involved all activities i.e.

- a) Supply of farm inputs to the farmers.
- b) Movement of agricultural products from the farms to the consumers.

V) Following important activities involved in agricultural marketing -

- a) Assembling or procurement of goods
- b) Processing of product
- c) Distribution of product.
- d) Packaging of the product.
- e) Grading and standardization
- f) Storage and warehousing
- g) Transportation etc.

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## 4.3 NATURE OF AGRICULTURE MARKETING

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The marketing of agriculture commodities is different from the marketing of manufactured good. It include the two word i.e.

Agricultural Marketing = Agriculture + Marketing



**I) Agriculture** - It is called a primary sector as it includes all the primary activities of production. Generally it is used to mean growing and raising livestock and crops.

**II) Marketing** - It is the performance of business activities that direct the flow of goods and services from producers to consumers or final users.

### Two aspects of Agricultural Marketing :

**I)** In agricultural marketing, the point of production (the farm or ranch) is the basic source of supply. Marketing process begins at that point and continues until a consumer buys the product at the retail counter or until it is purchased as a raw material for another production phase.

**II)** Marketing also includes the input supply market. This refers to marketing of products required for agricultural production. Unlike Urban markets, production centres in rural areas. To produce foodgrain, vegetable, fruits etc. large number of inputs are needed. i.e. seed, fertilizer, pesticides, agricultural equipment etc. Input marketing also includes marketing services such as engine repair.

**III)** In short Agricultural Marketing is

Agricultural Marketing	=	Movement of agriculture products from to consumer	+	Procurement of <u>farm inputs</u> * by farmers
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Agricultural Marketing	=	Production Marketing	+	Input Marketing
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**\*Farm inputs** - fertilizers, pesticides, other chemicals, livestock feed, farm machinery, credit, electricity, water, labour etc.

### IV) Components of Agricultural Marketing :

- 1) Marketing functions
- 2) Marketing Agencies
- 3) Marketing Channels
- 4) Marketing efficiency
- 5) Marketing cost and margins
- 6) Price spread and market integration
- 7) Producer's surplus (e.g. marketable surplus and marketed surplus)
- 8) Government policy
- 9) Research, training and statistics

**V)** Agricultural commodities are produced in all over the country. Usually agricultural product are produced in one region and sold in other region. Some time produced in one region and sold in all over world. The farmers are not capable for selling their product in other regions. To Sale number of products in other regions. numbers of middleman are involved in marketing. The middlemen is the bridging for farmers and consumers. This increases the gap between price paid by consumer and received by the producer. In this process farmers are not getting the remunerative prices for produce. There is major conflicts on producer, consumers, middlemen / traders and Government.

#### **Conflicts in agricultural marketing :**

Expectation from the marketing system varies from group to group and therefore generally their objectives are in conflict -

- 1) Producers - Except maximum price for their produce and want the inputs at the lowest possible price.
- 2) Consumers - Expect the best quality product, that to at the lowest price.
- 3) Market middlemen and traders - Expect increasing income and maximum profit, hence interested in buying from the producer (farmers) at the lowest price and selling to the consumer at the highest price.
- 4) Government - Interests of the above three groups are in conflict. Govt. has to reconcile these conflicting interest and attain overall welfare.

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### **4.4 CLASSIFICATION OF AGRICULTURE MARKETING**

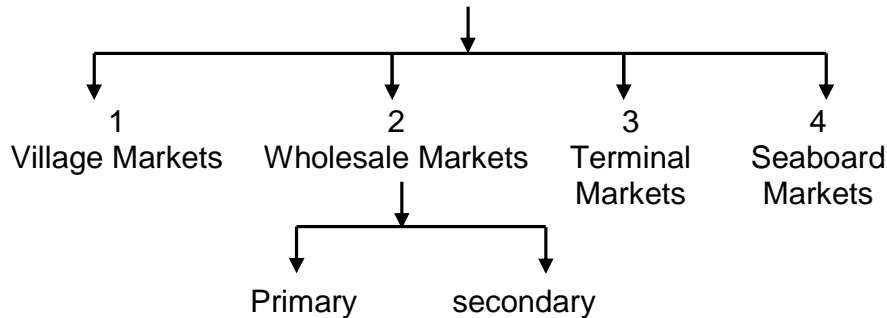
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Classification of markets are on the basis of nature of commodities each market has plus & minus points. Market can be classified on the basis of

- i) Freedom of interaction
- ii) Time Span
- iii) Area
- iv) Nature
- v) Public intervention
- vi) Accrued of marketing margins

Fundamentals of these markets have remain unchanged. On the basis of the place of location we may classify agricultural markets into, tree nodes as fallows:

### Classification on the basis of place of location



**I) Village Markets** - This market is located in a small village where major transactions take place among the sellers and buyers of village or a group of villages in the vicinity. Mostly degradable commodities like milk or vegetable etc. goods are being purchased or sold in a village or nearly village. In this market only small lots of goods are being sold.

Much local assembly is undertaken by country buyers who farmer in his village to bid for fruit on the tree or for grain after harvest. This saves farmer's trouble; but he is at a disadvantage in bargaining unless he know what other possible buyers would offer.

**II) Wholesale Markets** - This markets are classiflicated in two types.

**a) Primary wholesale market** : This market is located in big towns near the centre of production. Producer farmers bring their produce for sale to the traders. Transactions are between farmers and traders. The agricultural produce is purchased by intermediaries, which later they sell it into wholesale markets. Besides agricultural produce, other articles required for rural people, consumables i.e. pulses, salt jaggery, oil, fruits and vegetables, spices, cloth, ornaments of cheap metal are also sold in these markets.

The main function of these markets is to serve assembling centres for local produce and distributive centres for local consumption.

**b) Secondary wholesale markets** - Generally, this market is located in district head quarters / important trade centres / railway junctions. In this market major transaction takes place between village traders and wholesalers. The bulk of the arrivals in these markets is from other markets. Produce handled in large quantities. Therefore, specialized marketing agencies perform different marketing functions i.e. commission agents, brokers and weighmen.

**III) Terminal Markets :** In this market produce is either finally disposed of to the consumers or processors or assembled for exports, merchants are well organized and use modern methods of marketing. Commodity exchanges provide facilities for forward trading in specific commodities located either in metropolitan cities or in sea ports (Mumbai, Madras, Calcutta, Delhi)

These markets handles large scale business with large number of buyers and sellers. All facilities are available in the markets. Such as grading, transportation, information, packing, weighing, loading etc.

**IV) Seaboard Markets :** These market is located near sea-coast and meant mainly for import and export of good i.e. Mumbai, Madras, Calcutta.

These markets either receive the agricultural good from central market or directly from local or district assembling market. Corresponding facilities for handling imports of agricultural goods are also available in such market.

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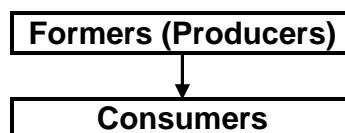
## 4.5 MARKETING CHANNELS

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The marketing channels of agricultural markets are different from other commodity market. Agricultural produce has to pass through a wide variety of market and change hands several times before it reaches the final consumer. Main reason for that is farmer and producers are scattered geographically all over the country.

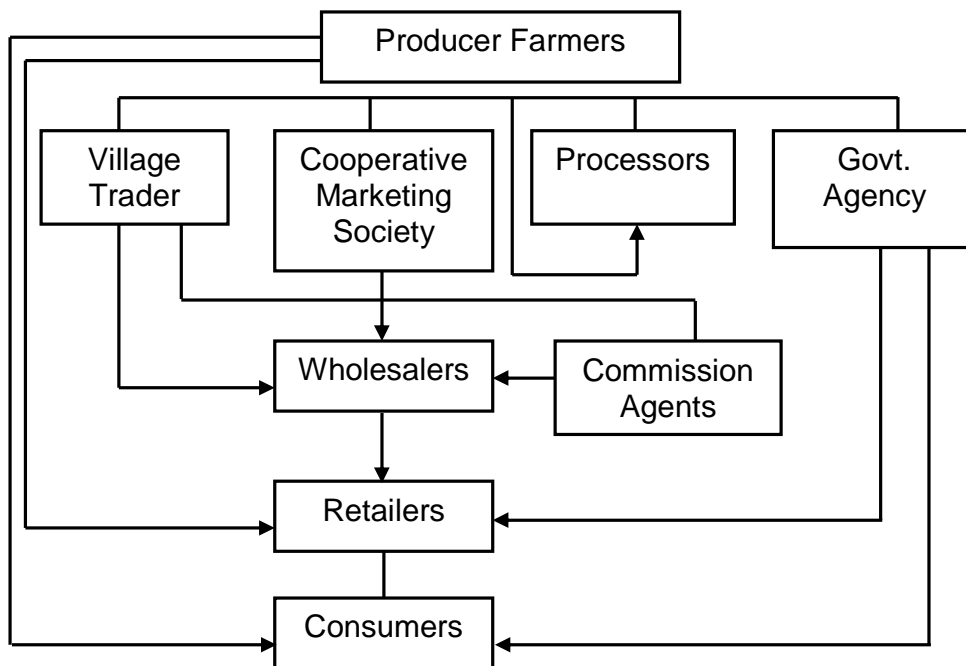
Routes through which agricultural products move from producers to consumers marketing channels vary from commodity to commodity.

### I) Direct route :



This is possible only in limited cases.

**II) Indirect Route :** Presence of a number of middlemen in between the primary producer and ultimate consumers.




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## 4.6 SUMMARY

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Agricultural marketing plays an important role in developing country market, has greater significance for consumers, producers, traders as well as government, management guru Peter Director noted Scientific marketing removes imbalance in the supply by moving surpluses to deficit area. Increase in marketing efficiency help to increase national income a reduction of cost in marketing is of benefit directly to the society.

Lack of proper marketing channels is the main reasons for high prices consumers have to pay for the products.

Here in the chapter we have studied Concepts, Nature and Classification of Agricultural Marketing.

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## 4.7 QUESTIONS FOR PRACTICES

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- 1) Explain the concept of agricultural marketing.
- 2) What is agricultural marketing? State the nature of agricultural marketing.
- 3) Discuss the various types of Agricultural Market in India.
- 4) Write explanatory note on -
  - a) Marketing channels
  - b) Types of Agriculture Marketing
  - c) Nature of agriculture Marketing



## FACTORS OF AGRICULTURAL MARKETING

### Unit Structure :

- 5.0 Objective
- 5.1 Introduction
- 5.2 Factors of Agricultural Marketing
- 5.3 Summary
- 5.4 Exercise

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### 5.0 OBJECTIVES

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- 1) To understand the various factors of Agricultural Marketing.
- 2) To understand the secondary factors of Agricultural Marketing.
- 3) To study functions of Agricultural Marketing.

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### 5.1 INTRODUCTION

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Various elements are the components in Agricultural Marketing. Along with these elements other components like middleman in marketing roam around. The buyer, middleman, trader and Government alike institutes plays the role of marketing and provides services, at their own individual and independent level in the marketing.

Agricultural marketing is a process which starts with a decision to produce a saleable farm commodity and its involves all the aspects of market structure. Agricultural marketing pass through three main stages i.e.

- Pre-harvest operation
- Harvesting operation
- Post-harvest operation

Agricultural marketing involved the supply of farm inputs to the farmers and movements of agricultural products from the farm the consumers. The activities are

- 1) Assessment of the disposable surpluses
- 2) Search the market to dispose of these surpluses

- 3) Collection of farm goods from individual farmers
- 4) Arrangement for transport to the nearest assembling centre
- 5) Pooling the produce of all the farmers
- 6) Grading and standardization
- 7) Processing whenever required
- 8) Packaging
- 9) Storage and warehousing
- 10) Transporting to the consumption centre
- 11) Other activities i.e. pricing, promotion efforts, arrangements of distribution.

Agricultural marketing start from input marketing and ends on output marketing.

#### **Agricultural Marketing Include:**

- I) Producers : Producers expect maximum price for their produce and want the inputs at the lowest possible price.
- II) Consumers : Consumers expect the best quality products, that too at the lowest prices.
- III) Market middlemen and traders : Middlemen & traders expect increasing income and maximum profit so they interested in buying from the producer (farmer) at the lowest price and selling to the consumer at the highest price.
- IV) Government : Government interests of the above three groups are in conflict. Govt. has to reconcile these conflicting interests and attain overall welfare.

#### **Marketing : A process of value addition**

Agricultural marketing involve transfer of goods from farmer to the consumer, it creates following utilities.

- I) Time utility : It's added to commodities through storage.
- II) Place utility : It's added through transportation facilities.
- III) Form utility : It's added through processing functions.

By the creation of mass utilities marketers are productive and add value to raw agricultural commodities that consumers want.

The value adding process takes place through the following three sectors.

- I) Input sector
- II) Farm sector
- III) Product market sector

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## 5.2 FACTORS OF AGRICULTURAL MARKETING

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Marketing is influenced by nature of agricultural marketing differently from marketing of manufactured good.

**1) Lack of Infrastructure :** The infrastructure includes, roads, transport facilities, electricity, telecommunications, etc. These basic facilities are not available in the rural areas. Condition of road is poor & not in condition. Many areas are simply inaccessible. So the rural marketing concept appears unpromising.

**2) Product Design :** A product which is selling well in urban markets, may not necessarily be a success in rural markets, the reason being the difference in the utility value of the product.

**3) Existence of Middlemen :** The government does not impose any restrictions on the entry of market middlemen. Therefore, there are many middlemen between the producer and the consumer. As a result, the length of the marketing channel increases and the cost of marketing and market margins go up. Hence, producers receive a low price, while consumers pay a high price.

**4) Multiplicity of Market Charges :** For the same value of goods, the cost of marketing agricultural produce is much higher than the products of other sectors. A large number of market charges are paid - commission, brokerage, weighment, hamali, karda, dhalta, muddat, darmada etc. These charges also vary from market to market.

**5) Awareness of market planning :** Rural markets are different from urban markets. Unlike urban they are unplanned in nature. Rural markets were simply not cared about companies which have been household names for decades in urban areas, were not even heard of in the rural markets. Lack of awareness and understanding of consumer behaviour in rural markets, creates problems in formulating strategies and plans for these.

**6) Existence of Malpractices :** Unauthorised market charges, spurious deductions, unfair weighing, taking away a part of product as sample by bidders, bungling of accounts, etc. result in an increase in the real cost of marketing produce.

**7) Product Price :** Price is a tool with which companies can compete with one another. It is a sensitive index, while considering the product. Price plays an important role in urban as well as rural markets, but, it is more crucial in rural areas because the income is low.



**8) Lack of Communication :** With the given level of literacy and awareness of rural population, communication constitutes a major hurdle in exploiting rural markets. Various factors, like language, religion, superstitions, rigidity, etc. make communication in rural markets more difficult.

**9) Lack of Market Information :** There are no reliable channels of communication to provide price information to producer-farmers, who are isolated in remote villages. In the absence of reliable information, farmers depend on hearsay reports that they receive from village merchants, and as a result sell their produce at lower rates.

**10) Absence of Proper Standardization and Grading :** Most farmers have little knowledge of the practice of grading of produce prior to its sale. They usually mix superior or inferior quality products to make a single lot. As a result, they get a lower price for their produce. Sometimes farmers are penalized by traders for the existence of a small percentage of poor quality produce in the lot.

**11) Lack of proper distribution system :** Nobody ever thought of developing the channels of distribution in rural areas till the focus of the executives shifted from urban to rural areas. Only those companies which were directly related with agricultural activities, e.g. insecticides, fertilizers, seeds etc., contacted the rural markets. The consumer goods companies had not focused their activities in the rural areas. Thus, adequate channels of distribution do not exist, and this restricts the exploitation of the rural markets to the full.

**12) Cultural Factors :** Culture affects the behaviour of individuals. The consumers in the rural areas are much under the influence of traditional cultural values. The culture at present is more or less the same as it was some 50 years back. Consequently, their buying decisions are the result of the culture.

**13) Storage Facilities :** Agricultural production is not only confined to a few areas but is also limited to a few seasons in a year. But its consumption is spread throughout the year. Only adequate and efficient storage facilities can ensure continuous supplies throughout the year. At present, storage facilities are not only inadequate but the available godowns are not properly managed. This leads to wastage or reduced supplies, resulting in high prices during the off-season.

**14) Purchasing Design :** One of the important factors affecting consumers behaviour in rural markets is the right to take the purchase decisions. In most rural families, it is the heads of the family who decide what to buy and when to buy. Consequently,

his purchase decisions are influenced by his own personality traits, rather than the aptitude and perception of the actual consumers of these goods. Thus, while venturing into rural markets, this fact needs probing.

**15) Lack of literacy :** In rural areas, the educational level is very low in a majority of the rural areas. The income level also is very low. The main occupation continues to be agriculture, and the level of advancement in agriculture is also low. This results in lesser output and consequently low income, resulting in low purchasing power.

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### 5.3 SUMMARY

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Agricultural marketing involves all aspects of market structures. It's include producers, consumers, middlemen & government Marketing pass through three stages which is pre-harvest operation, harvesting & post harvest operation. Mainly the marketing is the process of value additions. Money factors are influenced to Agricultural Marketing which is discusses earlier.

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### 5.4 EXERCISE

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- 1) Explain the concept of Agricultural marketing and state the Nature of Agricultural Marketing.
- 2) Discuss the various factors of Agricultural Marketing.



## IMPORTANCE AND PROBLEMS OF AGRICULTURAL MARKETING

### Unit Structure :

- 6.0 Objective
- 6.1 Introduction
- 6.2 Importance of Agricultural Marketing
- 6.3 Problems of Agricultural Marketing
- 6.4 Remedial measures for Agricultural Marketing
- 6.5 Summary
- 6.6 Exercise

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### 6.0 OBJECTIVE

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- 1) To understand the importance of Agricultural Marketing in Rural Development.
- 2) To study various problems of Agricultural Marketing.
- 3) To study various remedies for the problems of Agricultural Marketing.

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### 6.1 INTRODUCTION

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Efficient marketing is a prerequisite for the development of economy. Efficient marketing ensures remunerative prices to producers, reduces marketing cost and margins, provides commodities to consumers at reasonable prices and promotes the movement of surpluses for economic development.

In modern age, all nations have seen growing importance of marketing and those adopted their economy, where marketing is developing at great speed. In developing & developed countries, marketing in economy has assumed top most priority. The whole world is a market in modern age. According to Peter, marketing is most ignored sector in economic lives of developing country, instead such country doesn't value marketing, isn't the case. America, the developed country is market oriented.

Marketing means : All comprehensive actions; to satisfy consumer and achieve the objectives of organization & provide services to the consumer are called as marketing. The marketing

concept involves all efforts to satisfy the consumer, society right from purchasing produce, as assembling upto provision goods, produce to the consumer. In short marketing means not just sale but presale and post-sale services.

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## 6.2 IMPORTANCE OF AGRICULTURAL MARKETING

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The success of produce is dependent on marketing of agricultural produce. We realize the importance of agri-marketing, by this, which is given below.

**1) Drives behind Agricultural Produce :** In a developing country like India, agri-based produce is solely dependent on monsoon. If monsoon is favourable, the yield is satisfactorily good. Otherwise yield gets reduced. Monsoon & natural conditions are out of human reach that bring uncertainty in agri-yield. To neutralize the uncertainty, marketing plays the role at large scale. If marketing system is loopholes free, may bring certainty about in farmer's mind and may stimulate to increase agri-yield.

**2) Marketing is producer's ultimate objectives :**

Any producer produces the goods to sell and earn profit as an ultimate objectives. Until the produce is sold out, the production cycle never gets completed. We come to know how much agri-yield marketing is important.

**3) Capability a distinctive side :** Agri-produce has variety. Farmers from various region produce various agri-products, across the country. Nevertheless, a produce has variety of standard in a particular product of the particular region. If agri-marketing system is influentially strong, the farmers from the region gets ample value for their produce that generate capability in agri produce and marketing.

**4) Increasing agri marketing :** Farmers generally stores some part of his yield for self consumption and for seeds. Whatever produce remained, he brings to market. Such selection is called increased marketing yield. This should be to such an extent to fulfill the needs of non-farmer community. The farmers are to be encouraged to bring this produce in the market. This marketing of agri-based produce is one of major function. If marketing of such yield is strong, there is rise, increased marketing of yield.

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## 6.3 PROBLEMS OF AGRICULTURAL MARKETING

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Marketing agricultural products may appear to be simple, but it is very complicated and consists of various complex operations. The agricultural conditions in India had rapidly changed. Production

has been achieved at reasonable growth rate. But the growth rate not only has to be maintained but accelerated and fluctuations in agricultural production have to be minimized.

The Indian farmer is illiterate and ignorant; as a result, he will face a lot of problems in marketing his agricultural produce. Following problems faced by the Indian farmers.

**1) Lack of Crop planning :** The major problem is in the crop planning itself. In India a variety of crops are grown, but due to lack of knowledge or information about the demand and supply conditions about the commodities, a large number of farmers generally sow the seeds for the crop, which have good price in the market in current year. After harvesting, the supply will become more than the demand. As a result, the prices of those commodities will get affected immediately and the farmer won't get the prices what he has expected.

**2) Problems of Organisation :** The first thing that strikes the observer is the lack of any kind of collective organisation among the producers. The buyers of agricultural produce specially in the case of money crops, usually operation a larger scale and are organized while the producers are invariably small ryots scattered over, a wide There is no common organisation to guide them and to protect their interests, while purchasers of commercial crops on the other hand, are largescale operators on an organised basis. Under the circumstances it is common to find that the producers of agricultural products as a class are being exploited by the purchasers.

**3) Forced Sales:** The village is the common place where most of the farmers sell their produce just after the harvest and hence they get a very low price. The basic reason for this is the indebtedness of the farmer for his needs like to purchase seeds, manures, etc.

All of these force him to sell his produce to the money lenders, merchants, landlords, and itinerant merchants and to borrow before and during sowing period. For production or other purposes, he has to enter into advanced sale contract on less price terms with these merchants before the crop is harvested.

**4) Multiplicity of Market Charges :** The marketing charges payable by the producers are numerous and varied in unregulated markets and they tend to reduce considerably the return to the producer from the sale of his produce. On a sale of produce worth Rs. 100, a much as 21.5 per cent of the income of the producer goes to meet the various expenses.

**5) Inadequate Storage Facilities :** The cultivators store their produce in carts, pits, kachcha store houses, etc. There is no adequate storage facilities. Even the available store houses are costlier for the farmers. Particularly in a situation, where there are small producers, producing little output, they cannot think of storing their products in the store houses. Due to insufficient method of storing, it is estimated that 10 to 20 per cent of the agricultural produce are destroyed because of dampness, rats, ants, etc. There will be deterioration in the value of the products also.

**6) Superfluous Middlemen :** Agricultural Marketing is characterized by the existence of a long chain of middlemen or intermediaries in between the producers and the consumers. This, in turn, reduces the effective share of the producer-sellers to a considerable extent. The intermediaries comprising the village Baniyas, itinerant merchant or Beopari, Dalal, Kachcha and pucca arhatiyas. wholesale merchants and retailers. They function at various stages in the process of assembling to distribution. The existence of a long chain of middlemen take away a huge share of the price paid by the consumer and consequently, the producer gets a small share of the price. In the case of plantation crops and the perishable products, the presence of this group is much higher than the other products.

**7) Malpractices of Markets :** In unregulated markets, malpractices tend to be common. i.e. Scales and weights are manipulated against the seller. This practice is rendered easier by the fact that till recently there had been no standardised weights and measures nor was there any provision for regular inspection.

There are all kinds of arbitrary deductions for religious and charitable purposes and for other objects. The burden falls entirely on the seller and he has no effective means of protest against such practice.

**8) Lack of Transport:** Inadequate transport facility is one of the serious problem for the agricultural producers. The transportation system in India is a mixture of the ancient and modern means of transport. Some of the villages are not even connected by the roads. Many parts of the villages are untouched by either pucca roads or rail. So, the farmers find it difficult to transport their produce to the storehouses and to the markets, because of these a part of the produce is spoiled and lost in transportation. And at many places, a sizeable part of the agricultural produce does not reach the markets.

**9) Insufficient Grading and Standardisation :** Another problem in marketing of agricultural produce is that agricultural goods are

not standardized and graded. A good system of marketing should ensure an adequate premium for superior over inferior produce. A large number of farmers have little knowledge of grading their produce and usually mix-up good and poor quality product into a single lot, which secure them lower price.

**10) Lack of Market Information :** Absence of market intelligence as to prices is another defect. The villagers have practically no contact with the outside world nor are they in touch with the trend of market prices and they mostly depend on hearsay reports received from the village bania who is not at all interested in supplying them the correct information as to prices obtaining in the wholesale market.

**11) Lack of Financial Facilities at Cheaper Rates :** The cultivator is financed by the village Savkar-cum-trader who is in his own turn financed by arhatiya and the indigenous banker in the absence warehouse and the lack of facilities for making advances against the warehouse receipts there cannot be any system of cheap finance against security of goods. There is at present no proper link between indigenous bankers or commercial bankers and the Reserve Bank of India. The various marketing agents borrow funds at a high rate of interest.

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## 6.4 REMEDIAL MEASURES FOR AGRICULTURAL MARKETING

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**1) Regulated Markets :** Regulated markets are places where transactions are governed by various rules and regulations. Markets may be regulated either by local bodies or operate under state legislation. Market communities consisting of representatives of growers, traders and the government look after the functioning of these markets. They are responsible for ensuring fair trading practices, licensing market functionaries, curbing the deduction of unauthorized market charges as also for the introduction of open auction system of sales, enforcement of standard weights and impartial arbitration in case of disputes. In short, a regulated market offers a package of measures to remove the defects of traditional rural markets.

**2) Provision of Storage and Warehousing Facilities :** Improved storage performs an important marketing function of regulating supply in relation to demand, stabilization of prices and maintenance of buffer stocks. A warehouse in a broad sense is a godown where goods are stored on the journey from places of production to places of manufacture or consumption. Warehousing is done in such a manner as to serve the needs of primary producers, middlemen, manufacturers and consumers.

**3) Provision of Finance :** Finance is a major problem for the farmers. Small and marginal farmers are entirely dependent on credit to meet their needs and carry out farm activities. Large numbers of farmers commit suicide every year due to bankruptcy and inability to repay loans. Hence, it is very important that the rural credit structure is improved so that more credit is made available to farmers, thus improving their financial status.

**4) Development of Agricultural Marketing :** Campaign under this programme. Government provides the required information for the scientific methods of storage. Government established an Indian Grain Storage Institute in 1958 so to promote the scientific storage of the grains.

**5) Improvement of Transport Facilities :** Here are some ways in which transport can be improved and transport costs reduced :

- There must be full utilisation of the capacity of the vehicle in terms of load to reduce per quintal cost of transportation.
- The transportation cost per quintal can be reduced by fixing the rate of transportation by different means.
- Using the correct type of wagons to reduce spoilage, damage, breakage or pilferage.
- Reducing the barriers to interstate movement of produce.

**6) Grading and Standardization :** Standardization is the process of fixing certain norms for the products. These norms are established by customs or traditions or by certain authority. It involves determination of basic characteristics of a product on the basis of which the product can be divided into various groups. It also means determining the standards of products to be produced with regard to size, colour form, weight, shape and quality. Standards are model products which form, the basis for comparison, standardization facilitates marketing of the product, increases demand for the products, leads consumer satisfaction, eliminates the risk in buying non-standard products and assures quality.

**7) Market Information :** The availability of prompt and reliable information about what is happening in the market, what quantities are arriving and what prices are quoted for different commodities considerably improve the decision-making capability of the farmers and strengthens their bargaining power.

**8) Market Inspection, Research and Training :** Proper arrangements for market inspection, research and training will help solve the problems of agricultural marketing in many ways. With the help of this research, an efficient marketing system can be



developed. Inspection will help in identifying the nature of the problems and their root cause. On the basis of this, research can be undertaken to find solutions and implement them.

**9) Use of Standard Weights and Measures :** Some of the traders resort to using unauthorized and faulty weights and scales. They also resort to very unethical practice of freely taking away the excess left in the lot after weighing. All such malpractices rampantly coexist due to the absence of an impartial and independent agency for weighing. There is also a complete absence of uniform weighing charges or weightment. The lack of any fixed procedure of supervision over the actual weighing processes also responsible for the situation.

**10)Co-operative Marketing :** There were so many malpractices in the marketing of agricultural produce. The private traders those were handling this trade were having profit as their main objective. They were financing the farmer's activities but they were charging very high rate of interest. They felt compulsion to sell their produce immediately after the harvest even at low prices. The charges of the middlemen were high. To remove all these defects the Government encouraged the establishment of co-operative marketing institutions. Co-operatives are the best form of organization to further their business and economic interests.

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## 6.5 SUMMARY

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Marketing of Agricultural products is simple but its very complicated. Efficient marketing ensures remunerative prices to produces. For the process of Rural Development, efficient marketing system necessary operational efficiency and pricing efficiency can improve the marketing. In this topic, we discuss the problem of Agricultural Marketing and Remedial measures.

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## 6.6 EXERCISE

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- 1) Explain the importance of Agricultural Marketing in Rural Development.
- 2) Discuss the various problems of Agricultural Marketing.
- 3) Explain the defects of Agricultural Marketing and state its Remedies.



## **AGENCIES IN AGRICULTURE MARKETING: MARKETING AGENTS, CACP**

### **Unit Structure**

- 7.0 Objectives
- 7.1 Introduction: Agricultural Marketing
- 7.2 Marketing Agents
- 7.3 Agencies Involved In Agricultural Marketing
- 7.4 The Commission for Agricultural Costs & Prices
- 7.5 Exercises

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### **7.0 OBJECTIVES**

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The agricultural marketing system is a link between the farm and the nonfarm sectors. Agriculture marketing therefore comprises all activities involved in the supply of farm inputs to the farmers and movements of agricultural products from the farms to the consumers. The objectives of this topic are,

- a) To know agencies in Agricultural marketing.
- b) To know the types of agricultural agencies.
- c) To understand the role of Agricultural agencies.
- d) To learn the types of Agricultural Agents.

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### **7.1 INTRODUCTION: AGRICULTURAL MARKETING**

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India needs to come up with an efficient marketing network for agricultural produce. Marketing covers the entire sequence of activities starting from purchase, packing, grading, transportation and storage, wholesale and ultimately retail sale of produce.

Agricultural marketing is the study of all the activities, agencies and policies involved in the procurement of farm inputs by the farmers and the movement of agricultural products from the farms to the consumers. The agricultural marketing system is a link between the farm and the nonfarm sectors. Agricultural marketing involves the buying and selling of agricultural produces. According

to the Indian Council of Agricultural research Agricultural marketing involves three important functions.

- 1) Assembling of goods.
- 2) Preparation for consumption.
- 3) Distribution of agricultural products.

### **DEFINITION**

According to National Commission on Agriculture “Agricultural marketing is the process which starts with a decision to produce a suitable farm commodity or product & it involves all aspects of market structure or systems, both functional and institutional based on technical and economic consideration and include pre and post harvest operations like assembling grading, storage transportation and distribution.”

Agriculture marketing therefore comprises all activities involved in the supply of farm inputs to the farmers and movements of agricultural products from the farms to the consumers. These are

- 1) Making as assessment of the disposable surpluses of Agricultural production.
- 2) Finding the markets to dispose of these surpluses.
- 3) Collection of such items from individual farmers
- 4) Making necessary arrangement for transport to the nearest assembling centre.
- 5) Pooling the produce of all the farmers.
- 6) Cleaning grading and standardization.
- 7) Processing whenever needed.
- 8) Packaging
- 9) Warehousing/storage
- 10) Transporting to the consumption centre.
- 11) Negotiating with consumers/buyers
- 12) Exchange of the goods with the ultimate consumer.

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## **7.2 MARKETING AGENTS**

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The peculiar characteristics of agricultural produce such as small and scattered production, seasonality and perishability of products, transportation and communication etc. require a large number of intermediaries between the producer and the ultimate consumer. All the agencies more or less participate in assembling and distribution of agricultural products.

Sometimes, agricultural commodities directly pass from producers to consumers. But in indirect marketing agricultural commodities generally move from producers to consumers through intermediaries or middlemen. The number of intermediaries may vary from one to many. All such intermediaries are called marketing agents.

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### 7.3 AGENCIES INVOLVED IN AGRICULTURAL MARKETING

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- **Producers**

The farmers or producers perform various marketing functions before the produce is moved on in order to reach the final consumer. They play a key role as they form the base of the entire system. Most farmers or producers, perform one or more marketing functions. They sell the surplus either in the village or in the market. Some farmers, especially the large ones, assemble the produce of small farmers, transport it to the nearby market, sell it here and make a profit. This activity helps these producers to supplement their incomes. Frequently visits to markets and constant touch with market functionaries, bring home to them a fair knowledge of market practices, they have thus as access to market information and are able to perform the functions of market middlemen.

- **Middlemen**

Middlemen are those individuals or business concerns which specialize in performing the various marketing functions and rendering such services as are involved in the marketing of goods. They do this at different stages in the marketing process. They are classified on the basis of their functions as under.

- i) Merchant middlemen

Merchant middlemen are those individuals who take title to the goods they handle. They buy and sell on their own and gain or lose, depending on the difference in the sale and purchase prices. Merchant middlemen are of two types i) wholesalers and ii) retailers.

- ii) Agent middlemen: commission agents, arhatias, brokers.

- iii) Facilitative middlemen. These are the middlemen, who do not buy and sell directly agricultural goods but assist in the marketing process such as hamals/labourers weighmen/tolas, graders, transport agencies, communication agencies etc.

- **Wholesalers**

Whole selling is one of the activities in agricultural marketing. Whole selling is the one that covers activities of all individuals or businessmen, which sell to or negotiate sales with customers, who buy for resale or industrial use. His position is that of an intermediary between manufacturer and retailer.

Wholesalers are classified as

- I. Local wholesalers are the traders who purchase goods from farmers at local level and deliver their purchases to local retailer in the same area.
- II. Provincial wholesalers some time called as distributor selling to the retailers of a particular district or a state and
- III. National wholesalers located at a strategic place and distribute goods all over the country.

The wholesalers perform the following functions in marketing

- a) They assemble the goods from various localities and areas to meet the demands of buyers.
- b) They sort out the goods in different lots according to their quality and prepare them for the market.
- c) They equalize the flow of goods by storing them in the peak arrival season and realizing them in the off-season.
- d) They regulate the flow of goods by trading with buyers and sellers in the various markets.
- e) They finance the producers so that the latter may meet their requirements of productions inputs.
- f) They assess the demand of prospective buyers and processors from time to time and plan the movement of the goods over space and time.

- **Retailers**

He is the last link in chain of middleman, who sells directly to consumer. He takes title to goods, sells and sets up business usually amidst the consumer's groups. He buys his requirement usually from the wholesalers. Retailers in producing areas may have direct contact with producers and buys goods from them for resale.

- **Co-operative Marketing Societies**

Main function is that of commission agency i.e.

- a) Selling the product of member's.
- b) They also undertake outright purchases.
- c) Provide storage facilities for storage and grading.
- d) Save cultivators from exploitation by traders and help farmers in getting fair price for their produce.
- e) Performing functions of processing of raw produce.

- **Pucca Arhatias**

He is the real purchase in the wholesale market on his own behalf of acting for some businessmen, firms in consuming markets. Big mills (rice, oils, cotton etc.) play as their agent and order him to purchase certain quantity within a given range of price. When pucca arhatia trades on his own, he dispose of his produce brought by him through dealers in different parts of country.

- **Katcha Arhatia**

He also advances money to the cultivators and village banias on the condition that the produce will be disposed off through him alone and hence charges a very nominal rate of interest on the money advanced. Katcha arhatia charges commission for services rendered by him. Important link between the village cultivator or traders on the one hand.

- **Village Merchants**

He is an important agency in the collection of produce and more so when the man does is situated at a considerable distance from the village. He advances from his shop either on credit or for exchange of food grain or so price given for cultivator's produce. The quantities of agriculture Produce so collected are either disposed off in the mandi or retained for resale in the village in the processed forms, such as rice, flour, oil etc.

- **Itinerant Traders**

They are small merchants, who move from village to village and buy the produce from cultivator's house. They give a lower price than selling in the nearby market and in setting transportation take into consideration, the factors such as cost of transportation, market charges and profit margin.

- **Transport Agency**

This agency assists in the movement of the produce from one market to another e.g. railways, trucks, bullock carts, camel carts, tractor trolleys.

- **Communication Agency**

It gives information about the prices prevailing, and quantity available and transactions e.g. post, telephone, telegraph, newspapers, radio.

- **Advertising Agency**

It enables prospective buyers to know the quality of the product and decide about the purchase of commodities e.g. newspapers, radio, television, cinema slides.

- **Auctioneers**

They put produce for auction and bidding by the buyers.

- **Government Agencies / Institutions**

In addition to individuals, corporate, co-operative and government institutions are operating in the field of agricultural marketing. Some important institutions are :-

- The State Trading Corporation (STC)
- The Food Corporation of India (FCI)
- The National Agricultural Co-Operative Marketing Federation (NAFED)
- Cotton Corporation India (CCI)
- All India cotton co-operative federation limited
- Jute corporation of India (JCI)
- National dairy development board (NDDB)
- National oilseeds and vegetable oils development (NOVOD) board
- Tobacco board
- Agricultural processed products and export development agency (APEDA)
- Marine products export development agency (MPEDA)
- The directorate of marketing and inspection, Government of India
- State level agricultural marketing departments and agricultural marketing boards
- State and lower level co-operative marketing societies
- Fair price shops
- Consumers co-operative stores, milk unions

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## **7.4 THE COMMISSION FOR AGRICULTURAL COSTS & PRICES**

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### **7.4.1 INTRODUCTION**

The Commission for Agricultural Costs & Prices (CACP) since 1985, earlier named as Agricultural Prices Commission) came into existence in January 1965. Currently, the Commission comprises a Chairman, Member Secretary, one Member (Official) and two Members (Non-Official). The non-official members are representatives of the farming community and usually have an active association with the farming community.

It is mandated to recommend minimum support prices (MSPs) to incentivize the cultivators to adopt modern technology, and raise productivity and overall grain production in line with the emerging demand patterns in the country. Assurance of a remunerative and stable price environment is considered very important for increasing agricultural production and productivity since the market place for agricultural produce tends to be inherently unstable, which often inflict undue losses on the growers, even when they adopt the best available technology package and produce efficiently. Towards this end, MSP for major agricultural products are fixed by the government, each year, after taking into account the recommendations of the Commission.

As of now, CACP recommends MSPs of 23 commodities, which comprise 7 cereals (paddy, wheat, maize, sorghum, pearl millet, barley and ragi), 5 pulses (gram, tur, moong, urad, lentil), 7 oilseeds (groundnut, rapeseed-mustard, soybean, seasmum, sunflower, safflower, nigerseed), and 4 commercial crops (copra, sugarcane, cotton and raw jute).

CACP submits its recommendations to the government in the form of Price Policy Reports every year, separately for five groups of commodities namely Kharif crops, Rabi crops, Sugarcane, Raw Jute and Copra. Before preparing aforesaid five pricing policy reports, the Commission draws a comprehensive questionnaire, and sends it to all the state governments and concerned National organizations and Ministries to seek their views. Subsequently, separate meetings are also held with farmers from different states, state governments, and National organizations like FCI, NAFED, Cotton Corporation of India (CCI), Jute Corporation of India (JCI), trader's organizations, processing organizations, and key central Ministries. The Commission also makes visits to states for on-the-spot assessment of the various constraints that farmers face in marketing their produce, or even raising the productivity levels of their crops. Based on all these inputs, the Commission then finalizes its recommendations/reports,



which are then submitted to the government. The government, in turn, circulates the CACP reports to state governments and concerned central Ministries for their comments. After receiving the feed-back from them, the Cabinet Committee on Economic Affairs (CCEA) of the Union government takes a final decision on the level of MSPs and other recommendations made by CACP. Once this decision is taken, CACP puts all its reports on the web site for various stakeholders to see the rationale behind CACP's price and non-price recommendations.

#### **7.4.2 ROLE OF THE CACP IN AGRICULTURAL MARKETING**

The role of CACP is very important in agricultural marketing. This role is useful and benefited, to agricultural producers, Agricultural traders and development of National economy.

- ❖ The need to provide incentive to the producer for adopting improved technology and for developing a production pattern broadly in the light of national requirements.
- ❖ The need to ensure rational utilization of land, water and other production resources.
- ❖ The likely effect of the price policy on rest of the economy, particularly on the cost of living, level of wages, cost structure of agro-based products and the competitiveness of agriculture and agro-based commodities.
- ❖ The Commission may also suggest such non-price measures related to credit policy, crop and income insurance and other sectors as would facilitate the achievements of the objectives set out in 1 above.
- ❖ To recommend from time to time, in respect of different agricultural commodities, measures necessary to make the price policy effective.
- ❖ To take into account the changes in terms of trade between agricultural and non-agricultural sectors.
- ❖ To examine, where necessary, the prevailing methods and cost of marketing of agricultural commodities in different regions, suggest measures to reduce costs of marketing and recommend fair price margins for different stages of marketing.
- ❖ To keep under review the developing price situation and to make appropriate recommendations, as and when necessary, within the framework of the overall price policy.
- ❖ To undertake studies in respect of different crops as may be prescribed by Government from time to time.

- ❖ To keep under review studies relating to the prices policy and arrangements for collection of information regarding agricultural prices and other related data and suggest improvements in the same, and to organize research studies in the field of price policy.
- ❖ To advise on any problems relating to agricultural prices and other production that may be referred to it by Government from time to time.

To effectively integrate the recommended non-price measures with price recommendations and to ensure competitive agriculture

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## 7.5 EXERCISES

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- 1) Define 'Agricultural marketing' and state the types of Marketing agents.
- 2) State the Importance of Agricultural Agencies.
- 3) Explain the types of Agricultural Agencies.
- 4) What is the role of CACP as a agency in agricultural marketing?



## **AGENCIES IN AGRICULTURE MARKETING: FOOD CORPORATION OF INDIA**

### **Unit Structure**

- 8.0 Objectives
- 8.1 Introduction
- 8.2 List of Offices of Food Corporation of India
- 8.3 Golden Principles for Preservation of Food- Grains without Deterioration / Loss
- 8.4 Role of Food Corporation of India
- 8.5 Operations
- 8.6 Procurement of Food-Grains
- 8.7 Quality Control and Scientific Preservation
- 8.8 Transport Management
- 8.9 Distribution of Food-Grains
- 8.10 Procurement Overview
- 8.11 Policy and System
- 8.12 Centralized and Decentralized Procurement Systems
- 8.13 Exercise

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### **8.0 OBJECTIVES**

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FCI is one of the Government agency in agriculture marketing. The objective of this topic is to know the role of FCI, it's operation and various functions.

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### **8.1 INTRODUCTION**

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The Food Corporation of India was setup under the Food Corporations Act 1964, in order to fulfill following objectives of the Food policy :

- Effective price support operations for safeguarding the interests of the farmers.
- Distribution of food-grains throughout the country for Public Distribution System; and
- Maintaining satisfactory level of operational and buffer stocks of food-grains to ensure National Food Security.

In its 50 years of service to the nation, FCI has played a significant role in India's success in transforming the crisis management oriented food security into a stable security system.

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## **8.2 LIST OF OFFICES OF FOOD CORPORATION OF India**

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- 1) Food Corporation of India,**  
Regional Office, No.124,  
Greens Road, Chennai-6.
- 2) Food Corporation of India,**  
District Office, No.1, Bharathi Road,  
Cuddalore – 607 001.
- 3) Food Corporation of India,**  
District Office, Imanuvel Complex, No.40,  
Thayumanavar Street,  
Thirunagar, Vellore – 632 006.
- 4) Food Corporation of India,**  
District Office, No.2, Satyamurthi Road,  
Chetpet,  
Chennai- 600 031
- 5) Food Corporation of India,**  
District Office, No.379, 380,  
North Ajram Street,  
Thanjavur- 613 006
- 6) Food Corporation of India,**  
District Office, Post Box No.2911,  
Tatabad, Coimbatore– 641 012.
- 7) Food Corporation of India,**  
District Office, Xaverina Building,  
23-B, Beach Road, Tuticorin – 628 006.

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### **8.3 GOLDEN PRINCIPLES FOR PRESERVATION OF FOOD- GRAINS WITHOUT DETERIORATION / LOSS**

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- Food grain bags should be received with proper tonnages as per stack plan to facilitate cross ventilation/inspection/QC treatments and ensuring stacks are formed to full capacity and avoid part stacks.
- Maintaining excellent hygienic conditions all around the stacks/ godowns /operational points and avoiding loose spillages by ensuring cleaned spillages are put into patta bags to respective stacks.
- Effective personal supervision of prophylactic (spraying) treatments with correct dosage and immediate curative treatments (fumigation) on finding insects in a stack to avoid cross infestation on the lines of “A stitch in time saves nine”.
- Insistence / ensuring provision of adequate Tarpaulins/ polythene bits to the minimum size of 10' x 10' at the operational points of receipts/ issues to avoid mixing of spillages with mud and possible losses.
- Insistence / ensuring spreading of tarpaulins / polythene bits/ gunny wrappers on the decks of trucks before loading of food-grains bags to avoid oozing enroute and proper full covering of loaded bags with tarpaulins to avoid pilferages, without complacency.
- Ensuring adequate aeration of stacks by opening all doors on all clear days.
- Completely avoiding dumping of spillages on the stacks.

As per the quality policy to comply with ISO 9001: 2008, FCI is focused on professional excellence in management of food-grains by adopting the above principles to avoid deterioration/ losses.

It is one of the largest corporations in India and probably the largest supply chain management in Asia (Second in world). It operates through 5 Zonal offices and 24 Regional offices. Each year, the Food Corporation of India purchases roughly 15 to 20 per cent of India's wheat output and 12 to 15 per cent of its rice output. The purchases are made from the farmers at the rates declared by the Govt. of India. This rate is called as MSP (Minimum Support Price). There is no limit for procurement in terms of volume; any quantity can be procured by FCI (Food Corporation of India) provided the stock satisfies FAQ (Fair Average Quality) specifications with respect to FCI.

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## **8.4 ROLE OF FOOD CORPORATION OF INDIA**

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- I. To procure a sizable portion of marketable surplus of food-grains and other agricultural commodities at incentive prices from the farmers on behalf of the Central and State Governments.
- II. To make timely releases of the stocks through the public distribution system. (fair price shops and controlled items shops)
- III. To minimize seasonal price fluctuations and inter-regional price variations in agricultural commodities
- IV. To build up a sizable buffer stock of food-grains.

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## **8.5 OPERATIONS**

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The Food Corporation of India procures Rice and Wheat from farmers through many routes like Paddy purchase centers/Mill Levy/Custom Milling and stores them in depots. FCI maintains many types of depots like Food Storage Depots and Buffer Storage Complexes and Private Equity Godowns and also implemented latest storage methods of silo storage facilities which are located at Hapur in Uttar Pradesh and Elavur in Tamilnadu. The stocks are transported throughout India and issued to the State Government nominees at the rates declared by the Government of India for further distribution under the Public Distribution System (PDS) for the consumption of the ration card holders. (FCI itself does not directly distribute any stock under PDS, and its operations end at the exit of the stock from its depots). The difference between the purchase price and sale price, along with internal costs, are reimbursed by the Union Government in the form of food subsidy. At present the annual subsidy is around \$10 billion. FCI by itself is not a decision-making authority; it does not decide anything about the MSP, imports or exports. It just implements the decisions made by the Ministry of Consumer Affairs, Food and Public Distribution and Ministry of Agriculture.

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## **8.6 PROCUREMENT OF FOOD-GRAINS**

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To nurture the Green Revolution, the Government of India introduced the scheme of minimum assured price of food-grains which are announced well before the commencement of the crop seasons, after taking into account the cost of production \ inter-crop price parity, market prices and other relevant factors.

- The Food Corporation of India along with other Government agencies provides effective price assurance for wheat, paddy and coarse grains.
- FCI and the State Governments. agencies in consultation with the concerned State Governments establish large number of purchase centers throughout the state to facilitate purchase of food-grains.
- Centers are selected in such a manner that the farmers are not required to cover more than 10 kms. to bring their produce to the nearest purchase centers of major procuring states.
- Price support purchases are organized in more than 12,000 centers for wheat and also more than 12,000 centers for paddy every year in the immediate post-harvest season.
- Such extensive and effective price support operations have resulted in sustaining the income of farmers over a period and in providing the required impetus for higher investment in agriculture for improved productivity.
- To name a few states about Rs.41,000 millions for paddy and 43,000 millions for wheat in Punjab and Rs. 45,000 millions for levy rice in Andhra Pradesh is paid to the farmers/ millers during wheat / rice procurement season.
- India today produces over 200 million tons of food-grains as against a mere 50 million tons in 1950.
- In the last two decades, food-grain procurement by Government agencies has witnessed a quantum jump from 4 million tonnes to over 25 million tonnes per annum.
- Food-grains are procured according to the Government - prescribed quality standards.
- Each year, the Food Corporation purchases roughly 15-20% of India's wheat production and 12-15% of its rice production.
- This helps to meet the commitments of the Public Distribution System and for building pipeline and buffer stock.

The Dept. of Food, GOI has recently formulated aforesaid policy for involving Central Govt. Undertaking /State Govt. undertakings/for the Central Pool and expanding the scope of MSP operations in the areas where FCI/State agencies infrastructure for potential of procurement is weak and existing Govt. Agencies (FCI and State Agencies) are not able to carry out MSP operations in such areas where procurement exists to ensure that farmers are not denied the benefit of MSP.

The eligibility Criteria and priority for engaging such Agencies/Private companies is mentioned in clause 2 to 2.3 of the

policy guidelines. The private companies can only be engaged as last option as per the policy guideline. The engagement of agencies falling under clause 2.2 and 2.3 must result in a cost saving of at least 10% of the incidentals (other than taxes, statutory charges etc.) of FCI as provided at point 3.3 of policy of guidelines of Ministry of Food. The other details are mentioned in the Policy Guidelines. The Central Govt. Undertaking/ State Govt./ Undertaking/ Co-operatives/Private Companies fulfilling the eligibility criteria and desirous to undertake paddy procurement operations on behalf of FCI may contact concerned GMs(Region)/EDs(Zone) or Procurement Division, FCI Headquarters.

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## **8.7 QUALITY CONTROL AND SCIENTIFIC PRESERVATION**

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The Food Corporation of India has an extensive and scientific stock preservation system. An on-going programme sees that both prophylactic and curative treatment is done timely and adequately. Grain in storage is continuously scientifically graded, fumigated and aerated by qualified trained and experienced personnel.

Food Corporation of India's testing laboratories spread across the country for effective monitoring of quality of food-grains providing quality assurance as per PFA leading improved satisfaction level in producers (farmers) and customers (consumers). The preservation of food grain starts, the minute it arrives in the godowns. The bags themselves are kept on wooden crates/poly pallets to avoid moisture on contact with the floor. Further till the bags are dispatched/issued, fumigation to prevent infestation etc. of stocks is done on an average every 15 days with malathion and once in three months with Deltamethrin etc. on traces of infestation, curative treatment is done with Aluminium Phosphide.

FCI's testing laboratories spread across the country **(188)** ensure that the stored food-grains retain their essential nutritional qualities as per FAQ.

District Labs –	164
Regional Labs -	18
Zonal Labs -	5
Central Lab -	1



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## 8.8 TRANSPORT MANAGEMENT

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- Ensuring accessibility to food in a country of India's size is a Herculean task. The food-grains are transported from the surplus States to the deficit States.
- The food-grain surplus is mainly confined to the Northern States, transportation involves long distance throughout the country. Stocks procured in the markets and purchase centers is first collected in the nearest depot and from there dispatched to the recipient States within a limited time.
- FCI moves about 270 Lakh tones of food-grains over an average distance of 1500 Kms.

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## 8.9 DISTRIBUTION OF FOOD-GRAINS

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The national objective of growth with social justice and progressive improvements in the living standards of the population make it imperative to ensure that food-grain is made available at reasonable prices.

- Public Distribution of food-grains has always been an integral part of India's overall food policy. It has been evolved to reach the urban as well as the rural population in order to protect the consumers from the fluctuating and escalating price syndrome.
- Continuous availability of food-grain is ensured through about 4.5 lakhs fair price shops spread throughout the country.
- A steady availability of food-grains at fixed prices is assured which is lower than actual costs due to Govt. policy of providing subsidy that absorbs a part of the economic cost (about 45%).
- The Govt. of India introduced a scheme called Targeted Public Distribution Scheme (TPDS) effective from June, 1997. The stocks are issued under this scheme in the following two categories:-

**a) Below Poverty Line (BPL):** Determination of the families under this category in various states is based on the recommendation of the Planning Commission.

**Antyodaya Anna Yojna** - During the year 2000-2001 Govt. of India decided to release food-grains under Antyodaya Anna Yojna. Under this scheme the poorest strata of population out of earlier identified BPL population is covered. Food-grains are being provided to 1.5 crores poorest of the poor

families out of the BPL families at highly subsidized rates of Rs.2/- per kg. of wheat and Rs.3/- per kg. of rice by FCI. This is the biggest food security scheme in the world.

**b) Above Poverty Line (APL)** – Families which are not covered under BPL are placed under this category. The stocks are issued at Central Issue Price of Rs. 6.10 per Kg. of wheat and Rs. 8.30 per Kg. of rice.

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## 8.10 PROCUREMENT OVERVIEW

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The Government policy of procurement of Food-grains has broad objectives of ensuring MSP to the farmers and availability of food-grains to the weaker sections at affordable prices. It also ensures effective market intervention thereby keeping the prices under check and also adding to the overall food security of the country.

FCI, the nodal central agency of Government of India, along with other State Agencies undertakes procurement of wheat and paddy under price support scheme. Coarse grains are procured by State Government Agencies for Central Pool as per the direction issued by Government of India on time to time. The procurement under Price Support is taken up mainly to ensure remunerative prices to the farmers for their produce, which works as an incentive for achieving better production.

Before the harvest during each Rabi / Kharif Crop season, the Government of India announces the minimum support prices (MSP) for procurement on the basis of the recommendation of the Commission of Agricultural Costs and Prices (CACP) which along with other factors, takes into consideration the cost of various agricultural inputs and the reasonable margin for the farmers for their produce.

To facilitate procurement of food-grains, FCI and various State Agencies in consultation with the State Government establish a large number of purchase centers at various mandis and key points. The number of centers and their locations are decided by the State Governments, based on various parameters, so as to maximize the MSP operations. For instance for Wheat procurement more than 20,000 procurement centers were operated during RMS 2015-16 & for Rice procurement more than 44,000 procurement centers were operated. Such extensive & effective price support operations have resulted in sustaining the income of farmers over a period and in providing the required impetus for higher investment in agriculture sector for improved productivity.

Whatever, stocks which are brought to the Purchase centers falling within the Government of India's specifications are purchased at the fixed support price? If the farmers get prices better than the support price from other buyers such as traders / millers etc., the farmers are free to sell their produce to them. FCI and the State Government/its agencies ensure that the farmers are not compelled to sell their produce below support price.

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## **8.11 POLICY AND SYSTEM**

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**8.11.1.** The Central Government extends price support to wheat and paddy through FCI and State Agencies. Procurement at MSP is open ended i.e., whatever food-grains are offered by the farmers ,within the stipulated procurement period and which conforms to the quality specifications prescribed by Government of India, are purchased at MSP (and bonus/incentive ,if any) by the Government agencies including FCI for central Pool. Some States also declare State bonus on wheat and paddy over and above MSP.

Government agencies undertake MSP operation at mandis/ temporary purchase centers/aggregation points. Location and number of purchase centers to be opened are decided in consultation with /by the State governments.

### **8.11. 2. Systems of procurement:**

**8.11.2.1 Wheat** - FCI undertakes direct procurement in non-DCP states. In the major procuring states like Punjab and Haryana, wheat is mainly procured by state agencies and they preserve the stocks under their custody for which carry over charges are paid to them. FCI takes over the stocks for dispatch to consuming states as per requirement /movement plan. Payments are made to state govt. /agencies as per cost sheets issued by Government of India after taking over the stocks. In the states like UP and Rajasthan, the wheat procured by state agencies is immediately taken over by FCI for storage /dispatch.

In DCP state like M.P, wheat is procured by the State agencies and only the surplus wheat stocks over & above the State's requirement under TPDS/NSFA and Other Welfare Schemes are taken over by FCI for dispatch to other consuming regions.

### **8.11. 2.2 Rice is procured through two routes –**

- a) Custom Milled (CMR) and
- b) Levy rice.

CMR is manufactured by milling paddy procured by State govt. /State agencies and FCI. In the states like A.P, Punjab,

Haryana, Chhattisgarh, Odisha, MP, Tamilnadu, UP & Bihar paddy is mainly procured by State government /State agencies and the resultant rice is delivered to State Government and FCI by getting the paddy milled from rice millers.

In the states like Andhra Pradesh, Telangana, Uttarakhand, UP and West Bengal, rice is also procured in Central Pool through levy route. The rice millers deliver fix portion of their production at the percentage imposed under State levy orders issued by the concerned State government with concurrence of Government of India, at notified levy prices fixed by the Government of India. However, Government of India has decided to discontinue levy system of rice procurement w.e.f. 1.10.2015.

Major responsibility of procurement of wheat and paddy is borne by the State agencies whereas FCI procures almost 70% of total rice procured for Central Pool.

**8.11.2.3 Coarse grains-** Coarse grains are being procured by the State governments for central pool.

**8.11.3.** In major wheat and paddy procuring States like Punjab, Haryana & some parts Rajasthan procurement from farmers is undertaken by the FCI/State Agencies through Arhatiyas as per APMC Acts of the concerned State for which commission @ 2.5% of MSP is paid in the States of Punjab & Haryana and @2% in Rajasthan. In other States like MP, Chhattisgarh, UP, Uttarakhand, AP, Tamilnadu, Bihar, Jharkhand, Odisha, West Bengal procurement is made through Co-operative societies and they are paid fixed remunerations at following rates-

Wheat: Rs 27.00 /Qtl

Paddy (Grade 'A'): Rs 32/Qtl

Paddy (Common): Rs 31.25/Qtl

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## **8.12 CENTRALIZED AND DECENTRALIZED PROCUREMENT SYSTEMS:**

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### **8.12.1 Centralized (Non-DCP) procurement system:**

Under centralized procurement system, the procurement of food-grains in Central Pool are undertaken either by FCI directly or State Govt. agencies procures the food-grains and handover the stocks to FCI for storage and subsequent issue against Government of India allocations in the same State or movement of surplus stocks to other States. The cost of the food-grains procured by State agencies is reimbursed by FCI as per cost-sheets issued by Government of India as soon as the stocks are delivered to FCI.

**8.12.2 Decentralized (DCP) Procurement**

Under DCP system, the State Government of India/its agencies procure, store and distribute (against Government of India's allocation for TPDS & OWS) rice /wheat/coarse grains within the state. The excess stocks (Rice & wheat) procured by the State /its agencies are handed over to FCI in Central Pool. The expenditure incurred by the State Government on procurement, storage and distribution of DCP stocks are reimbursed by Government of India on the laid down principles. The expenses such as MSP, arhatiya/society commission, administrative charges, mandi labour charges, transportation charges, custody & maintenance charges, interest charges, gunny cost, milling charges and statutory taxes are reimbursed on actual basis. The cost of excess stocks handed over to FCI is reimbursed by FCI to the State Government/agencies as per Government of India costs sheet.

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**8.13 EXERCISE**

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1. Explain the objectives of FCI
2. What are the Golden Principles of FCI for Preservation of Food-Grains?
3. State the role of FCI as an agency in Agricultural marketing.
4. How the Procurement of Food-Grains procedure is implemented by FCI?
5. Explain the Centralized and Decentralized procurement systems of FCI.



## **AGENCIES IN AGRICULTURE MARKETING: AGRICULTURAL PRICE & MARKETING COUNCIL, NAFED**

### **Unit Structure**

- 9.0 Objectives
- 9.1 Agricultural Price & Marketing Council (APMC)
- 9.2 National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED)
- 9.3 Exercise

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### **1.0 OBJECTIVES**

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The Dresent topic is aimed to learn following objectives.

- 1) To study the nature of APMC & its functions.
- 2) To study the management of APMC for farmer's benefit.
- 3) To improve the understanding state APMC.
- 4) To know the nature and function of NAFED
- 5) To know the role of NAFED in farmer's welfare and distribution system.

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### **9.1 AGRICULTURAL PRICE & MARKETING COUNCIL (APMC)**

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#### **9.1.1 INTRODUCTION**

Each state which operates APMC markets geographically divides the state and markets (mandis) are established at different places within the state. Farmers are required to sell their produce via auction at the mandi in their region. Traders require a license to operate within a mandi. Wholesale and retail traders (e.g. shopping mall owners) and food processing companies cannot buy produce directly from a farmer.

### **9.1.2 APMC PRINCIPLES**

APMC operate on two principles:

- Ensure that farmers are not exploited by intermediaries (or money lenders) who compel farmers to sell their produce at the farm gate for an extremely low price.
- All food produce should first be brought to a market yard and then sold through auction.

### **9.1.3 FEATURES**

Some of the salient features of the APMC Model Act 2003 are as follows

- 1) Facilitates Contract farming model.
- 2) Special market for perishables.
- 3) Farmers, private persons can setup own market.
- 4) Licensing norms relaxed.
- 5) Single market fee.
- 6) APMC Revenue to be used for improving market infrastructure.

However, not all States have passed the bill. Some States have passed but neither framed rules nor notified it. Thus, inter-state barriers continue.

### **9.1.4 ISSUES OF APMC**

There are many problems faced by farmers due to the restrictions imposed by the APMC Act. Even after receiving the produce, some traders delay payment to farmers for weeks or months. If payment is made at the time of sale, then the trader may arbitrarily deduct some amount, on the excuse that he has not received payments from the other parties. To avoid tax, some traders do not give sale slips to farmers. As a result, it is difficult for the farmer to prove his income to get loans from banks. On average, the farmer is able to receive barely 25% to 33% of the final retail price. Middlemen receive double commission (both from seller and buyer), thus making consumers pay for this spread. Also middlemen do not pass the benefit to either side. During peak seasons, when they buy from farmers at low prices, they do not drastically reduce the prices to final consumers. Conversely, during lean seasons, when consumer prices are high, the farmers do not get higher returns on their product.

### **9.1.5 APMC OBJECTIVES**

As per the provision of Maharashtra Agricultural Produce Marketing (Development & Regulation) Act, 1963 section 39(J), the Board shall perform the following functions and shall have power to do such things as may be necessary or expedient for carrying out these functions.

- To co-ordinate the functioning of the Market Committees including programmes undertaken by such Market Committees for the development of markets and market areas.
- To undertake State level planning of the development of the agriculture produce markets.
- To maintain and administer the Agricultural Marketing Development Fund.
- To give advise to Market Committees in general or any Market Committee in particular with a view to ensuring improvement in the functioning thereof.
- To supervise and guide the Market Committees in the preparation of plans and estimates of construction programme undertaken by them.
- To make necessary arrangements for propaganda and publicity on matters relating to marketing of agricultural produce.
- To grant subventions or loans to Market Committees for the purposes of this Act on such terms and conditions as it may determine.
- To arrange reason-wise seminars, workshops, exhibitions on subject relating to agricultural marketing & giving training to members and employees of marketing committee.
- To do such other things as may be of general interest relating to marketing of agricultural produce.
- To carry out any other function specifically entrusted to it by this Act.
- To carry out such other functions of like nature as may be entrusted to it by the State Government.

#### **9.1.6 REGULATION OF APMC**

Agriculture produce means all produce (whether processed or not) of agriculture, horticulture, animal husbandry, pisciculture and forests as specified in the schedule.

The APMCs were established by the State Govt. for regulating the marketing of different kinds of agriculture and pisciculture produce for the same market area or any part thereof.

The Maharashtra Agricultural Produce Marketing (Development & Regulation) Act was passed in the year 1963, with a view to regulate the marketing of agricultural and pisciculture



produce in market areas. After giving due consideration to various committee's recommendations and study groups, some important changes have been made in this Act in the year 1987.

### **9.1.7 CONSTITUTION OF APMC**

Every market shall consist of:

- Agriculturists residing in the market area and being 21 years of age on the date specified from time to time by the Collector in this behalf.
- Traders and commission agents holding license to operate in the market area.
- Chairman of the co-operative society doing business of processing and marketing of agriculture produce in the market area.

Chairman of the Panchayat Samiti within the jurisdiction in which the market area is situated, President or Sarpanch of the local authority within the jurisdiction of which the principal market is situated. Deputy Registrar of Co-operative Society of the district, the Assistant Cotton Extn. Officer or where there is no such officer the district Agriculture Officer of the Department of Agriculture.

### **9.1.8 OBJECTIVES OF APMC OF MAHARASHTRA**

It shall be the duty of the Market Committee to implement the provisions of the Maharashtra Agricultural Produce Marketing (Regulation) Act 1963, the rules and bye-laws made there under in the market area to provide such facilities for marketing of agricultural produce therein as the Director may from time to time, direct do such other acts as may be required in relation to the superintendence, direction and control of markets or for relating marketing of agricultural produce in any place in the market area and for purpose connected with the matters aforesaid, and for that purpose may exercise such powers and perform such duties and discharge such functions as may be provided by or under this Act. The Act provides for establishment of Market Committees in the State. These Market Committees are engaged in development of market yards for the benefit of agriculturists and the buyers. Various agricultural produce commodities are regulated under the Act. At present there are 305 APMCs with main markets and 603 sub markets.

### Division wise break-up of APMCs

No	Division	Main Market	Sub Market
1	Konkan	20	42
2	Nasik	38	89
3	Pune	38	103
4	Aurangabad	29	63
5	Latur	56	85
6	Amravati	55	93
7	Nagpur	48	71
8	Kolhapur	21	57
	<b>Total</b>	<b>305</b>	<b>603</b>

### Classification of APMCs (2011-2012)

No	APMC Class	No. of APMCs	Total Income
1	"A" Class	146	Above Rs.1 Crore
2	"B" Class	74	Above Rs. 50 Lac to Rs. 1 Crore
3	"C" Class	37	Above Rs. 25to Rs. 50 Lac
4	"D" Class	48	Less than Rs. 25 Lac
	<b>Total</b>	<b>305</b>	

#### 9.1.9 MARKET WORKING

All the traders work on a commission basis. They have a fixed ceiling on the amount of commission that they can charge. This varies from commodity to commodity. The commission is charged on the selling price of the farmers. They are thus called commission agents.

The purchaser pays a levy of 0.8 % on the amount purchased to the commission agent. This includes a market fee of 0.75% and a 0.05% maintenance fee. Both the receipts are then forwarded to the market yard office by the commission office. Quite a few commission agents and traders have now got into the export act and are mainly supplying to clients in Europe and the Middle East. As India opens itself and sets itself free from the shackles of licensing, a world of opportunity is opening up for exporters. MAPMC is fully geared to support these exporters and ensure that Indian produce gets the recognition and the price that is due. Being located in Mumbai gives the MAPMC that edge - both the Sahara International airport and the JNPT port are merely an hour away from the MAPMC market.

### 9.1.10 PARTICIPANTS OF THE MARKET

- Producers / Seller (farmers) :  
These are the ones who are not directly involved in the working but are the part of the whole cycle of agricultural marketing.
- Commission Agents /Brokers: They are the ones which take minimum risk and as a part of their income brokerage is paid to them. The commission paid is between 2%-10%
- Traders : They are the same as Brokers but level of risk is high
- Adatya's

### 9.1.11 FUNCTIONS OF APMC

1. Grant, renew, refuse, suspend or cancel license.
2. Provide the necessary facilities for the marketing of agricultural produce within the market.
3. Regulate and supervise the auctions of notified agricultural produce in accordance with the rules and the bye-laws.
4. Regulate the entry of persons and of vehicular traffic into the market.
5. Supervise the behavior of those who enter the market for transacting business.
6. Maintain and manage the markets, including admissions to, and conditions for the use of markets.
7. Regulate the making, carrying out and enforcement or cancellation of sales, Weighment, delivery and payment to be made thereof.
8. Promote and organize grading and standardization of the agricultural produce
9. Take measures for the prevention of purchases and sales below the minimum support prices as fixed by the government from time to time.
10. Collect, maintain, disseminate and supply information in respect of production, sale, storage, processing, prices and movement of notified agricultural produce including information relating to crops statistics and marketing intelligence.
11. Carry out publicity about the benefits of regulation, system of transactions, facilities provided in the market area etc.

12. Provide for settling of disputes arising out of any kind of transactions connected with the marketing of agricultural produce.
13. Receive charges, fees, rates and other sum or money to which the Market Committee is entitled.
14. Inspect and verify the books of accounts and other documents maintained by the licensees.
15. Provide storage and warehousing facilities in the market area.

#### **9.1.12 ADVANTAGES OF APMC MARKETS**

- Ethical practices in selling the produce through open agreement
- It has removed malpractices in weighing the produce.
- Use of certified weights and measures.
- It has overcome adulteration.
- Quick settlement of disputes.

#### **9.1.13 BENEFITS TO FARMERS**

- The farmers get fair price (minimum support price) for the produce, as the intermediaries are not able to indulge in malpractices.
- Correct weighing of the produce.
- Storage facilities for agricultural produce.
- Ethical practices in selling the produce i.e. open auctions and open agreement.
- Maintenance of daily list of prices of commodities for the benefits of farmers
- Immediate payment after disposal of the produce (within 24 hrs)

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### **9.2 NATIONAL AGRICULTURAL COOPERATIVE MARKETIN FEDERATION OF INDIA LTD. (NAFED)**

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#### **9.2.1 INTRODUCTION**

The NAFED was established on the auspicious day of Gandhi Jayanti on 2nd October 1958. NAFED is registered under the Multi State Co-operative Societies Act. NAFED was setup with the object to promote Co-operative marketing of Agricultural

Produce to benefit the farmers. Agricultural farmers are the main members of NAFED, who have the authority to say in the form of members of the General Body in the working of NAFED.

### **9.2.2 MANAGEMENT OF NAFED**

The management of NAFED vests in the Board of Directors, which includes Chairman and Managing Director. The Board is supported by 2 standing committees - Executive Committee and Business Committee. In addition, the Board can also constitute two more committees/sub-committees as per the provision of the MSCS Act/Rules and Bye-laws of NAFED.

The objects of the NAFED shall be to organise, promote and develop marketing, processing and storage of agricultural, horticultural and forest produce, distribution of agricultural machinery, implements and other inputs, undertake inter-State, import and export trade, wholesale or retail as the case may be and to act and assist for technical advice in agricultural production for the promotion and the working of its members and cooperative marketing, processing and supply societies in India.

### **9.2.3 FUNCTIONS OF NAFED**

- To facilitate, coordinate and promote the marketing and trading activities of the cooperative institutions in agricultural and other commodities, articles and goods;
- To undertake or promote on its own or on behalf of its member Institutions or the Government or Government Organisations, Inter-State and international trade and commerce and undertake, wherever necessary, sale, purchase, import, export and distribution of agricultural commodities, horticultural and forest produce, other articles and goods from various sources for pursuing its business activities and to act as the agency for canalisation of export and import and interstate trade of agricultural and other commodities or articles under any scheme formulated by the Government of India or other Government agencies and to facilitate these activities, wherever necessary, to open branches/sub-offices and appoint agents at any place within the country or abroad;
- To undertake purchase, sale and supply of agricultural products, marketing and processing requisites, such as manure, seeds, fertilizer, agricultural implements and machinery, packing machinery, construction requisites, processing machinery for agricultural commodities, forest produce, dairy, wool and other animal products;

- To act as warehouseman under the Warehousing Act and own and construct its own godowns and cold storages;
- To act as agent of any Government agency or cooperative institution, for the purchase, sale, storage and distribution of agricultural, horticultural, forest and animal husbandry produce, wool, agricultural requisites and other consumer goods;
- To act as insurance agent and to undertake all such work which is incidental to the same.
- To organise consultancy work in various fields for the benefit of the cooperative institutions in general and for its members in particular.
- To undertake manufacture of agricultural machinery and implements, processing, packing, etc. and other production requisites and consumer articles by setting up manufacturing units either directly or in collaboration or as a joint venture with any other agency, including import and distribution of spare-parts and components to up-keep of the machinery/implements.
- To set up storage units for storing various commodities and goods, by itself or in collaboration with any other agency in India or abroad.
- To maintain transport units of its own or in collaboration with any other organization in India or abroad for movement of goods on land, sea, air etc.
- To collaborate with any international agency or a foreign body for development of cooperative marketing, processing and other activities for mutual advantage in India or abroad.
- To undertake marketing research and dissemination of market intelligence.
- To subscribe to the share capital of other cooperative institutions as well as other public, joint and private sector enterprises if and when considered necessary for fulfilling the objectives of NAFED.
- To arrange for the training of employees of marketing/processing/supply cooperative societies.
- To maintain common cadres/pools of managerial/technical personnel required by the marketing/processing/supply cooperative societies.
- To establish processing units for processing of agricultural, horticultural and forest produce and wool;

- To undertake grading, packing and standardization of agricultural produce and other articles.
- To acquire, take on lease or hire, lands, buildings, fixtures and vehicles and to sell, give on lease or hire them for the business of NAFED.
- To advance loans to its members and other cooperative institutions on the security of goods or otherwise.
- To guarantee loans or advances or give undertakings to any Society or Company in which the Federation has a shareholding or financial involvement as a promoter to be able to assist its development or expansion or for starting any industrial undertaking by such societies/companies.
- To guarantee loans or advances or give undertakings on behalf of any such society or company as mentioned above to any financing institutions.
- To do all such things or undertake such other business or activities as may be incidental or conducive to the attainment of any or all of the above objects.

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### 9.3 EXERCISE

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1. State the silent features of APMC.
2. What are the objectives of APMC?
3. State the Functions of APMC.
4. Write a note on Market Working & Participants of the Market.
5. Write a note on Advantages of APMC Markets & Benefits to Farmers.
6. Explain the management process of NAFED. What are the objectives?
7. State the functions of NAFED.



## RURAL FINANCE

### Unit Structure

- 10.0 Objectives
- 10.1 Introduction
- 10.2 Features of Rural Finance
- 10.3 Problems of Rural Credit in India
- 10.4 Measures taken to Improve Credit Flow to Agriculture
- 10.5 Types of Rural Credit
- 10.6 Importance of Rural Credit in India

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### 10.0 OBJECTIVES

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- 1) Understanding features of Rural finance.
- 2) Understanding the problems of Rural Credit in India.
- 3) Understanding the Improve Credit flow to Agriculture.
- 4) Studying the types of Rural Credit.

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### 10.1 INTRODUCTION:

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Finance has been recognized as the life blood of all economic activities. Like all other producers agriculturist also need credit. Generally, in underdeveloped countries farmers cannot expect their credit needs to come from saving. It is so because their income from farm operations is insufficient to provide minimum necessities of life. Therefore, they have to rely upon outside finance. Modern agriculture is a costly affair. Credit is needed to adopt new farm technology resulting in ushering of green revolution. In India, it has two fold necessities. Firstly crop productivity is very low due to traditional methods of cultivation and secondly, there is an urgent need to enhance agricultural.

Production to get self-sufficiency and save valuable foreign exchange. In short, effective arrangements are needed to provide credit facilities so that agriculturist may adopt better techniques of production.



The different studies conducted show a strong positive relationship between agricultural growth and availability of credit. Broadly, credit in agricultural sector may be divided into short-term loans to meet the input expenses and medium and long-term loans to facilities the development of fixed farm assets such as land.

Agriculture is a productive occupation and such one of the essentials of agricultural production is capital. This may provided by the cultivator himself or like other business; he may borrow it from someone else and repay it from the output of the field in which it has been invested. The problem of agricultural finance relates to i) capital needs of the farmer, ii) agencies of credit and iii) the repayment of loans. Thus the all India Rural Credit Survey Committee observed that, Agricultural credit is a problem when it cannot be obtained: it is also a problem when it can be had but in such a form that on the whole it does more harm than good. It may be said that, in India, it is this two fold problem of inadequacy and unsuitability that is perennially presented by agricultural credit.

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## **10.2 FEATURES OF RURAL FINANCE**

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In our country, rural finance has the special features which are discussed below in detail.

1. Agriculture Development
2. Productive Credit
3. Unproductive Credit
4. Loan for Agro-based Industries
5. Loan for Agro-processing Industries
6. Loan for Rural and Small scale Industries
7. Commercial Agriculture Loan
8. Rural Development

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## **10.3 PROBLEMS OF RURAL CREDIT IN INDIA:**

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### **1. Insufficiency:**

In spite of expansion of rural credit structure, the volume of rural credit in the country is still insufficient as compared to its growing requirement arising out of increase in prices of agricultural inputs.

### **2. Inadequate Amount of Sanction:**

The amount of loan sanctioned to the farmers by the agencies is also very much inadequate for meeting their different aspects of agricultural operations. Considering the amount of loan sanctioned as inadequate and insignificant, the farmers often divert such loan for unproductive purposes and thereby dilute the very purpose of such loan.

### **3. Lesser Attention of Poor Farmers:**

Rural credit agencies and its schemes have failed to meet the needs of the small and marginal farmers. Thus, lesser attention has been given on the credit needs of the needy farmers whereas the comparatively well-to-do farmers are getting more attention from the credit agencies for their better credit worthiness.

### **4. Growing Over-dues:**

The problem of over-dues in agricultural credit continues to be an area of concern. The recovery of agricultural advances to various institutions is also not at all satisfactory. In 1997-98, the recovery of agricultural advances of commercial banks, co-operative banks and regional rural banks were 63 per cent, 66 per cent and 57 per cent respectively. Such growing over-dues has also been resulted from poor repaying capacity of farmers. As a result of that, the credit agencies are becoming wary of granting loan to farmers.

### **5. Inadequate Institutional Coverage:**

In India, the institutional credit arrangement continues to be inadequate as compared to its growing needs. The development of co-operative credit institutions like Primary agricultural credit societies, land development banks, commercial banks and regional rural banks, have failed to cover the entire rural farmers of the country.

### **6. Red Tapism:**

Institutional agricultural-credit is subjected to red-tapism. Credit institutions are still adopting cumbersome rules and formalities for advancing loan to farmers which ultimately force the farmers to depend more on costly non-institutional sources of credit.

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## **10.4 MEASURES TAKEN TO IMPROVE CREDIT FLOW TO AGRICULTURE:**

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**In order to improve the flow of credit to agriculture, the Government has introduced the following measures in 1998-99:**

- (i) Procedural simplification for credit delivery has been made (as per R.V. Gupta Committee Report) through rationalization of internal returns of banks.
- (ii) More powers have been delegated to branch managers to raise the credit flow to agriculture.
- (iii) Introduction of composite cash credit limit to farmers, introduction of new loan products with saving components, cash

disbursement of loans, dispensation of no due certificate and discretion to banks on matters relating to margin security requirements for agricultural loans above Rs. 10,000.

(iv) Introduction of at least one specialized agricultural bank in each state to cater to the needs of high tech.

(v) Introduction of cash credit facility.

(vi) Insuring Kisan Credit cards to farmers to draw cash for their production needs on the basis of the model scheme prepared by NABARD.

(vii) The Government has made arrangement for hassle free settlement of disputed cases of over dues.

(viii) To augment Rural Infrastructural Development Fund (RIDF) with a corpus of Rs. 10,000 crore with NABARD to finance rural infrastructure development projects by states.

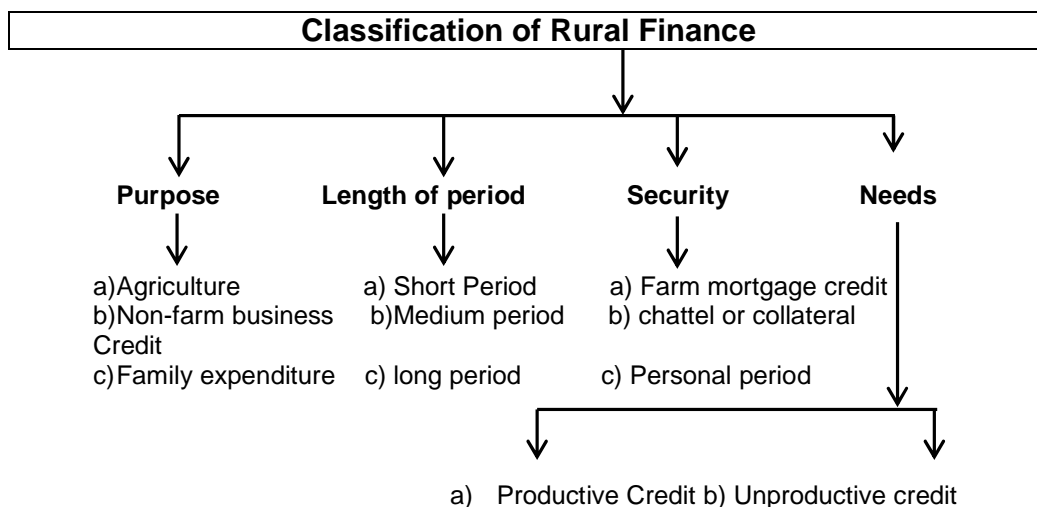
Thus, the flow of institutional credit for agriculture and allied activities which was Rs. 31,956 crore in 1997-98 is estimated to have increased to Rs. 64,000 crore in 2001-02. The total credit now from all agencies is projected to reach the level of Rs. 82,073 crore by 2002-03. The total credit now to agriculture during the period 1997-2002 is likely to be of the order of Rs. 2,33,700 crore which is close to the Ninth Plan projection of Rs. 2,29,750 crore.

For the Tenth Plan period (2002-07) the credit flow into agriculture and allied activities from all banking agencies is projected at Rs. 7,36,570 crore, which is more than three times the credit flow during the Ninth Plan.

#### **Farm Credit Package:**

The Government of India announced the "Farm credit package" in June 2004 which aimed at doubling the flow of institutional credit for agriculture in the ensuing three years. Accordingly, the credit to the farm sector got doubled during two years, i.e., from Rs. 86,981 crore in 2003-04 to Rs. 1,80,486 crore in 2005-06, as against the stipulated time period of three years. The credit flow continued to increase at Rs. 2, 29,400 crore in 2006-07 and then to Rs. 2,64.455 crore in 2008-09.

## 10.5 TYPES OF RURAL CREDIT



### A) According to Purpose:

Following the Reserve Bank's classification of agriculture credit by purpose, we may say that such credit is required to purchase land to effect permanent improvement on it.

#### 1. For Agricultural purpose:

Such credit is needed for the purchase of seed, manure and fodder, payment of rent, wages, revenue, cess and other charges, irrigation of crops, hire charges of pumps and purchase of water, purchase of live-stock and effecting other land improvements. Repaired of agricultural implements, machinery, transport equipment's, farm houses, cattle sheds, repairs of wells and other irrigation services, laying of orchards, for reclamation of lands and construction of irrigation wells, tanks and other capital expenditure on agriculture.

#### 2. For Non-Farm Business purpose:

Such credit is needed for repair of production and transport equipment and furniture, current expenditure in non-farm business, purchase, construction and repair of building or non-farm business, purpose of farm equipment and other capital expenditure on non-farm business.

#### 3. For meeting Family Expenditure:

Such credit is needed for purchase of domestic utensils and clothing's, playing for medical, educational and other family expenses, purchase construction and repair of residential houses and expenses relating to death and marriage and other ceremonies and litigation expenses.

**4. Other purposes:**

These include purchase of building and ornaments, share and debentures of cooperative societies, deposits with cooperatives societies, private money lenders and traders, unspecified purposes and payment of old debts.

**B) According to the Length of the Loan period:**

From the point of view of the length of the loan period, agricultural credit may fall into three categories, viz.

**1. Short-term credit:**

This is needed normally for short period of less than 15 months to meet current expenses of cultivation, to facilitate production and for meeting domestic expenses. For example, a farmer may need credit to buy seeds, fertilizers and fodder for cattle. He may also require funds to support his family in those years when the crops have not been good or adequate for the purpose. Such short-term loans are normally repaid fully after the harvest. They are recoverable out of the sale proceeds of the crops concerned.

According to the recommendations of *V. L. Mehta committee on Cooperative Credit*, short-term production loans should be advanced on the basis of sureties only. In some states such as M.P, Kerala and Orissa, however, even such loans are being provided on mortgage of land. In Bihar and W. Bengal a member can borrow up to Rs.200/- only on surety basis and has to offer mortgage security for loans exceeding this amount.

**2. Medium-term loans:**

Which are required for medium period ranging between 15 months and 5 years for the purpose of making some improvement on land, buying cattle, agricultural implements, gardening, fencing, plantation etc? Purchase of shares in cooperative sugar factories, pig breeding sheep and goat rearing, purchase of storage bins and purchase of rubber rollers under agricultural machinery.

These loans are larger than short term loans and can be repaid over a longer period of time. The period of loan is generally linked up with the period of serviceability of the assets to be procured with the loan but normally it does not exceed 5 years.

**3. Long-term loans:**

Which the farmer need for the purchase of buying additional land, to make permanent improvements on land like reclamation and bunding, construction of farm house, cattle

and machine-sheds, horticulture, tractors, oil engines, machinery for crushing sugarcane, manufacturing of gur, consolidation of holdings, purchase or acquisition of title of agricultural lands by tenants, etc. to pay off old debts and to purchase costly machinery. Such loans can be repaid only out of the extra income secured by the investment on land. Therefore, these loans are for long periods of more than 5 years, ranging from 15 to 20 years.

It may be observed that almost all types of credit are needed by the farmer at different stages of farming. But the pressing need is the provision of long and medium term credit as the same is not readily available to him.

**C) According to security:**

On the basis of security offered, agricultural credit can be classified into following categories.

**1. Farm Mortgage Credit:**

This is secured against land by means of a mortgage of land.

**2. Chattel and collateral credit:**

The farmer is given on the security of the farmer's livestock, crops or warehouse receipts and the latter on the security of other kinds of property such as shares, bonds and insurance policies.

**3. Personal Credit:**

This is advanced on the promissory or personal notes of the farmer with or without another's security or guarantee. The rural credit survey committee found that about 50 % of the families surveyed were willing to offer their immovable property as security, of the rest about 25 p.c indicated personal security and remaining families did not specify the type of security which they had to offer.

**D) Productive and Unproductive credit needs:**

Agriculture may require credit for the purpose of production and consumption. In other words, credit needs of the farmers can be classified into two parts-

**i) Credit needed for productive purpose:**

The loans which are used in productive operation of agriculture are called the productive credit. However, productive requirements of the farmers are loans for purchase of cattle, implements, fertilizers, inputs, better seeds and requirements of the farmers are loans for

purchase of cattle, implements, fertilizers, inputs better seeds and machinery etc.

**ii) Unproductive credit needs:**

On the contrary, farmers need credit for consumption purpose. The loans which are used for consumption purposes are called the unproductive credit. Between the movement of marketing of agricultural produce and harvesting of next crop, there is a long interval of time. Most of the farmers do not have sufficient income to sustain them through this period. Therefore, they have taken loans for meeting their consumption needs. In the times of drought or flood, when the crops are damaged, the farmers have also to insure such loans. In fact, unproductive loans are taken for also taken for social purposes like birth of a male child, marriage or death of persons in the family. Litigation too forces the farmers to borrow.

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## **10.6 IMPORTANCE OF RURAL CREDIT IN INDIA:**

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1. Agricultural Development.
2. Development of Rural Industry.
3. Increasing Economic and Social Background of Agricultural Farmer.
4. Development of Agro Based Industries.
5. Increasing the Employment in Rural Area.
6. Commercial Agricultural Farming.
7. Development of Rural Economy.
8. Control of Poverty in Rural Area.
9. Increasing the Institutional Credit.
10. Rural Industrialization.



## RURAL INDEBTEDNESS

### Unit Structure :

- 11.0 Objectives
- 11.1 Introduction
- 11.2 Causes of Rural Indebtedness
- 11.3 Consequences of Rural Indebtedness
- 11.4 Measures for Eradicating Indebtedness
- 11.5 Suggestions for Removing Rural Indebtedness

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### 11.0 OBJECTIVES

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- 1) Understanding cause of Rural Indebtedness
- 2) Understanding Consequences of Rural Indebtedness
- 3) Studying measures and Suggestions for Removing Rural Indebtedness

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### 11.1 INTRODUCTION:

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Rural indebtedness has been the ever green companion of the Indian peasants. According to a well-known saying, the Indian peasant is born in debt, lives in debt and dies in debt. The prevalence of poverty among agricultural labouring households is underlined by the prevalence of the rural indebtedness. With the increase in the level of poverty, the level of debt increases. The burden of debt passes on from generation to generation. The number of those in the grip of this vicious problem is even now very large, despite vigorous attempts to solve it. Rural indebtedness has eaten into the very vitals of our rural social structure. Hence it has drawn the attention of sociologists, economists, planners, bureaucrats and others since long time past.

While borrowing money the borrower does not pay attention to his repaying capacity and for him even a little debt becomes a trap out of which he cannot come out. Loans from the money-lender support the farmer as the hangman's rope supports the hanged.



Rural borrowing and rural debt signify two different things. There is nothing wrong in borrowing especially when the funds are required for agricultural operations. But indebtedness arises when the income of the farmer is not sufficient to repay the debt incurred or when he spends his income for unproductive purposes and does not save for the purpose of paying off his debt. When the borrower fails to repay the loan in time and the loan goes on accumulating, he becomes indebted.

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## **11.2 CAUSES OF RURAL INDEBTEDNESS:**

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The factors accounting for rural indebtedness are many and varied. They are as follows:

### **1. Poverty of the farmers:**

The basic cause of the rural indebtedness in India is the extreme poverty of the farmers. The farmers being poor have to borrow for various purposes. Sometimes, the crops fail because of the failure of monsoons, or because of floods etc. They have to purchase seeds, implements, cattle etc. and since they have no past savings to draw upon, they are forced to borrow. Just as poverty forces him to borrow, it is his poverty again which forces him to have so little for paying off his debt.

### **2. Passion for land:**

The farmers in the Indian context have a tremendous passion for land. They are keen to make improvements on land. They do it mostly through borrowing.

### **3. Ancestral debt:**

The most important cause of the existing rural indebtedness is the ancestral debt. Many agriculturists start their career with a heavy burden of ancestral debt and drag the loan for the whole of their lives, taking it to be a religious and social obligation.

This increases the debt burdens on the inheritors, every time the debt is thus passed on. The Royal Commission on Agriculture has aptly described this situation, in its observation that the farmer "is born in debt, lives in debt and dies in debt."

### **4. Ease of taking loan:**

Institutional agencies have fixed hours and stipulate that some formalities should be observed before the loans are sanctioned and then paid. On the other hand, a money lender has

been easily approachable even at odd hours. This encourages borrowing.

### **5. Litigation:**

Litigation, civil or criminal, is another cause of rural indebtedness. Agriculturists of standing are generally involved in various kinds of disputes such as intra-family disputes, inter-family disputes, and disputes over boundary lines, theft of crops, and division of ancestral lands etc. which often force them to go to courts of law. Such prolonged litigations involve heavy expenditure and to meet these expenses, farmers take a loan which further aggravates the burden of rural indebtedness.

### **6. Small sized holdings:**

Approximately 72.6 per cent of the operational holdings in India are less than 5 acres in size. When the holdings are small, modernization of agriculture becomes impossible. The cultivation ceases to be economical even in the best of years and the yield from land becomes insufficient for the maintenance of the farmer and his family. On account of this reason the farmer incur debt.

### **7. Illiteracy and ignorance:**

The illiteracy and ignorance of the peasants stand in the way of improving the economic conditions. They are not conscious about the utility of small family norms. In view of the large size of the family, they are compelled to borrow money for fulfilling the basic necessities of life.

### **8. Extravagant expenditure:**

Being bound to customs and tradition, the ruralites consider the expenses on the occasion for marriage, birth, death, and caste dinners on auspicious occasions and on some religious observance as unavoidable. Being poor, they have no reserve to fall back upon. This makes them to borrow.

They borrow at least for two reasons. In the first place, if they do not spend on these occasions, their image in the public eyes will be tarnished. Secondly, they have ambition to excel others in pomp and grandeur.

### **9. Malpractices of the money-lenders:**

The private money-lenders are known to have adopted various malpractices.

- (a) They have been charging exorbitant rates of interest varying between 40 to 60 per cent per annum.
- (b) They have also been found keeping false accounts.
- (c) They are more interested in forcing the borrowers to part with their land by encouraging the farmers to borrow from them and get their lands mortgaged to them.
- (d) They have been purchasing the crops of the farmers at very low price when the latter approach them for selling their crops in order to repay their debts.
- (e) When the farmers' debt has accumulated to a sufficient amount, they take away the land of the borrowers. Like a fly in the cobweb, which can rarely escape, similarly, the farmer once caught by the money-lender can rarely come out of his clutches.

#### **10. High rates of interest:**

The high rates of interest also compel the cultivators to borrow. The rates vary from state to state but due to the poor economic condition of the peasants, the interest accumulates every year. Quite often it is extremely difficult to clear up even interest charges alone. The Bombay Banking Committee rightly observes, "It is not that the agriculturist" repays too little, he often repays too much. It is the high rate of interest and the malpractices followed by the money-lenders that tend to perpetuate his indebtedness."

#### **11. Pulls of high standard of living:**

Sometimes high standard of living constitutes the cause of indebtedness. Of late, the benefits of urbanization have reached the doorsteps of the ruralizes. Poor peasants have fallen a prey to the consumeristic culture. They are attracted by the temptations of the amenities of city life. They are induced to buy them even if there is no great need for them.

#### **12. Excessive burden of land revenue and rent:**

During the British rule, the land revenue was fixed high. So the farmers were not able to pay in time. Hence, they were forced to borrow. Even in the Post-Independent India excessive land revenue with its rigid procedure of collection is squarely responsible for aggravating the problem of rural indebtedness.

The rent is tasking for the small and marginal farmers. The dues being fixed, they are bound to pay even when production suffers during conditions of flood and drought. Therefore, the

farmers are forced to take loans to make these payments. Consequently the burden of indebtedness increases.

### **13. Addiction to drinking:**

Drinking leads to rural indebtedness in two ways. In the first place, it gives rise to a number of quarrels and crimes resulting in litigation. Litigation as all of us know entails unnecessary expenditure. Secondly, drinking is itself an expensive habit and a good share of the peasant's income is spent for drinking.

### **14. Inflation:**

Inflation unaccompanied by corresponding increase in the income of the ruralites compels them to borrow to meet their basic needs.

### **15. Inadequate infrastructural facilities and institutional arrangements:**

Inadequate infrastructural facilities stand in the way of improving the economic condition of the farmer. Due to inadequate marketing facilities, he has no other alternative but to sell away the produce immediately after harvest at the unreasonable prices. The heavy indebtedness of the farmer also makes it difficult for him to store the produce for sale on favourable terms at a later date.

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## **11.3 CONSEQUENCES OF RURAL INDEBTEDNESS:**

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Rural indebtedness is dysfunctional for the rural society in more ways than one. Some of its evil consequences are as follows:

**1.** From the economic point of view, increasing rural indebtedness leads to growing pauperisation of the small and marginal farmers. They mortgage their landed property to the money-lenders and ultimately lose it to the latter.

In this way, they join the ranks of the landless labourers. The small farmer gets a low price while selling his produce and pays high prices for buying inputs. Hence rural indebtedness is both the cause and effect of the growing poverty of the Indian farmers.

**2.** Increasing rural indebtedness has also undesirable social consequences. In the first place, it creates a class of landless labourers and tenants in the place of independent farmers.

Secondly, the heavily indebted farmers are forced to pledge their own person and become bonded slaves to the landlords and

money-lenders. Sometimes their women fall prey to money-lenders' caprice and vice. This has led to moral degradation of rural society.

Thirdly, in many parts of the country, the small peasants who have lost their land to the money-lenders have revolted against the latter in a violent manner. The problem is particularly serious in some parts of Bihar, Orissa and Andhra Pradesh. In such states the high caste money-lenders have exploited the innocent and illiterate advises and have deprived them of their meager land ownership.

Quite naturally this has been the direct cause of Naxalite movements in these areas. Dr. Thomas aptly observes, "A society steeped in debt is necessarily a social volcano. Discontent between classes is bound to arise and shouldering discontent is always dangerous."

**3.** Rural indebtedness has far-reaching political implications for the rural society. The money-lenders become unscrupulous politicians and exploit the heavily indebted farmers when elections to village Panchayats, co-operative societies, state assembly and Lok Sabha are held. Democracy becomes a mockery.

**4.** From the psychological angle we observe that the borrowers are always a frustrated lot. They always remain in the grip of worry and tension.

### **5. Deterioration of agriculture:**

As a result of indebtedness, the condition of agriculture also deteriorates. Two reasons may be attributed to this state of affairs. In the first place, the heavily indebted farmers because of paucity of funds are not in a position to modernize agriculture. This would cripple their capacity to increase their income level. Secondly, most of the farmers have to work on the moneylender's land as servants. Obviously they lack interest in work.

### **6. Low standard of health:**

The farmers burdened with a heavy debt grow weaker because they are beset with the problem of repaying it. They work hard to repay the loan which sometimes tell upon their health. They also cannot afford to have medical facilities for themselves and for their children. They cannot have any nourishing diet. All these lead to the lowering of their health standards.

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## **11.4 MEASURES FOR ERADICATING INDEBTEDNESS:**

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The Government has undertaken several measures since long to put an end to rural indebtedness. They are as follows:

### **1. (a) Removing the need for borrowing:**

- (i) Steps have been taken to reduce the effective burden of land revenue and to make its payment convenient through greater elasticity in its administration and collection.
- (ii) Adequate irrigation facilities have been provided to the farmers.
- (iii) Inputs have been made available at cheap rates.
- (iv) Agro-based industries have been promoted in the rural areas.
- (v) Improvement has been effected in the sphere of means of communication and transportation. Better marketing facilities have been made available to the peasants.

### **(b) Protecting the assets of the agriculturists from passing into the hands of moneylenders:**

For this purpose various Acts have been passed in the past e.g. the Land Alienation Acts, the Encumbered the Estates Relief Act of 1876 etc.

### **(c) Regulation of the activities of moneylenders:**

For this purpose various legislative measures have been enacted. They are as follows:

#### **(i) The Deccan Agriculture Act, 1879:**

Under this Act the courts were allowed to go behind the contract of debt and to modify it in favour of the borrower.

#### **(ii) The Various Loans Act, 1918:**

This Act tried to improve the legal position of the borrower.

#### **(iii) The Regulation of Accounts Act, 1930:**

It aimed at protecting the debtor from manipulated accounts by prescribing forms of accounts and insisting on the debtor being supplied with these regularly.

**(d) The Punjab Relief of Indebtedness Act, 1934:**

It drew a distinction between secured and unsecured loans for purposes of rate of interests.

**(e)** Various Acts like the Punjab Registration of Moneylenders Act, 1938 provided for the registration and licensing of money lenders.

**(f)** The Acts like the Punjab Restoration of Mortgaged Lands Act and the Punjab Debtor's Protection Act provided for restoration of mortgaged lands on payment of nominal compensation and exempted ancestral property from attachments as also standing crops.

**2. Nationalisation of Commercial Banks:**

The commercial banks were nationalised in 1969. Since then special efforts have been made to increase the involvement of public sector banks in the development of agriculture and other associated activities in the rural areas. At present, the commercial banks are mandated to earmark 18% of their total annual lending to agricultural sector as part of priority sector lending.

They have also been associated with the rural finance through some other important schemes such as the Lead Bank Scheme, Village Adoption Scheme, Service Area Plan, Intensive Centre Scheme, Agricultural Finance Corporation etc.

**3. Regional Rural Banks:**

Regional Rural Banks have been established since 1975 as a new source of finance in the rural areas. The main objective of these banks is to provide credit and other facilities to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. These banks are sponsored by the nationalised commercial banks. So far as the area of operation is concerned, such a bank covers one or more districts of a state.

At present, there are 196 Regional Rural Banks in the country and these have about 14500 branches.

**4. Twenty-Point Economic Programme:**

Under the 20- point programme launched in July, 1975, the government had declared a moratorium on the recovery of debt by money-lenders from farmers, landless labourers and rural artisans. Liquidation of rural indebtedness and abolition of bonded labour were two dynamic aspects of the old 20-point economic programme.

## **5. Co-operative Credit Institutions:**

Co-operative finance is the best and the cheapest source of rural credit. It is because loans are advanced for productive activities and also at very low rates of interest as compared to those charged by the money-lenders and various other institutions. The Primary Agricultural Co-operative Credit Societies generally advance short- term and medium-term loans to the farmers, the Primary Land Development Banks cater to the long-term financial requirements of the farmers.

## **6. Report of the Sivaram Committee:**

In its report submitted in April, 1976 the Sivaram Committee outlined the following proposals pertaining to rural indebtedness.

(a) Consumption loans for marriages, births and deaths, religious expenses, medical expenses, education etc. should be provided by the government corporations and nationalised banks to small farmers, landless labourers and artisans.

(b) Banks and Co-operatives should provide similar loans to marginal farmers.

(c) Schemes should be devised to enable these classes of people to return these loans.

## **7. National Bank for Agriculture and Rural Development:**

NABARD was set up by the Government of India on 12th July, 1982 with an authorised capital of Rs. 500 crore and a paid up capital of Rs. 100 crore. It plays the role of a catalyst of rural resurgence through injection of adequate finance for approved development projects. It is an apex institution entrusted with the responsibility of bringing about rural prosperity.

The number of schemes sanctioned as well as the financial assistance extended by the Bank for these schemes has been constantly increasing. NABARD has been paying special attention in extending credit facilities in less developed banked areas like Bihar, Rajasthan and Orissa.

Of late, the bank has been taking special steps for augmenting credit flow to the North East Region.

The role of NABARD in providing funds for the promotion of self-help groups, especially the 'Rural Women's Development and Empowerment Scheme' is, indeed, commendable.



Recently, the bank prepared a model scheme for the commercial banks to issue 'Kisan Credit Cards' to the farmers. The purpose of the KCC scheme is to facilitate short term credit to the farmers. The scheme has gained popularity and its implementation has been taken up by 27 commercial banks, 187 Regional Rural Banks and 334 Central Cooperative Banks.

Since its inception till the end of March 2004, more than 41 million KCCs have been issued and total loans sanctioned amounted to Rs. 97,710 crores. KCC holders are also provided personal accident insurance cover of Rs. 5,000 for death and Rs. 25,000 for disability.

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### **11.5 SUGGESTIONS FOR REMOVING RURAL INDEBTEDNESS:**

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Several suggestions have been made for eradicating rural indebtedness. Of them, major ones are the following:

1. Measures should be devised for cancelling old debts.
2. Measures should be adopted for limiting fresh borrowing to the minimum necessary and to the productive type.
3. The government should make arrangements for giving loans to the farmers at low rates of interest.
4. In order to make loans available to the villagers, the formal procedure for the grant of loans in the co-operative societies and banks should be made as simple as possible.
5. The laws preventing money-lender to take possession of farmer's land should be strictly put to practice.
6. Efforts should be made to desist ruralizes from undertaking unproductive and wasteful expenditure. Hence they ought to be educated about the harmful consequences of unproductive debts.
7. In order to reduce the dependence of the ruralizes on local money-lenders, the network of institutional credit structure comprising cooperatives, commercial banks and regional rural banks should be rapidly expanded throughout the country to cater to the credit needs of the small farmers and artisans.
8. There should be a check on the practice of private money lending. The account register of the moneylenders should be checked to find out how far they have increased their landed

property during the period under review. Besides, only the registered and license holders should be allowed to advance loans.

In fine, the problem of rural indebtedness is linked with the larger issue of rural poverty. Poverty alleviation measures have to be taken up on a war footing to augment the income of the ruralizes. Mobilization of local, social and economic resources, an equitable distribution of benefits of new agricultural strategy and establishment of a good number of co-operatives and commercial banks will go a long way in mitigating the magnitude of rural indebtedness from the rural social matrix.



## SOURCES OF RURAL CREDIT IN INDIA

### Unit Structure :

- 12.0 Objectives
- 12.1 Introduction
- 12.2 Sources of Rural Credit in India

#### **A) Non institutional sources**

- 1) Money-lenders,
- 2) Traders and commission agents,
- 3) Relatives and landlords.

#### **B) Institutional sources:**

- i) Government
- ii) Co-operative societies
- iii) Commercial banks
- iv) Regional rural banks (RRBs)
- v) NABARD.
- vi) Lead Bank Scheme
- vii) Kisan Credit Card scheme
- viii) Farmer Service Societies
- ix) Agricultural Finance Corporation (AFC)
- x) State Bank of India (SBI)

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### 12.0 OBJECTIVES

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- 1) Understanding the sources of Rural Credit in India.
- 2) Understanding the sources of Non- Institutional credit
- 3) Understanding the sources of Institutional credit

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### 12.1 INTRODUCTION

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Credit needs of the Indian farmers can be classified into three types depending upon the period and the purpose for which they are required:

- (a) Farmers need funds for short periods of less than 15 months for the purpose of cultivation or for meeting domestic expenses. For

e.g., they want to buy seeds, fertilizer's, fodder for cattle, etc. They may require funds to support their families in those years when the crops have not been good or adequate for the purpose.

(b) The farmers require finances for medium period ranging between 15 months and 5 years for the purpose of making some improvement on land, buying cattle, agricultural implements, etc. These loans are larger than short-term loans.

(c) The farmers need finances for the purpose of buying additional land, to make payment improvements on land, to pay off old debt and to purchase costly agricultural machinery. These loans are for long periods of more than 5 years.

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## 12.2 SOURCES OF RURAL CREDIT IN India

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There are two sources of credit available to farmers:

### **A) Non institutional sources: Private or Non institutional sources include**

- a) Money-lenders,
- b) Traders and commission agents,
- c) Relatives and landlords.

Non institutional sources accounted for 93 percent of the total credit requirements in 1951-52 and institutional sources including the government accounted for only 7 percent of the total credit needs in that year.

### **B) Institutional sources:**

Institutional credit refers to loans provided to farmers by

- xi) Government
- xii) Co-operative societies
- xiii) Commercial banks
- xiv) Regional rural banks (RRBs)
- xv) NABARD.
- xvi) Lead Bank Scheme
- xvii) Kisan Credit Card scheme
- xviii) Farmer Service Societies
- xix) Agricultural Finance Corporation (AFC)
- xx) State Bank of India (SBI)

**A) Non institutional sources:**

<b>Non institutional sources:</b>	<b>1951-52</b>	<b>1961-62</b>	<b>1971-72</b>	<b>1981-82</b>	<b>1991-92</b>	<b>2010-2011</b>
Money Lender	69.7	49.2	36.1	16.1	17.6	18.2
Traders and Commission agents	5.5	8.8	8.4	3.2	2.5	4.8
Relatives	14.2	8.8	13.1	8.7	5.5	4.4
Landlords.	3.3	14.5	10.7	8.8	4.3	5.7

**Source:** All India debt and Investment Survey.

**a) Money Lenders: are of two types:****i) Landlords or rich farmers:**

Who combine farming with money lending and professional money lenders? The cultivators depend upon the money-lenders for their requirements of cash. The moneylenders freely supplies credit for productive and non-productive purposes. They provide credit for short term as well as long term requirements of the farmers. The moneylenders are easily accessible and maintain a close and personal contact with the borrower, often having relation with family extending over generations. His methods of business are simple and elastic. He has local knowledge and experience and therefore can lend against promissory notes. He knows how to protect himself against default, through legal and illegal methods.

**ii) Landlords and others:**

Traders and commission agents supply funds to farmers for productive purposes much before the crop mature. They force the farmers to sell their produce at low prices and they charge a heavy commission for their dealings. Farmers often borrow from their own relatives in cash or in kind for their temporary requirements. They carry low or no interest and they are returned soon after the harvest. Farmers, particularly small farmers and tenants, depend upon landlords and others to meet their financial requirements for they charged exorbitant interest rates.

Despite rapid development in rural branches of different institutional credit agencies, village money lenders still dominate the scene. Money lenders are of two types- agriculturist money lenders who combine their money lending job with farming and professional money lenders whose sole job is money lending. A number of reasons have been attributed for the popularity of moneylenders such as: (a) they meet demand for productive as well as unproductive requirement; (b) they are easily approachable at odd hours; and (c) they require very low paper work and

advances are given against promissory notes or land. Money lenders charge a very high rate of interest as they take advantage of the urgency of the situation. Over the years a need for regulation of money lending has been felt. But lack of institutional credit access to certain sections and areas had facilitated unhindered operation of money lending. Cooperative credit and self-help groups can play a major role in control of money lending.

**b) Traders and Commission Agents:**

Traders and commission agents advance loans to agriculturists for productive purposes against their crop without completing legal formalities. It often becomes obligatory for farmers to buy inputs and sell output through them. They charge a very heavy rate of interest on the loan and a commission on all the sales and purchases, making it exploitative in nature. It an important source of finance in case of cash crops like cotton, tobacco and groundnut.

**c) Relatives:**

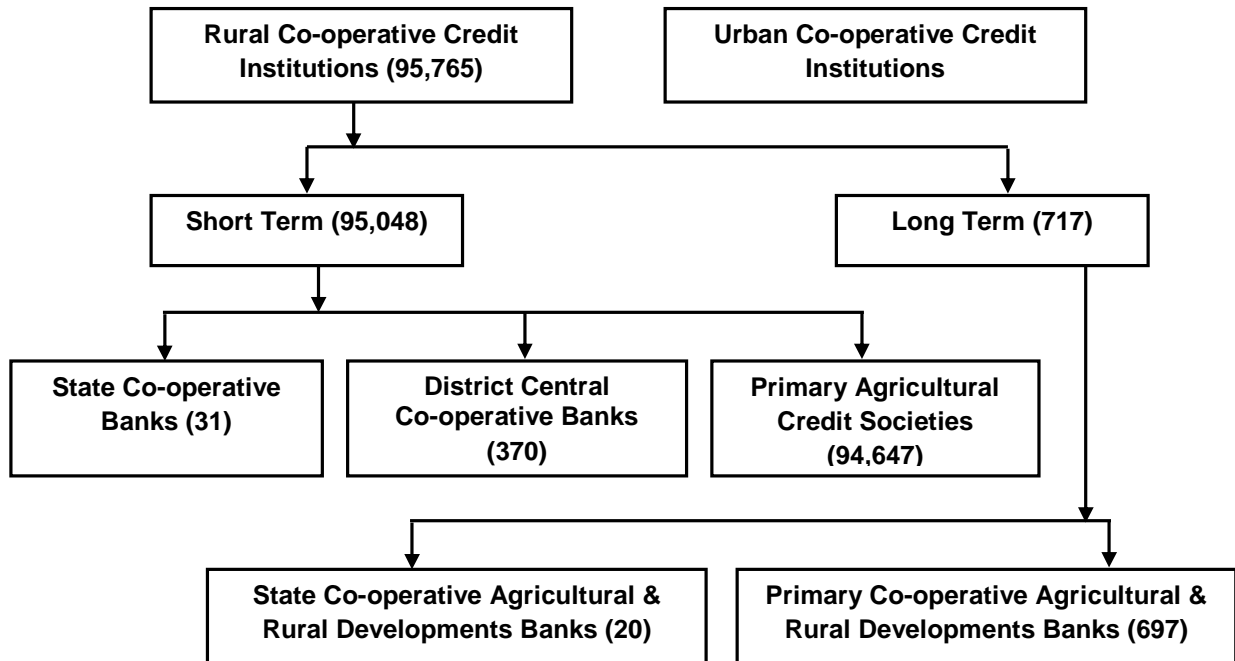
Farmers also borrow from their own relatives in cash or kind. These loans are taken for the short period in order to tide over temporary difficulties. These loans are generally contracted in an informal manner, the carry low or no interest and they are returned soon after the harvest. But this source of finance is uncertain and with increasing needs of modern agriculture, the farmer cannot depend upon this source to any large extent. Moreover, the importance of this source in the total borrowing of the cultivators was 14.2 percent in 1951-52 which declined to 8.8 per cent in 1961-62.

**B) Institutional sources:**

The need for institutional credit arises because of the weakness or inadequacy of private agencies and their exploitative nature of credit. The basic motive of Institutional credit is to help the farmer to raise his productivity and maximize his income. The rate of interest is not only relatively low but can be different for different groups of farmers and for different purposes.

As far as institutional sources are concerned, the first institutions established and promoted was the institutions of Cooperative credit institutions. History of co-operative credit is very old in India . The organization of rural co-operative credit institutions in India can be clear from this chart.

### Co-operative Credit Institutions



### Rural Institutional sources: (%)

Institutional sources: (%)	1951-52	1961-62	1971-72	1981-82	1991-92	2010-2011
Government	3.3	15.5	7.1	3.9	6.1	7.8
Co-operative Credit	3.1	2.6	22.0	29.9	27.6	24.9
Commercial Banks	0.9	0.6	2.6	29.4	33.7	27.1
Other	-	-	-	-	2.7	7.1
Total	7.3	18.7	31.7	63.2	70.1	66.9

Source: All India debt and Investment Survey and NSSO.

**Rural Institutional sources: (Rs in crores)**

Year	Co-operative Banks	Share in%	RRBS	Share in%	Commercial Banks	Share in%	Total Institutional Credit
1984-85	3440	55	-	-	2790	45	6230
1991-92	5800	52	596	05	4806	43	11202
2001-02	23604	38	4854	08	33587	54	62045
2002-03	23716	34	6070	09	39774	57	69560
2003-04	26959	31	7581	09	52441	60	86981
2004-05	31424	25	12404	10	81481	65	125309
2005-06	39404	22	15223	08	125859	70	180486
2006-07	33987	24	15170	10	100999	67	150156
2007-08	35875	20	17989	10	128876	70	182738
2008-09	36165	19	19325	10	132761	71	188251
2009-10	32871	18	23984	13	121879	69	178734
2010-11	70105	18	43988	10	332708	74	446779
2011-12	53187	20	29073	11	179869	69	262129

Source: Economic Survey and NABARD various issues

**1) The Government :**

These are both short term as well as long-term loans. These loans are popularly known as “Taccavi loans” which are generally advanced in times of natural calamities. The rate of interest is low. But it is not a major source of agricultural finance. The government provides finance indirectly as well as indirect.

**1. Indirect financing** indirect credit is provided through the co-operative societies.

**2. Direct financing** The govt. has been financing farmers directly. Agricultural credit from the govt. is calls “taccavi” and has a long history in India, it is provided under Land Improvement Loan Act of 1883 and the agricultural Loans Act of 1884. The government gives “taccavi loans” to the farmers which are disbursed at the time of distress famines, flood etc. At a low interest rate of 6 percent and the repayment schedule is very convenient.



## **2. Rural Co-operative Credit Institutions:**

The rural co-operative movement was started in over 100 years back largely with a view to providing agriculturists funds for agricultural operations at low rates of interest and protect them from the clutches of moneylenders.

The organisation of the co-operative credit for short period is as following ,

### **A. Short Term Rural Credit :**

#### **a) Primary Agricultural Credit Society (PACS):**

It may be started with ten or more persons, normally belonging to a village. The value of each share is generally nominal. PACS deal directly with farmer-borrowers, grant short term and medium term loans and also undertake distribution and marketing functions. The management of the society is under an elected body consisting of President, Secretary and Treasurer. Profits are not distributed as dividends to shareholders but are used for the welfare of the village .The usefulness of PACS has been rising steadily.

In 1950-51, they advanced loans worth Rs. 23crores, which increased to Rs. 200crores in 1960-61 and further to Rs. 34,520crores in 2000-01. This progress has been spectacular but not adequate considering the demand for finance from farmers.

The number of PACS had come down from 2,12,000 in 1960-61 to 1,61,000 in 1970-71 and recently number of PACS are 94,647. At the end March 2006 with estimated membership of over 10crore farmers. Most of the PACS are dependent on the finance provided by Central Cooperative Banks(CCBs). In case the CCBs are weak, the PACS are starved of finance which affects the credit functions of PACS. At the end of March 2006, the loans and advances outstanding for PACS were about Rs. 51,780crores.

#### **b) District Central Co-operative Banks (DDCBs):**

These are federations of primary credit societies in specified areas normally extending to a whole district. These banks have a few private individuals as shareholders who provide both finance and management. They may accept deposits from the general public but their main task is to lend to village primary societies.

By the end of March 2007, there were 370 District Central Cooperative Banks. The loans outstanding came to Rs. 79,200crores. They acts as an intermediaries between the State Co-operative Bank on the one hand and the village primary credit societies on the other.

The Reserve Bank – now NABARD has formulated a scheme for the rehabilitation of weak central co-operative banks. NABARD is providing liberal assistance to the State Governments for contributing to the share capital of the weak Central Cooperative Banks selected for the purpose.

**c) State Co-operative Banks (STCBs):**

The STCB finances and controls the working of the District Central Cooperative banks in the State. It serves as a link between NABARD from which it borrows and the cooperative central banks and village primary societies. There are 31 State Cooperative Banks (STCB) in the country.

The State Cooperative Bank not only interested in helping the rural cooperative credit movement but also in promoting other co-operative ventures and in extending the principles of cooperation. During 2005-06 the 31 state cooperative banks had lent about Rs. 48,260crores to District Central Co-operative Banks.

**B. Long Term Rural Credit:**

**Cooperative Agriculture and Rural Development Banks (CARDs):**

The long term requirements of the farmers were traditionally met by the money-lenders. Initially, land mortgage banks were organised for the purpose of providing long term credit to farmers. These banks were later called land development banks. In recent years, they have been renamed as Cooperative Agricultural and Rural Development Banks (CARDs). These were classified into;

- Primary Co-operative Agricultural and Rural Development Banks (PCARDs)
- State Co-operative Agricultural and Rural Development Banks (SCARDs).

The number of PCARDs and their branches increased from 286 in 1950-51 to 697 in 2006-07, while that of SCARDs increased from 5 to 20 during the same period. Total loans advanced by PCARDs during 2005-06 were Rs. 2,250 crores and the loans outstanding at the end March was Rs. 12,740 crores. On the other hand, SCARDs had sanctioned loans worth Rs. 2,900crores in 2005-06 and the amount outstanding at the end March 2006 was Rs. 17,710crores.

**Finance and Loan operations of CARDs:**

CARDs obtain their funds from share capital reserves, deposits and issue of bonds or debentures. Debentures are long term loans which are issued by SCARDs, carrying fixed interest and for fixed periods, generally up to 20 years. They are subscribed

by the LIC, the commercial banks, the State bank of India and its subsidiaries and by the Reserve Bank of India. SCARDBs also float rural debentures for periods up to 7 years which are subscribed by farmers and panchayats and by the Reserve Bank of India.

CARDBs provide credit for a variety of purposes such as redemption of old debts, improvement of land, purchase of costly agricultural equipment, construction of wells and erection of pumps, etc. Though land development banking has made considerable progress in recent years, it has not really contributed much to the improvement of the financial position of the farmers.

### **3. Role of Commercial Banks in Rural Credit:**

In the initial period of nationalisation, the banks concentrated their attention on large cultivators and other special category farmers such as those engaged in raising high-yielding varieties of food grains. At present short term crop loans account for nearly 42 to 45 percent of the total loans disbursed by the commercial banks to farmers. Term loans for varying periods for purchasing pump sets, tractors and other agricultural machinery, for construction of wells and tube-wells, for development of land for the purchase of fruit and garden crops, or leveling and development of land for the purchase of plough animal, etc. are provided. These term loans accounted for 35 to 37 percent of the total loans disbursed by the commercial banks.

Commercial banks extended loans for activities like dairying, poultry farming, piggyery, bee keeping, fisheries and others which accounted for 15 to 16 percent. Commercial banks are financing co-operative societies to enable them to expand their production credit to the farmers. Commercial banks are providing indirect finance for the distribution of fertilisers and other inputs.

Commercial banks also extend their credit to manufacturing or distribution firms and agencies and co-operatives engaged in the supply of pump sets and other agricultural machinery on a hire purchase basis. They finance operations of the Food Corporation of India, the State Government and others in the procurement, storage and distribution of food grains. Finally commercial banks subscribe to the debentures of the central land development banks and also extend advances to the latter.

There are 5, 50,000 villages spread throughout the country. To reach all of them with only about 47,000 banking offices is a difficult task. To overcome from this problems commercial banks have introduced some unique schemes to reach to the farmers in rural areas.

#### 4. Regional Rural Banks (RRBs):

In pursuance of the aspect of the New Economic Programme that the Government of India set up Regional Rural Banks. The main objective of the RRBs is to provide credit and other facilities particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs so as to develop agriculture, trade, commerce, industry and other productive activities in rural areas.

Initially, five RRBs were set up on October 2, 1975 in Uttar Pradesh, Haryana, Rajasthan and west Bengal. Each RRB had an authorised capital of Rs. 1crore, and issued and paid up capital of 25lakhs. The share capital was subscribed by the Central Government (50%), the State Government concerned (15%) and the sponsoring commercial bank (35%).

#### □ Change In Relative Share of Institutions:

After the nationalisation of 14 major banks in 1969 , the commercial banks have consistently increased their share in institutional credit to agriculture from 38.4% in 1980-81 to 74.3% in 2010-11.As a result the relative share of co-operative institutions has declined from 61.6% in 1980-81 to 15.7% in 2010-11.RRBs have contributed about 8 to 10 % of agricultural credit over the years ,it is shown in table no-4.1.

**Table no- 4.1**  
**Institutional Credit to Agriculture: Relative Share of Different Institutions**

Year	Scheduled Commercial Banks	Co-Operative Societies	RRBs
1970-71	-	100.00	-
1980-81	38.4	61.6	-
1990-91	47.4	49.0	<b>3.4</b>
2000-01	52.6	39.4	<b>8.0</b>
2004-05	65.0	25.0	<b>10.0</b>
2007-08	71.1	18.9	<b>10.0</b>
2008-09	75.8	15.3	<b>8.9</b>
2009-10	74.3	16.5	<b>9.2</b>
2010-11	74.5	15.7	<b>9.8</b>

Source: Economic Survey 2011-12.

## 5. ROLE OF NABARD IN RURAL DEVELOPMENT

A National Bank for Agricultural and Rural Development (NABARD) or the National Bank was set up in July 1982 by an Act of Parliament to take over the functions of the Agricultural Refinance Development Corporation (ARDC) and the refinancing functions of RBI in relation to co-operative banks and RRBs. NABARD is linked originally with the RBI by the latter contributing half of its share capital and the other half being contributed by the Government of India and nominating three of its Central Board Directors on the board of NABARD, besides a Deputy Governor of RBI being appointed as Chairman of NABARD.

### **Resources of NABARD:**

The authorised share capital of NABARD was Rs. 500crores and its paid-up capital was Rs. 100crores, contributed equally by the Central Government and the Reserve Bank. The resources of the National Agricultural funds were transferred to NABARD. World Bank and IDA have also been providing funds to NABARD for implementation of the projects financed by them. The most important source of NABARD's funds is RIDF deposits, closely followed by market borrowings.

### **Functions of NABARD:**

NABARD has a dual role to play (a) as an apex institution and (b) as a refinance institution. NABARD has inherited its apex role from RBI i.e. it is performing all the functions formerly performed by RBI with regard to agricultural credit. At the same time, NABARD has taken over the functions of ARDC and thus provides refinance facilities to all banks and financial institutions lending to agriculture and rural development.

i) NABARD services as a refinancing institution for all kinds of production and investment credit to agriculture, small scale industries, cottage and village industries, handicrafts and rural crafts and real artisans and other allied economic activities with a view to promoting integrated rural development.

ii) It provides short term, medium term and long term credit to State Co-operative Banks (SCBs), RRBs, LDBs and other financial institutions approved by RBI.

iii) NABARD gives long term loans (up to 20 years) to State Governments to enable them to subscribe to the share capital of co-operative credit societies

iv) NABARD gives long term loans to any institution approved by the Central Government or contribute to the share capital or invests

in securities of any institution concerned with agriculture and rural development.

v) NABARD has the responsibility of co-ordinating the activities of Central and State Governments, the Planning Commission and other all India and state level institutions entrusted with the development of small scale industries, village and cottage industries, rural crafts, industries in the tiny and decentralized sectors, etc.

vi) It has the responsibility to inspect RRBs and co-operative banks, other than primary co-operative societies.

vii) It maintains a Research and Development Fund to promote research in agriculture and rural development, to formulate and design projects and programmes to suit the requirements of different areas and to cover special activities.

#### **Working of NABARD:**

NABARD is performing the various functions assumed by it smoothly and efficiently. It sanctioned short term credit limits worth Rs. 8,820crores during 2003-04 and Rs. 16,100crores during 2006-07 for financing seasonal agricultural operations at the concessional rate of 3 percent below the Bank rate. During 2010-11 NABARD sanctioned total credit limit aggregating 35,273 croresRs. as against 25,661 core Rs. During 2009-10 for various short-and medium-term purposes to STCBs and RRBs and long-term loans to the state government.

NABARD has attempted to ensure the flow of credit to weaker sections of society under the new 20-point programme by making it obligatory for banks to disburse a specified percentage of short term loans to small and marginal farmers and other economically weaker sections.

NABARD provides two types of refinance. The first is extended to RRBs, Apex Rural Credit Institutions, viz., State Cooperative Banks and state Governments. The second type of refinance is extended to provide resources for ground level deployment of rural credit. Purpose-wise, minor irrigation has continued to occupy an important place in scheme lending of NABARD i.e. about 13 percent of the schemes sanctioned in recent years consisted of minor irrigation works.

NABARD has vigorously continued its efforts in promoting investments in the agricultural sector in the less developed / under-banked states – U.P., Bihar, M.P., Rajasthan and Orissa have been the biggest beneficiaries.

### **NABARD and Rural Infrastructure Development Fund (RIDF)**

RIDF –I was established in 1995-96 with the major objective of providing funds to state governments and state owned corporations to enable them to complete various types of rural infrastructure projects. RIDF has been continued on an annual basis. The annual allocations of funds under the RIDF has gradually increased from Rs.2000 crore in 1995-96 to Rs.18000 crore in 2011-12. Aggregate allocations have reached Rs.1, 34,000 crore. The budget allocation for RIDF for 2012-13 has been raised further to Rs.20, 000 crore.

As against the total allocation of Rs.1,34,000 crore, encompassing RIDF-I to RIDF-XVII, sanctions aggregating Rs.1,32,808 crore have been accorded to various state governments and an amount of Rs.86, 631 crore disbursed up to end December 2011. This shows that the proportion of disbursements in relation to sanctions has been only 65 %.

## **6. Lead Bank Scheme.**

### **6.1 Introduction:**

In the previous unit, we saw the different functions performed by commercial banks for industry, trade etc. Recognizing the role that these banks can play, Govt. of India imposed social control over them in 1967. The main intention was to accelerate rate of growth, providing banking facilities to the rural areas and extending loan assistance to the important sectors. However, as govt. realized that social control will not be enough to fulfill the objectives, a decision of nationalizing 14 main commercial banks was taken on 19th July 1969. Setting up of Lead banks is also an important decision taken for the development of the country.

### **6.2 Objectives:**

- i) Understanding the background of Lead Bank Scheme.
- ii) Understanding the meaning and objectives of Lead Bank Scheme.
- iii) Studying functions and working of Lead Bank Scheme.
- iv) Studying the problems/drawbacks of Lead Bank Scheme.

### **6.3 Background of Lead Bank Scheme:**

A study group under the Chairmanship of Dr. Dhananjayrao Gadgil was formed by the National Credit Corporation for making suggestions to remove regional inequality and imbalance. The group submitted its report in 1969. At that time, commercial banks accounted for 83% of total loan allocation, but 5000 villages had not received banking facilities. As a result, the study group recommended that commercial banks should adopt regional approach. It implies that commercial banks should pay attention to

the social justice and consider district as the focus area for their activities. Overall economic and social development of the district should be their top most objective. After the report of the study group was submitted to RBI, RBI set up a committee under the Chairmanship of F.K.F.Nariman. This committee also upheld the recommendations of Gadgil group and floated the concept of Lead Bank. Finally, RBI announced the Lead Bank Scheme at the end of 1969.

#### **6.4 Meaning :**

The basic idea behind the lead bank scheme is that a bank should lead and take initiative for the development of a district. Lead banks are supposed to function in co-ordination with other banks and financial institutions in the district in designing and implementing schemes of economic development.

This scheme was introduced at end of 1969 in 336 districts, excluding metropolitan cities like Mumbai, Kolkata, Chennai and Union Territories like Delhi, Pondecherri and Goa. They were allotted to 14 Nationalised Banks, State Bank and its seven associate banks and 3 private banks. The field of the bank was decided on the basis of the size of the bank, availability of the resources with the bank and affiliation to the district etc. Lead bank is supposed to conduct a survey of the district, check the possibility of developing agriculture, industry (small or large) and other businesses and take a lead in meeting total credit needs of the district.

#### **6.5 Objectives of Lead Bank Scheme:**

- 1) Bringing co-ordination in the functioning of commercial banks, co-operative banks and other financial institutions operating in the district.
- 2) Bringing effectiveness in branch expansion, guidance and monitoring.
- 3) Establishing close relationship between loan business and banking business.
- 4) Encouraging saving by conducting survey of district's resources.
- 5) Assisting in the development of agriculture and agro-based and small industries of the district.
- 6) Removing hurdles in the development of district.
- 7) Accelerating the pace of economic activities at district level.
- 8) Establishing close relations and co-ordination between district level govt. officials and banking institutions.



## 6.6 Functions of the Lead Bank:

Lead bank, as a consortium leader, performs following functions :

**1) Preparing economic report of the district :** This is an important function of the lead bank and helps in taking important decisions like where to open new branches in the district, how much deposits could be collected from a region, which parts will see industries flourishing, and how much credit is needed in a region etc.

**2) Continuity in economic survey :** The lead bank should take the responsibility of conducting economic survey of the district every year. Continuity will help in knowing the extent of progress and also the shortcomings in it.

**3) Preparing District Credit Plan :** Lead bank initiates preparing the district credit plan in association with the commercial banks and govt. banks. District credit plan is a prediction about how much credit will be required for agriculture, industry and commerce in the district next year. Lead bank must ensure that every bank from the district will share the responsibility of meeting the credit requirements.

**4) Appointing an Advisory Committee at district level :** A committee consisting representatives of credit societies, banks and govt. officials (representatives from Panchayat Samiti and Zilla Parishad) is formed. District Collector is the ex-officio Chairman of this committee. The committee has following two responsibilities:

- a) Coordinating the activities of commercial banks, co-operative banks and other financial institutions from the district.
- b) Coordinating the development accounts of commercial banks, co-operative banks and other financial institutions from the district.

## 6.7 Working of Lead Bank Scheme:

The scheme has been implemented since 1970. In the beginning, due to ambiguous nature of the scheme, banking sector went through chaos. However, as the details were made available, the scheme started functioning. By March 1978, every lead bank had prepared the district credit plan. However, it was criticized on several grounds.

- i) Agriculture did not receive proper place in credit schemes.
- ii) Co-operative institutions were not given proper place and importance in the credit plan.

iii) Credit plan was not consistent with the district development scheme.

In 1981-82, RBI published guiding principles for preparing district credit plan. Banks were asked to consider following things :

- i) Making efforts to reduce unemployment and under employment in the district.
- ii) Raising income levels of people living below poverty line.
- iii) Initiating labour intensive projects in the district.
- iv) Making efforts for raising agricultural productivity.
- v) Preparing a scheme for the progress of small & marginal farmers.
- vi) Preparing development plans for landless labourers, backward caste people.
- vii) Credit plan should be based on strong economic and technical foundation.
- viii) Of the total agricultural credit in the district, 50% should flow to small and marginal farmers. In the rural areas, credit deposit ratio should be maintained at 60%.

Until 2001, 576 districts were brought under the purview of lead bank scheme. Lead banks have done far better than the objectives of lead bank scheme. Public sector banks have been instrumental in implementing the scheme.

### **6.8 Shortcomings of the Lead Bank Scheme:**

**Following are main shortcomings:**

**1) Impractical Credit Plan:** The credit plans prepared by lead banks are said to be impractical, as these are not based on scientific foundation. The credit plan should be prepared taking into consideration total number of banks and financial institutions, their credit creation capacity, possibility of economic expansion etc.

**2) Lack of Coordination:** Lead banks have been criticized on the ground that they have failed in coordinating the activities of commercial banks, co-operative banks and other financial institutions from the district.

**3) Lack of Basic Facilities:** Many districts lack the basic facilities required for carrying out developmental work. Lead banks have attained limited success due to lack of facilities like transport, communication, storage facility, insurance companies markets etc.

**4) Lack of Enterprise:** For the successful implementation of credit plan, creative leadership and enterprise is required. However, many districts lack such leadership and enterprise.

**5) Lack of Trained Experts and Experienced Staff:** Many commercial banks find it difficult to get trained experts and experienced staff required for implementing new schemes.

**6) Flawful Technical and Economic Survey:** Lack of trained staff creates difficulties in conducting technical and economic survey.

**7) Non-cooperation from other banks:** Under the scheme, lead bank takes lead, but if other banks do not cooperate implementation of the credit plan will suffer.

**8) Unfair Distribution of the Districts:** If the allotted district is unknown to the bank, it becomes difficult for the lead bank to work in such district.

Despite these short-comings, lead bank scheme can be highly successful if survey of the district is done properly and if other banks cooperate with the lead

## **7. Kisan Credit Card Scheme**

In spite of various measures to rejuvenate farm credit, the flow of credit remained quantitatively and qualitatively poor. The institutional sources of credit meet only 51 per cent of the credit requirements of farm sector. The non-institutional sources were mainly reached by farmers due to lack of collaterals, frequent needs, undue delays, complicated procedures and malpractices adopted by institutional lending agencies. With a view to inquire into the reasons for the problems of the farm credit and suggest measure for improving the delivering system, RBI set up a one man Committee of Shri R. V. Gupta to in December 1997. The Committee submitted its report in April 1998. It was against this background that RBI directed all Public Sector Banks (PSBs), RRBs and cooperative banks to introduce "Kisan Credit Card Scheme (KCCS)" on the lines of the model scheme formulated by NABARD and in due course of time the KCCS was adopted by all the directed agencies.

The KCCS aims at adequate and timely support from banking system to the farmer for crop production and ancillary activities. The credit limit (loan) is sanctioned in proportion to the size of the owned land but some flexibility is provided for leased-in land in addition to owned land. The borrowing limit is fixed on the basis of proposed cropping pattern. Most of the banks are adhering to Scales of Finance (SOF) decided by the State Level Bankers

Committee (SLBC) but some banks have fixed their own SOF. The nature of credit extended under KCCS is revolving cash credit i.e., it provides for any number of withdrawals and repayments within the limit. This feature would provide flexibility and reduce the interest burden upon KCCS beneficiary. Security and margin norms would be in conformity with the guidelines issued by RBI and NABARD from time to time. With effect from 2001-2002, it was made obligatory for the implementing agencies to operate the KCCS with an in-built component of life-insurance for KCCS beneficiary. The KCCS as envisaged has substituted all other existing institutional modes of short term credit delivery.

### **8.Farmers Service Societies (FSS)**

Farmers Service societies are registered cooperative bodies based on the principles of cooperation and governed by cooperative by-laws. Since the PACS are biased towards affluent sections of rural areas, a need for a special body to serve weaker sections was felt. FSS were organized in 1971, on the lines of Cooperative to provide integrated credit services to the weaker sections of rural areas i.e., small and marginal farmers, rural artisans and agricultural laborers. The specific function of the FSS is:

- i) To supply all types of loans to weaker sections viz. crop loans, medium term loans and long term loans;
- ii) To provide adequate supply of requisite inputs and technical guidance for the development of agriculture on timely and regular basis;
- iii) To encourage dairy, fisheries, poultry, farm forestry and other subsidiary occupations in rural areas;
- iv) To make arrangements for bringing about improvements in agricultural markets; and
- v) To mobilize deposits and small savings from weaker sections through incentives.

**8.1 Area of operation:** The societies have been launched in selected districts. Each society has a jurisdiction of a block or a portion thereof. A district union of these societies is there at the district level to suggest ways and means for improving and organizing these societies for executing specific activities. The membership of these societies is open to those who are eligible to get assistance under Small Farmers Development Agency (SFDA) and Marginal and Small Farmers Development Agency (MFAL) programmes. Others may be associate members without any voting rights.

**Sponsorship:** The lead bank of the district generally sponsors the FSS in financial matters

**Capital Structure:** The various sources for funds are: share capital, loans, funds contributed by commercial banks, cooperative societies, subsidies from SFDA and MFAL and commissions accrued to the society through supply of essential inputs and interest on advances. Share capital is contributed by its members, lead bank and the State Government.

**Management:** The number of the members of the Board of Directors varies from 9 to 13 depending upon the size of the society. One full-time managing director is deputed by the lead bank. Five directors will be elected from the members of the society of which three are from small and marginal categories and two from other farmers. The remaining directors are representatives of financial institutions. Block Development Office, Department of Agriculture and Cooperative societies.

## **8.2 FARMER'S SERVICE SOCIETIES:**

The National Commission on Agriculture has recommended the organization of Farmer's Service Societies (FSS), one for each block or any other viable unit of convenient size. The strength of FSS lies in the fact that they take into account, a comprehensive view of the problems of the small farmers. As is well known, the small and marginal farmers require not only credit but timely availability of inputs and ancillary services, along with technical advice and services such as storage, transportation, processing and marketing, preferably through a single contact point. These societies have been organized since 1973-74 to meet the above mentioned requirements of poor farmers. The National Commission on Agriculture has recommended a programme of establishing 2,500 such societies over a period of six years, commencing from 1974 with a capacity to form new societies at the rate of 1,000 per years. However, by the end of June, 1979, there were only 1,200 FSSs in the country.

## **9. AGRICULTURAL FINANCE CORPORATION (AFC)**

Agricultural Finance Corporation (AFC) was incorporated on April 10, 1968 by the Indian Banks' Association in order to provide advisory services to commercial banks in matters related to financing agriculture. Basically, AFC is a consortium of commercial banks established under the Indian Companies Act 1956 to provide Agricultural Credit Management 126 consultancy services to member banks in matters related to projects for agriculture and rural development. Scheduled commercial banks numbering 37, notified under RBI Act of 1934 had subscribed to the share capital

of the corporation. The authorized share capital of AFC was Rs 100 crores and the issued share capital was Rs 10 Crores.

The Corporation has two distinct roles: financing the individual institutions/organizations/individuals involving agricultural development and promoting commercial bank advances for agricultural development. The financing roles included – (a) sinking, deepening and energizing of irrigation wells; (b) production, distribution and marketing of agricultural inputs such as seeds, fertilizers, insecticides, machinery and implements; (c) construction of storage structures for food grains and fertilizers ; and (d) establishments of agricultural service units. The promotional role included– (a) commercialization and industrialization of agriculture (b) formulation of potential projects to be financed by banks and removal of various handicaps and difficulties experienced by commercial banks and farmer-borrowers; and (c) development of cooperation, coordination and consortium arrangement among different lending agencies and co-operatives involved in agricultural financing.

In recent years AFC has assumed only consultancy roles extending project consultancy services to banks, Central/State Governments, NABARD, cooperatives, private sector and international funding agencies. It also undertakes surveys and research studies including, socio-economic, market, baseline, concurrent and impact evaluation surveys, credit demand studies, farm management studies, MIS studies and resource management studies both at national and international levels

## **10. STATE BANK OF INDIA**

The State Bank of India opened specialized branches known as 'Agricultural Development Branches' (ADBs) at selected intensive centres' for catering exclusive to the credit needs of agricultural and allied activities.

These ADBs provide a package of assistance, which decides credit-support including technical and other facilities. These ADBs commence with business plans for their areas of operations covering a period of 2 to 3 years, to start with. These plans are based on the development plan prepared with reference to the potential and local resource of the area and the progress of the plan is reviewed at regular intervals.

The State Bank of India was formed on 1 July, 1955, with the passing of the State Bank of India Act, 1955, by taking over the assets and liabilities of the Imperial Bank of India.

**10.1 Functions:**

1. The bank performs the general commercial bank functions such as accepting deposits, giving loans, providing remittances, issuing letters of credit etc.
2. It acts as the agent of the Reserve Bank in places where there are no branches of the RBI.
3. It acts as an agent of the registered co-operative banks.
4. It is authorized to purchase and sell of gold and silver.
5. It underwrites the issue of stocks, shares and other securities.

Lending for Rural Development: Commercial banks are endeavoring not only to fill the credit gaps in the field of agriculture arising out of the inadequate development of co-operatives but are also seeking to contribute to agricultural development by systematically preparing programmes of development suitable to the resource- base of the area. During the last few years, they have contributed substantially to the development of irrigation, mechanization, land development programmes as also to activities allied to agriculture such as horticulture dairying, etc. For this purpose, the commercial banks have appointed a large number of Technical experts for systematically studying the problems of agricultural growth and rural development.



## **CO-OPERATIVE FINANCIAL INSTITUTIONS**

### **Unit Structure**

- 13.0 Objectives
- 13.1 Introduction
- 13.2 Structure of Co-Operative Credit Institutions
  - 13.2.1 Short term Co-Operative Credit
    - a) Primary Agricultural Credit Societies: (PAC'S)
    - b) District Central Co-operative Banks:
    - c) State Co-operative Banks:
  - 13.2.2 Long Term Agricultural Rural Co-operative Credit Institutions in India:
    - a) Land Development Banks:
- 13.4 Achievements of Co-operative Credit Movement:
- 13.5 Weaknesses of Co-operative Credit:

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### **13.0 OBJECTIVES**

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- 1) Understanding the Structure of Co- operative credit Institutions
- 2) Understanding the working of PACCS
- 3) Understanding the functions of DCCB
- 4) Understanding the functions of SCB
- 5) Understanding the long tern credit structure.

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### **13.1 INTRODUCTION**

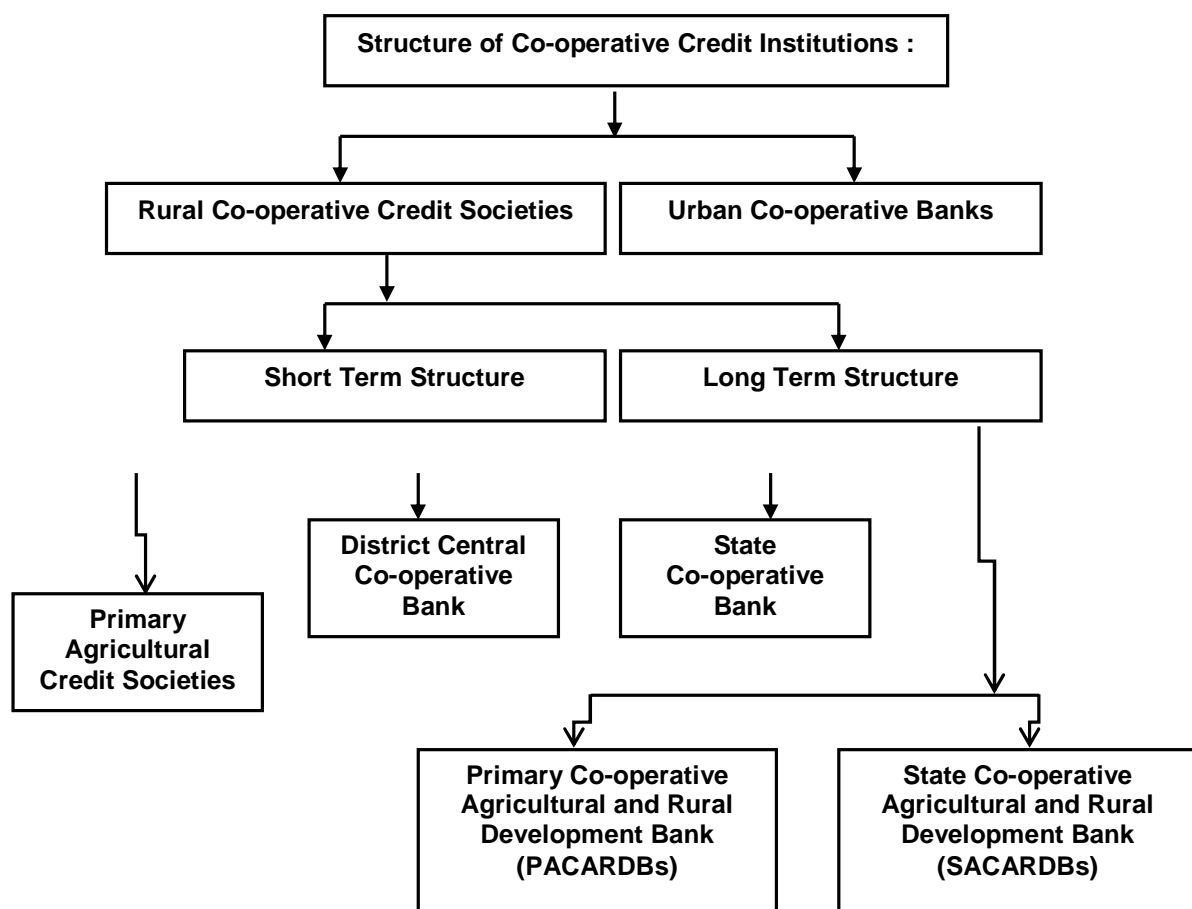
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Agriculture is an important industry and it requires capital. Due to uncertainty in production, low returns, small-divided plots, cultivators cannot manage their living, without borrowings. Agriculturist's capital is locked up in his land and stock, hence borrowing is a necessity to the farmer. In India, agriculture provides employment to 60 % of the population and amounts 26 % of our national wealth, and accounts 20% of the total export earnings, for stimulating the tempo of agricultural production farmers must be provided adequate and timely credit to buy fertilizers, seeds,



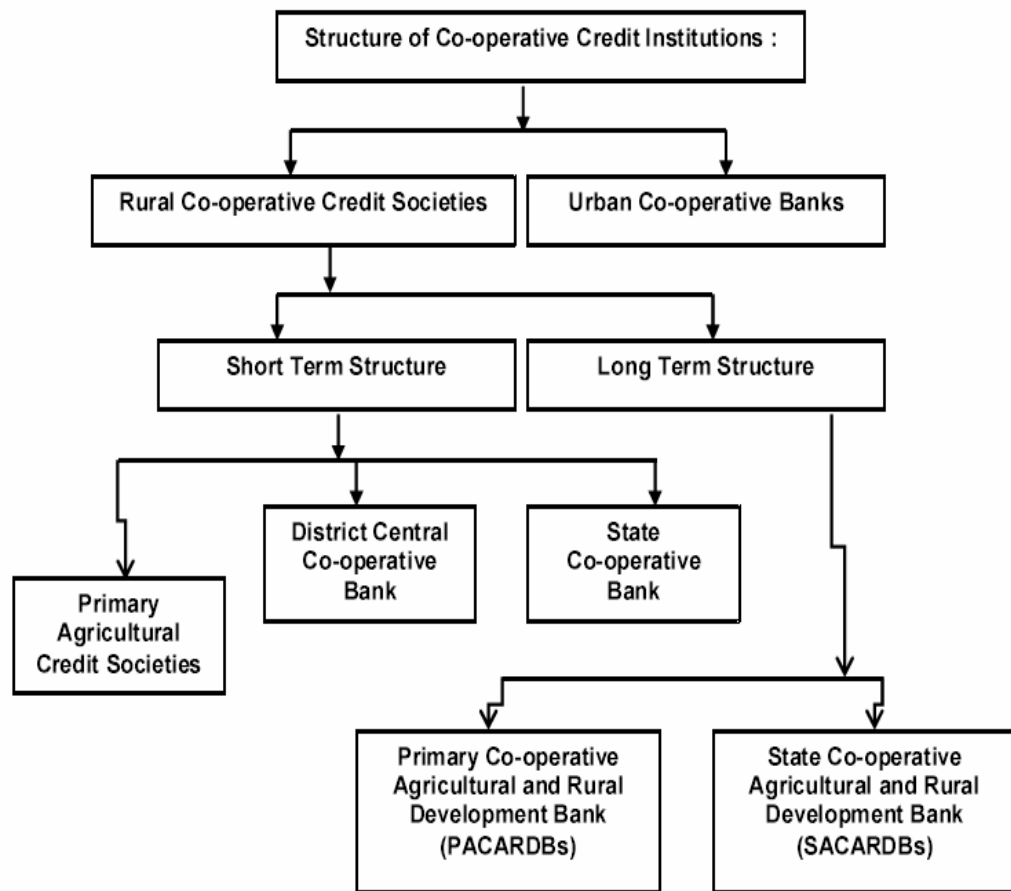
modern tilling equipment's, pay for irrigation facilities etc. The use of greater and better quality of inputs, there is always a greater demand for rural credit. In underdeveloped country like India, the need for credit is more pressing, where the farmers are without liquid resources, and credit on reasonable terms, to finance the preparation for next crop. Therefore, co-operative institutional credit supply becomes recognized as a basic condition for agricultural progress.

### 13.2 STRUCTURE OF CO-OPERATIVE CREDIT INSTITUTIONS

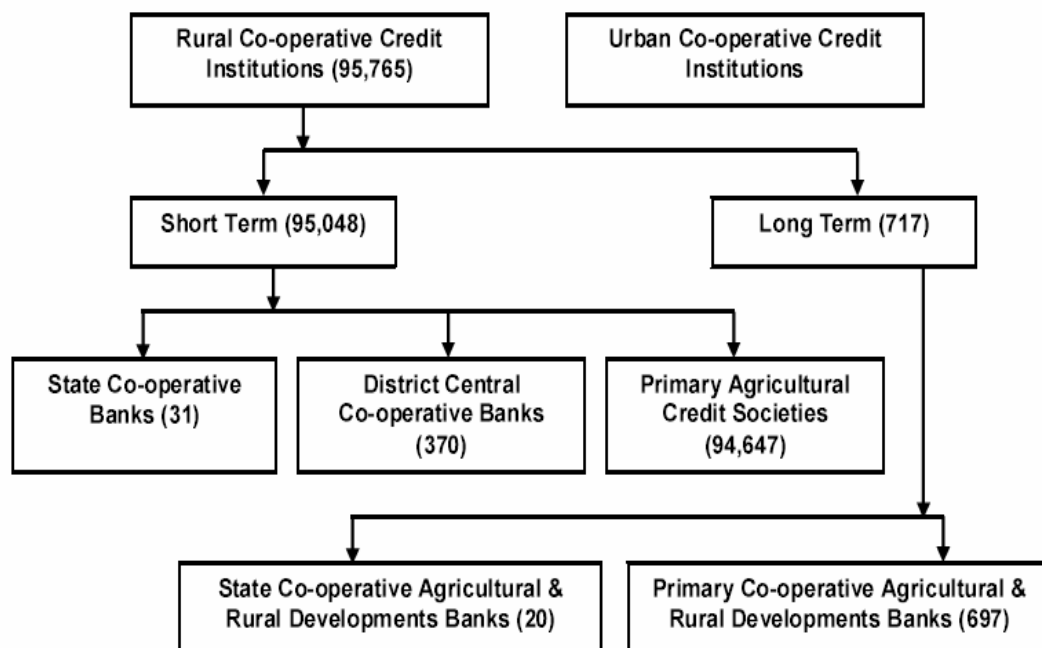


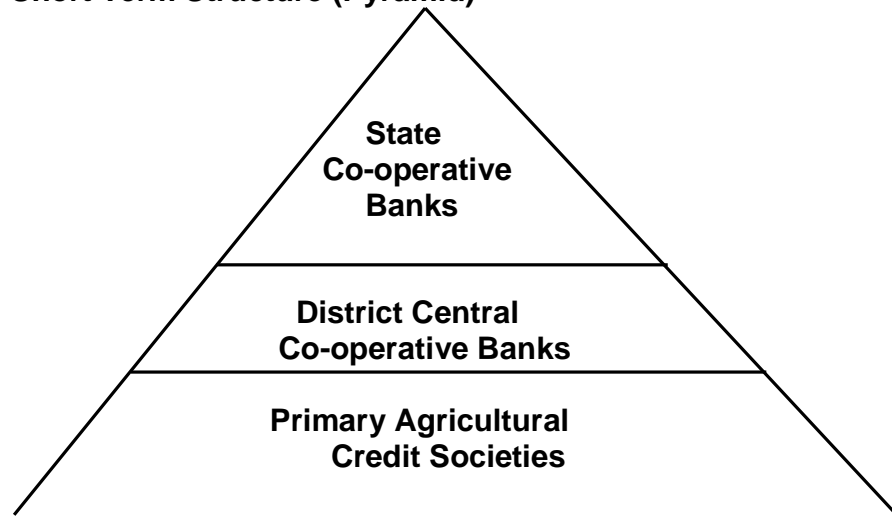
Sources: Co-operative perspective –MNI March 2011.  
Issues.

Figures in bracket indicate number of banks of that type.



### Co-operative Credit Institutions



**Short Term Structure (Pyramid)****13.2.1 Short term Co-Operative Credit****A) Primary Agricultural Credit Societies: (PAC'S)**

Primary Agricultural Credit Societies (PACS) are the grass root level arms of the short term co-operative credit structure. They deal directly with farmers and give short term and medium term loans.

The major objectives of co-operative development programs are to provide benefits of co-operative activities to weaker sections of the society.

**Functions of PACS:**

1. To associate and encourage to raise Agricultural production and welfare programme. To promote the economic interests of the members.
2. Give and sanction land loans to farmers for short term and medium term.
3. To cater the needs of small farmers and agricultural labours also and disbursement of credit to members.
4. To borrow from central agencies.
5. To supervise the use of loans and to recover the loans disbursed.
6. To distribute fertilizers, seeds implements etc.
7. Wherever necessary these societies can purchase store and sell the produce.

## Performance and Progress of Agricultural Credit Societies:

### PACS in Maharashtra:

I	1981	1991	2001	2010	2012
Primary Co-operative Society	18389	18433	20619	21243	21402
Total No. of members (lakh)	5391	7507	10121	13853	14230
Total loan disbursement	24993	76855	373412	698884	805762
Loan Recovered (Lakh)	20044	78417	276550	9220239	668991
Outstanding (Lakh)	35345	135192	530827	1024119	1089116

### Problems of Primary Agricultural Credit Societies: (PAC'S):

#### 1. Non-viable Units:

According to all India Rural Credit Review Committee (1969) a large number of primary societies are neither viable nor potentially viable and must be regarded as inadequate and unsatisfactory agencies for disbursing production oriented credit.

#### 2. Uneven Growth:

It can be seen from the figures that 86% in Karnataka, 69% in Tamilnadu, and 52% in Maharashtra, rural population was served by co-operatives. While in Assam, Bihar, Manipur, the said percentage was around 10% to 15% only.

#### 3. Inadequate Credit Supplied:

On an average each society has given Rs.1100 only per member which is by no means fairly satisfactory even. A large number of societies do not advance loans which can be substantiated by figures. 32 % members only borrowed from agricultural societies in 1981-82. Thus, it is rightly said by rural Credit Review Committee.

#### 4. Defective Loan Policies:

Agriculture Credit Societies in most of the states have not restructured loan policies suitable to crop loan system. There are various defects like, improper Timing of loans, entire loan is given in lump sum, kind loan not given, and security against loan is insisted.

#### 5. Delay in loan Disbursement:

Actual disbursement of loan is inordinately delayed. Entire process takes 6 to 8 months also.

#### 6. Inadequate Supervision and defective Audit:

Even today there is no strict supervision and proper checking of the working of the primary societies the RBI has revealed that around 30 % loans are not used for the same purpose for which

it was asked. So also there is frequent renewal of the same loan.

**7. The Attitude of the Government:**

The Government attitude approach is quite encouraging; however, the co-operatives work like a Government department with all rigidities and short-sightedness associated with Government Department.

**8. Ineffective Management:**

In many village societies political interference, exits, annual meetings are not conducted but shown on paper only; particular local groups dominate the societies in respective of their knowledge in the field.

**9. Neglect of small farmers:**

A major defect of these societies is that they never cared for small farmer persons. Only recently Government of India has asked, Apex Institutions to look into their problems. Now the total share at least on paper, stands, around 40 %.

**10. No linking of credit with Marketing:**

It is a sad experience that even today credit has not effectively been linked with marketing. During 1979-80 only Rs. 9 crores were recovered through marketing linkage.

**Suggestions to improve the working:**

**1. Societies should Develop into Rural Banks:**

If societies develop beyond minimum standards, and develop into rural banks accepting all types of deposits, extending the banking services, offering credit facilities, including non-cultivators also, then credit structure would become a sound one.

**2. Reorganization and Revitalization:**

The planning commission actually suggested the revitalization based on sound leadership, which must be carried out quickly as expected.

**3. Emphasis on deposit Mobilization:**

Actually primary societies should concentrate on collecting deposits and should educate the rural people relating importance of thrift. But unfortunately many of the societies have not gained that confidence in society.

**4. Reducing Overdues:**

Serious efforts should be made to reduce the overdue. The collection drive should be launched in all states. Coercive should be taken against willful defaulters.

**5. Effective Supervision and Audit:**

For efficient working of the societies, co-operative bank, effective supervision, inspection and audit is necessary. Efficient management is also a necessary condition.

**6. Linking of Credit with Marketing:**

The problem of recovery is most serious problem before the primary societies, so effective linking of credit with marketing is always beneficial to sort out this problem.

**7. Better Service to Small Farmers:**

The basic objectives of co-operatives movement are to serve the small farmers and weaker sections of the society. The Co-operative credit institutions therefore, reorient and redesign their credit policies hereafter.

**8. Implementations of Crop Loan System:**

Crop loan system should be introduced in all the rural areas and the scale of finance be decided according to the acreage under different crops. There should also be this loans given in kind, should not be restricted so rigidly to fixed areas and of fixed quantities.

**B) District Central Co-operative Banks:**

The co-operative primary societies federated into a central society are named as central bank. There are 369 District Central Banks in India which are federations of primary credit societies normally working in a district. Therefore, they are also known as district Central Co-operative Banks. These banks have a few private individuals as the shareholders and remaining funds come from primary credit societies or Government provides finance, purchases shares, collect deposits etc. The main task of these central co-operative banks is to lend loans to village primary societies. The District Central Co-operative Banks act as intermediaries between the State Co-operative banks on the one hand and the village primary credit societies on the other. The success of the co-operative credit movement largely depends on their financial strength of DCC's. The Central Co-operative Banks occupy very important position in the co-operative credit structure.

### **Functions of the Central Co-operative Banks:**

The main functions of Central Co-operative Banks are as follows:

1. To meet the credit requirement of the primary credit societies for production, marketing and sales and supply operations by providing them a regular flow of credit.
2. To carry out ordinary commercial banking business. The Central Co-operative Banks accepts deposits from the people, collect bills, cheques, hundies, railway receipts, sales of securities and advancing loans to members against fixed deposits, against gold, silver, etc. in rural areas.
3. To undertake non-credit activities such as supply of seeds, fertilizers, manures, food-stuffs and consumer goods.
4. To maintain close contact with primary societies, work as intermediary between State Co-operative Bank and Primary Co-operative Credit Societies (PCCS), at village level.
5. To provide a safe place for investment of funds of primary Co-operative credit societies.
6. To act as friend, philosopher and guide to the primary societies and to make them available surplus funds in their time of need.
7. To develop co-operative movement in the district on sound lines and extend banking facilities to the members and to the rural areas etc.

### **Area of Operation:**

The area of operation of Central Co-operative Banks varies from taluka to district. Normally, as per MacLagan Committee report, the area of operation is supposed to be one revenue district so that it will be strong economic unit.

### **Sources of Finance:**

The Central Co-operative Banks raise funds by way of share capital, deposit from the public, borrowing from the state co-operative Banks, grant loans from the Government.

### **Loan Policies of the Banks:**

The loan are advanced to primary credit societies for financing agriculture such as cultivation expenses, purchase of seeds and to meet seasonal need of agricultural operations. The loans given for land reclamation, building of Cattle sheds, purchase of Cattle, purchase of oil pumps etc. are regarded as medium term loans. Loans granted consisting of land assets are known as long term loans. The most unfortunate and disquieting trend in the working of these banks is the rise in the percentage of over dues.

### **Growth and Development of Banks:**

The first central bank was opened up in U.P in 1916 as a primary credit society. Then similar types of banks were opened up in Madhya Pradesh and Rajasthan. In 1910, the central banks did increase from 233 in 1919-20 to 588 in 1929-30. Their membership increased to 2 lakh and deposits 33 crores in 1945-46. In planning period, progress was fast in second plan. The principle of one central bank for each district was followed in all states as per the recommendations of rural credit survey committee report. As a result of reorganization policy the number of central banks fell from 505 in 1950-51 to 280 in 1960-61. In 1976-77, there were 342 banks. Today there are 367 banks with 13000 offices and the membership is 2.20 million whereas the total share capital comes to 40000 million.

The total working capital is 12 lakhs cores rupees. The above table is self-explanatory explaining the growth and development of central co-operative banks in the recent past.

Loans and advances for agricultural purposes accounted a very large share. The medium term loans are generally given for the purchase of bullocks and for the improvement of land and irrigation. But the medium term loans account for only purpose of advance. This rate varies between 8 to 15 % and the margin retained by Central Co-operative Banks on these advances arrives to the extent of 1.5%.

There was a declaration in growth of the districts central co-operative banks (DCCBs) in 2012-13 which is proved by decline in asset growth to 13.3 per cent during the year from 14.5 per cent during 2011-12.

### **Problems and Weaknesses of the District Central Co-operative Banks in India:**

The Central Co-operative Banks suffer from the following weaknesses:

#### **1. Uneven Expansion of Credit :**

These banks have not provided credit to almost all states on a uniform basis. This has been due to weak structure and inadequate coverage of villages. There are large numbers of dormant societies.

#### **2. Defective Loan Procedure:**

Large advances granted to individual members, bad and doubtful debts, ill-equipped staff and undertaking of trading activities by the banks.



**3. Difficulty in mobilizing the resources:**

Central Banks have not succeeded in mobilizing savings because of severe competition from the commercial banks.

**4. Heavy Over dues:**

The banks suffer from heavy over dues. Presently the over dues are to the extent of 32 % which is all time high. The situation of over dues is worst in the states like Assam, M.P., Orissa, Rajasthan and Bihar and the reasons are poor recovery, inefficient management, untrained staff, lack of supervision and defective loan policy.

**5. Delay in Sanctioning loans:**

It has been noticed that there is unusual delay in the sanction of loans. Applications are unnecessarily kept pending as the full board of directors cannot meet once a quarter. Some of the banks do not make any distinction between short term loans and long term loans. There are also malpractices which help to conceal the real position of the banks.

**6. Defect in investment policy:**

There is a tendency among some Central Co-operative Banks to keep fund in current and call deposits with commercial banks far in excess of actual requirements. There is also increasing tendency on the part of Central Co-operative Bank to invest in share of other co-operative institutions, particularly in sugar factories, spinning mills etc.

**7. Defects in Management:**

One of the important defects in management is that there are still large numbers of representative of individuals and therefore the management of these banks is still conducted by untrained staff. Most of the directors are busy politicians and they do not take much interest in the problems of the bank. District Central Co-operative Banks have become the hot beds of politics.

**8. Other defects:**

1. The Central Co-operative Banks failed to establish a close link with primary co-operative credit societies.
2. They do not provide sufficient loans to industrial consumers or other non-credit societies.
3. The banks cannot offer guidance to the primary credit societies in the matter of the operational policies.
4. Quantitatively their position is unsatisfactory because in many states only C-types banks predominate and hence there is no effective supervision and control.

## **Suggestions for Improvement in the working of Co-operative Banks:**

### **1. Increase the Deposits:**

The Co-operative banks should try to increase their deposits by opening up their branch offices in business areas, improve the services to their clients, offer competitive rates of interest and introduce the schemes like pigmy deposits, automatics extension deposits, social security deposits, recurring deposits etc. simplify the account procedures and provide free services for collection of local and outstation cheques.

### **2. Improve loans policies:**

The banks should change their loan policies on the basis on the crop loan system. There should be proper link between advancing of the loan and repayment of the loan in sowing and harvesting seasons.

### **3. Recovery of over dues:**

The bank should drop a scientific method to recovery over dues. The borrowing societies should recover loans from members and pay it back to Central Co-operative Bank. The Central Co-operative Bank must maintain up to date record on a daily basis.

### **4. Other Measures:**

1. The Central Co-operative Banks should maintain adequate liquid resources.
2. An adequate margin should be kept between borrowing and lending rates so as to build a strong reserve fund.
3. Proper scrutiny and provision should be made for bad and doubtful reserve.
4. Business should be confined generally to short-term loan.
5. Separate record should be kept of long term loans and over dues of principal and interest.
6. In the interest of the efficiency of the organization properly qualified and trained personnel should be appointed.
7. Adequate investment depreciation reserve should be created to cover the gap between the market value and face value securities in which banks have investment their funds
8. Adequate provision out of the profits should be made for bad and doubtful debts.

### **Rural Credit Review Committee's (1969) Suggestions:**

1. Increase in state contributions to the share capital of central bank in areas of poor performance.
2. Where agricultural credit societies are dormant, there for reactivation central co-operative bank many finance non-defaulter members of the societies.
3. It was advised that the staff should be augmented, training facilities should be giving a training of new agricultural and techniques should be provided.
4. Special grants by the state Government to employ right quality staff and to write-off bad loans.
5. State Government should make long deposits so as to enable central co-operative banks to absorb over dues.
6. Special drive to recover over dues.
7. Special officers for small cultivators.
8. Decentralization of loan sanctioned powers.

### **C) State Co-operative Banks:**

The State Co-operative Banks is a central institution at the state level which works as a final link between small primary societies on the one hand and the money market on the other hand. It takes-off the idle money in the slack season from the Central Co-operative Banks and supplies the money to the Central Co-operative.

Banks in busy season. There are presently 30 State Co-operative Banks in India. They form Apex co-operative credit structure in each state. The Apex Bank controls the working of Central Co-operative Banks in the State. It serves as a link between National Bank of Agriculture and Rural Development (NABARD) on one hand (formerly RRBI) and on the other hand, co-operative Central Bank and Village primary societies. The state Co-operative Bank is not only interested in helping the rural co-operative credit movement but also promotes other co-operative ventures.

### **Objectives and functions of Apex Banks:**

The following are chief objectives of the Apex Banks:

1. They act as banker's bank to the Central Co-operative banks in the districts. These banks not only mobilize the financial resources needed by the societies but they also deploy them properly among the various sectors of the movement.

2. They co-ordinate their own policies with those of the co-operative movement and the Government.
3. They form a connecting link between the co-operative credit societies and the commercial money market and the R.B.I.
4. They formulate and execute uniform credit policies for the co-operative movement as a whole.
5. They promote the cause of co-operation in generation by granting subsidies to the Central Co-operative Banks for the Development of Co-operative activities.
6. They act as a clearing house for capital i.e., money flows from the Apex Banks to the central Banks and from the Central Banks to the rural societies and from them to individual borrowers.
7. They supervise, control and guide the activities of the Central Bank through regular inspections by their inspection they rectify the defects in their work. Thus they act as their friend, philosopher and guide.
8. They also perform general utility functions such as issuing drafts, cheques and letters of credit on various centers and thereby help remittance of funds.
9. They collect and discount bills with the permission of the registrar.
10. In certain places they also provide safe deposit lockers and facilities for safe custody of valuables.
11. They help the state government in drawing up Co-operative development and other development plans and in their implementation.

#### **Resources:**

State co-operative banks draw their funds from various sources comprising of share capital, reserve fund, cash credit, overdraft from commercial banks etc. But a major part of the funds of State Co-operative banks comes from the Reserve Bank of India. As regards the channelization of funds, these banks channel them via central bank.

#### **Lending Policies:**

As an Apex Bank, State Co-operative Banks provide short term loans for twelve months both to finance agricultural operations as well as for the marketing of crop and distribution of controlled commodities. Moreover, medium term loans are granted for purchase of cattle and machinery, reclamation of land, sinking and renovation of irrigation wells, construction of farm sheds, godowns etc.

### **The Working and progress of the State Cooperative Banks:**

There is only one Apex Bank in each state but some states like Maharashtra, M.P., Punjab, and A.P. have got more than one Apex Banks. The membership of these banks is opened up to all Central Co-operative Banks and some societies are also allowed to have direct dealing.

Regarding the sources of finance the primary source is working capital of these banks and share capital, reserve fund, deposit from members, borrowing from Reserve Banks, State Banks etc. The share capital of Apex banks is increased from Rs. 18 crores in 1960-61 to Rs. 100 crores in 1980-81 to Rs.400 crores in 1997-98 and now Rs. 500 crs.

The Apex banks provided short term loans for a period of 12 months for financing agricultural operations, also provides loans for marketing of crops and distributions of controlled commodities. Medium-term loans are granted for purchase of cattle and machinery, reclamation of land, sinking and renovation of irrigation wells, bundling, fencing, construction of farm sheds, godowns, renewals of machinery and equipment's.

The loans are granted to the member societies through their main branches. In 1960-61, Rs. 260 crores were disbursed while in 1995-96, 22145 crore rupees loan advances were sanctioned. Above three tables clearly indicate the working of state co-operative Banks and the fast progress they have made in distributing agricultural loans, medium-term loans through district central co-operative banks.

### **State Co-operative Banks and priority sector Lending:**

Improving credit delivery and financial inclusion have become key priority of Reserve Bank of India. In this direction RBI introduction biometric smart card system (Kisan Credit Card (KCC)). Priority sector, lending aims at encouraging and enhancing credit availability to priority sectors of the economy. The target for advances to the priority sector is 40% of adjusted Net Bank Credit (ANBC) to decide the nature and structure of priority lending Malegam committee was appointed and submitted its report in Feb.2012.

### **Major Recommendation of Malegam Committee on Priority Sector Lending:**

1. Overall Priority sector lending should be 40% of adjusted net bank credit for domestic banks, agriculture microcredit,

education, housing, export credit were treated as a part of priority sector.

2. Lending to agricultural sector should be around 18% of ANBC (adjusted Net Bank Credit) retained as target for Agri. Sector.
3. 9 % of ANBC should be given as loans to small and marginal farmers, by 2015-16.
4. 7% of ANBC should be given to micro- enterprises.

### **Problemmes and Weaknesses of the State Co-operative Banks:**

The State Co-operative Banks suffer from the following defects:

#### **1. Poor Deposit Mobilization:**

These banks have not been successful in raising, deposit as even now, individual deposits from less than 25 per cent in many Stats.

#### **2. Ineffective supervision and inspection:**

Many of the banks have not taken up this work in right spirit. Some of the banks have not adequate staff for this work. Officers of these banks sometimes pay only hurried visits.

#### **Book Adjustments:**

Book adjustments are often made regarding repayment of loans. The State Co-operative Banks have failed to check wrong transactions of the Central Co-operative Banks.

#### **3. Undesirable Investment of Funds:**

Deposit the advice of NABARD, a cautious policy is not being allowed in the matter of investment of the funds which are even now utilized for the purchase of share in other co-operative institutions, or in making huge advance to the primary co-operative societies.

#### **4. Increasing Over dues:**

The over dues of the banks have been showing a rising trend of 32 %. This is due to the fact that these banks have not followed the prescribed loaning procedure and recovery efficiency over dues estimated to Rs. 10000 crores by 2004.

#### **5. Failure to assess Genuineness of Borrowing:**

The banks are unable to assess the genuineness of the borrowing of the Central Co-operative Banks.

## **Remedies for Improvement:**

### **1. Opening of Branches:**

In areas where a Central Co-operative Bank is virtually inoperative and unable to finance the agricultural credit societies, the SCB should establish a branch and finance societies till separate central bank is organized. Recently because of various restrictions brought by RBI the over dues position is showing declining trend. Which is definitely showing improvement in the performance of SCBs.

### **2. Wide Membership:**

The membership of the SCB should be open to all Central banks and such other co-operative credit institutions which extend same work. Restrictions should be imposed on the individual membership.

### **3. Qualified Managerial Staff:**

Managers of these banks should be qualified and trained. No Co-operative should be allowed to begin operations until a qualified manager is appointed who commands the confidence of the people and is able to build the organization.

### **4. Withdrawals of privileges for Non-co-operation:**

Central Co-operative Banks which refuse to co-operative with SCB in the matter of supervision and inspections should be disaffiliated from the state Co-operative Banks and denied privileges.

### **5. Effective Supervision:**

The State Co-operative Banks should try to improve their operational efficiency, exercise effective control over branches and the supervisory staff and make continuous effort for the recovery of loans.

## **13.2.2 Long Term Agricultural Rural Co-operative Credit Institutions in India:**

### **a) Land Development Banks:**

Land Development Banks are the institutions providing long term credit to the agriculturists. The ordinary cooperative credit societies and central co-operative banks cannot afford to lock up their funds for long periods. Commercial Banks also refrain from lending for long period even for business purposes. Therefore, they cannot be expected to take a lead in long-term loans for agricultural purposes. In view of this, land development banks were organized for providing long-terms credit facilities to farmers. They grant loans to the landowners on the security of land mortgaged to them. Such banks may be organized on a co-operative or quasi-co-

operative basis. In the later, besides the co-operative element, private individuals are also included. This form is more prevalent in India in order to attract initial capital as well as business talent and organizing capacity. These banks are now renamed as CARDDB's, i.e. Co-operative Agriculture and Rural Development Banks.

### **Need for Land Development Banks:**

The need for Land development Bank arose due to the following reasons:

1. The primary cooperative societies cannot possibly give loans to the cultivators for long period.
2. The work of marketing long term loans on the basis of landed property requires expert assistance for valuation.
3. The abolition of Zamindari system and the restrictions put on the dealing of money-lenders made it difficult for the cultivators to get long term loans for their day to requirements.
4. Increase in agricultural production and productivity of land required long term finance which was not available from the commercial banks till recently.

### **Structure of Land Development Banks:**

The organizational structure of Land Development Bank is not uniform all over the country. But, it falls into one or other of the following categories:

#### **a) Federal Type:**

A majority of the states have the federal set up with central land development bank at the state level affiliated primary land development bank at the district or lower levels. The federal type of organization is found in 12 states, viz., Andhra Pradesh, Assam, Haryana, Kerala, Madhya Pradesh, Maharashtra, Mysore, Orissa, Punjab, Rajasthan, Tamil Nadu and West Bengal.

#### **b) Unitary Type:**

In some states, the structure is of unitary type, the operational units below the central development being its branches. In four States, Viz., Bihar, Gujarat, Jammu and Kashmir and Uttar Pradesh, the structure is of the unitary type. The same is also true for the union territories.

- c) The Central Land Development Bank operates through branches as well as primary Land Development Bank.

### **Objectives and Functions:**

The main objective of Central Land Development Bank is to provide long term finance either through the primary land



Development Banks affiliated to them or the finance directly through the branches.

1. They grant loans to primary Land Development Banks or to its branches on the mortgage or unencumbered property to which the borrower member has a clear title.
2. They inculcate the spirit and practice of thrift, mutual help and self-help among the members.
3. They float debentures for raising necessary funds for which the state Government guarantee for the repayment of principal and interest.
4. They mobilize rural savings and to stimulate capital formation in the agricultural sector by the issue of debentures.
5. They protect fanner from the grip of money lenders.
6. They supervise, inspect and guide the primary Land Development Banks, and verify utilization of loans.
7. They act as a link between long-term banking of RBI and the Government.
8. They establish branches, sub-officers to facilities its business.

#### **Area of Operation:**

The area of operation of LDBs is neither too large as to become unwieldy nor too small to be uneconomic. In some states viz., Maharashtra, Tamil-Nadu and Karnataka, the banks work at taluka level. In other states, primary Land Development Banks have opened branches at district level. Only the state of Gujarat has branches extending up to taluka level.

#### **Management:**

The Management of Land Development Banks vests in the hands of board of Directors comprising 7 to 9 members. Generally, 2 to 3 directors are nominated by the Government. In the case of Primary Land Development Bank, one director is nominated by the Central Land Development Bank. The members of the Board work for three years.

#### **Financial Resources:**

Land Development Banks attain their funds from share capital, reserve, deposits and issue of the Central Land Development Banks. It has fixed rate of interest for certain period, generally up to 20 years. These debentures are guaranteed by State Government in respect of payment of interest and repayment of principal. They are subscribed by LIC, the Commercial Banks, and the State Bank of India. Besides, Ordinary debentures, the Land Development Bank have been floating rural debentures since

1957 for a period up to 7 years which are subscribed by fanners and panchayats and the Reserve Bank of India.

### **Loaning Policy:**

The main objectives of Land Development Bank (LED) are to grant loans on security of agricultural properties. As they grant loans for several years, strict rules are laid down with regard to the security against which they can advance loans. They generally lend up to 50 per cent of the value of security.

The Land Development Bank (LED) provides credit for a variety of purposes such as redemption of debt, improvement of Land, Purchase of costly agricultural equipment, construction of wells and pumps and so on. At one stage, redemption of old debts was the most important. But, in recent years, farmers have been borrowing from LDBs mainly for the purpose of land improvement and Development including sinking of wells and purchase of Agricultural machinery.

As a policy, the government attaches considerable importance to agriculture and our successive plans to provide larger financial allocations and to accord highest priority for agricultural development programs. The main thrust continues to be on development of minor irrigation.

### **Growth and Progress:**

#### **Problems of LDBs:**

##### **1. Problems of Over dues:**

Mounting over dues have crippled the Land Development Banks in recent years. Over dues is highest one of the extent 40 %. The financial discipline imposed on these banks is the main cause for highest over dues. In addition to that, Faulty loan policies, inadequate supervision, overutilization of loan, less recovery, over dues affected due to national calamities caused to initiate the highest over dues.

##### **2. Lack of Trained Manpower:**

Land Development Banks have grown in number, but enough attention was not given to build up capable manpower shouldering increasing volume of business and to face the challenges.

##### **3. Diversification of Loans:**

For the success of banks, diversification is very necessary. e.g. Loan should be given on the security against hypothecation of assets, charge on land, Government guarantee, personal surety. There is good scope for financing agro-processing industry and cottage industry sectors.

**4. Management Structure in not uniform:**

Absence of elected member, irregular meeting of the committees, and lack of interest in the working create problems.

**5. Excessive delay in granting loans:**

In many cases loans are sanctioned not even in 8 to 9 months, ignorance of borrowers, lack of frequent meeting, non-compliance of conditions create the problems in timely granting the loans.

**6. High cost of credit:**

It is a serious defect of Land Development Banks. Farmers suffer due to excessive interest rates and cost of recording of credit instruments is high.

**7. Lack of Supervision and Inspection:**

The machinery for supervision is inadequate so also the secretaries and managers are untrained.

**8. Small Farmers are not Benefitted:**

These banks do not give the loans to small farmers at the loans to small farmers at the moderate rate of interest. Most of the loans are given to the land holders who have more than acres of land.

**9. Adverse Effect of Land Reforms:**

Due to tenancy legislation in state like Maharashtra, tenants could not offer land to the banks as a security which adversely affected the expansion of rural credit and recovery of past loans.

**10. Unhelpful Attitude of Registrars:**

In many states, the officers like registrars, sub-registrars do not co-operative which create delay in scrutiny of applications and the grant of loans.

**Suggestions for Improvement:****1. Uniform Structural pattern:**

The structural pattern of LDBs should be made uniform throughout the country. There should preferably be one Central Land Development Bank at the state level and one at the taluka level. The area of operation should be such that bank should have close contact with the borrowers, to make LDBs a viable unit.

**2. Trained field staff and proper Supervision:**

The LDBs must have trained field staff so that the staff members will have direct contact with the borrowers and they will supervise regularly how the things are going on.

**3. Loaning policy should be production Oriented:**

Presently, the loan policy is mostly security oriented rather than production oriented. This must be changed.

**4. State Government's Guarantee to Principal Amount of Debentures:**

It is expected that the State Government should provide every guarantee for the payment of principal and interest on debentures of Central Land Development Banks. So also provision should be made to meet the losses arisen due to exemption of stamp duty, registration fees. Special finance should be provided to the banks working in under-developed areas to meet the administration cost.

**5. Delay in Granting loans be removed:**

Most of the applicants do not know the procedures how to fill up the loan applications, unnecessary time is taken at every stage, the procedure of granting loans is unknown to borrowers and Government departments also do not extend good co-operation to the borrowers. All these factors lead to undue delay. Such delay should be avoided.

**6. Timely Recovery:**

To attain the goal of timely recovery of loans, promote recovery, better supervision, fixing dates of recoveries to match harvests, launching of recovery drive etc. are the important things which need to be looked after carefully.

**7. Accurate land Valuation:**

Success of Land Development Banks depends on accurate land valuation offered as security, on which repaying capacity of the borrower depends.

**8. Other Measures:**

The other measures include LDBs drive for mobilization of rural saving, incentives to the agencies canvassing for LDBs debentures, high contribution to share capital etc. The present lending policies and procedures of LDBs should be reviewed in a comprehensive manner to bring them in line with the requirements of sound investment credit and ensure optimum use of scarce long term resources.

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**13.3 ACHIEVEMENTS OF CO-OPERATIVE CREDIT MOVEMENT:**


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The Co-operative has made land mark progress to provide loan facilities to small cultivators in the country. The major achievements of co-operative credit since the inception of freedom have been summarized.

### **1. Fairly Satisfactory Expansion:**

Credit cooperative have made remarkable progress since independence. The short, medium and long term loans issued by primary credit societies have risen from Rs. 34 crores in 1951-52 to Rs. 1601 crores in 1981-82 and further to 3115 crore in 1992-93. The percentage of such loans to total agricultural credit requirements has risen from about 3 per cent to about 35 per cent during this period.

### **2. Supply of Credit to Related Activities:**

Co-operative banks have also been financing agricultural marketing and processing activities. Co-operative credit supplied for marketing and processing activities amounts to Rs. 105 crores and Rs. 228 crores in 1992-93 in the case of State Co-operative Banks and about Rs. 107 crores and about Rs. 84 crores in case of Central Banks respectively. Both the activities are expected to grow in future and credit co-operatives will have to accept larger responsibilities for financing these activities.

### **3. Supply of credit to small Farmers and weaker sections:**

It is significance to note that about 40 per cent of co-operative credit goes to small and marginal farmers. The rates of interest charged by credit co-operatives have always been lowest in the markets. The interest rates charged at present vary between 9 per cent to 13 per cent. Some of the States and Districts Co-operative Banks have also been implementing a scheme of differential interest rates.

### **4. Crop Loan system:**

Co-operative has developed the 'crop loan system'. Accordingly, loans are given on the basis of crops to be grown and the acreage under the crop. These loans are given in anticipation of the crop and are recovered after the harvest.

### **5. Cash Credit System:**

It is significant that the bulk of the short term credit is production oriented and not security oriented. Besides, in some states such as Punjab, Kerala, Maharashtra and Andhra Pradesh, Cooperative banks have also introduced the cash credit system in selected areas and for selected crops so facilitate continuous borrowing and repayment of borrowers.

### **6. Supply of Farm Inputs:**

The Co-operative credit societies provide the cultivators improved and better manures and implements at reasonably low prices. The multipurpose co-operative societies make agriculture a profitable concern.

**7. Social Benefits:**

Co-operation strengthens the social consciousness in man. Unlimited liability all members to supervise the activities of others. Moreover, a part of the benefits viz., construction of Panchayatghars, clearing drains etc.

**8. Educational and Moral Benefits:**

The Co-operation develops the intellect of the members who learn the way of business and credit on the basis of democracy. They avoid litigation, extravagance and gambling etc. It inculcates honesty and capitalist honesty that loans are given on personal security of the members.

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**13.4 WEAKNESSES OF CO-OPERATIVE CREDIT:**


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Co-operative credit structure suffers from various problemmes in the country. Some of the major problemmes are discussed as under:

**1. Regional Imbalances:**

One of the weaknesses of the co-operative is the regional imbalances. Out of the total outstanding loans of Rs. 1601 crores nearly 70 per cent is accounted for by only eight states- Maharashtra, Gujarat, Tamil Nadu, Andra Pradesh, Karnataka, Punjab, Haryana and Kerala. The large majority of other states such as Orissa, Bihar, Assam, U.P., West Bengal, M.P., etc., are left with comparatively small amount of loan as well as deposits.

**2. Reliance on External Resources:**

Unduly large reliance on external resources is another weakness of credit cooperatives. It is important to note here that the Reserve Bank of India has been extending credit cooperatives very large financial assistance for various purposes. Moreover the ARDC and Government have also been extending financial support to co-operatives with the result that the borrowing of co-operatives have increased considerably.

**3. Defective Lending Policies:**

It is heartening to note that there are willful defaulters those who can pay but do not pay. It is due to the lack of will and discipline among cultivators. The defective lending policy has been other contributory factor to increase the magnitude of over dues and unpaid loans.

**4. Lack of Efficiency:**

Some states have introduced cadre system to improve the working efficiency of co-operatives. Moreover, a program for rehabilitation of district co-operative banks has also been

undertaken during the last ten years. Some district Central co-operative banks have come out of the red but a large number of them still continue to be weak.

#### **5. Organizational Inadequacy:**

Another weakness of co-operatives relate to organizational inadequacy. A large number of credit primaries are dormant and numerous district co-operative banks are weak. Therefore, attempts are being made on behalf of the RBI to reorganize the primaries into viable units so that they can afford a full time secretary.

#### **6. Lack of public Coordination:**

The cooperative movement has not been voluntary. It took the shape of government department. The credit societies were through to be government lending agencies. Government officials are interested in showing quantitative result. In order to expand the co-operative credit institutions, the movement was left in the hands of bureau crafts, who themselves were ignorant of the ideals of co-operatives.

#### **7. Political Interferences:**

The All India Rural Credit Survey Committee has observed that political instances have begun to affect the working of the institution in many ways. As a result credit was given to certain groups or to be provided to others against coordination of the rules in force or causing repayment of co-operative dues to be delayed or ignored. Thus, political framework and other considerations sometimes led to facile financing as also to the failure to make a determined drive for recoveries.



## NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)

### Unit Structure

- 14.0 Objectives
- 14.1 Introduction
- 14.2 Establishment of NABARD
- 14.3 NABARD'S Capital
- 14.4 Management Of NABARD
- 14.5 Objectives
- 14.6 Functions of NABARD
- 14.7 Role of NABARD in Rural Development
- 14.8 NABARD'S Performance
- 14.9 Evaluation off NABARD
- 14.10 Questions

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### 14.0 OBJECTIVES

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- Know the background of establishment of NABARD.
- To Understand capital structure of NABARD.
- To Understand the management of NABARD.
- To Study the functions and progress of NABARD.

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### 14.1 INTRODUCTION :

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Indian agriculture received loan assistance indirectly from the RBI. An independent department was set up for providing agricultural credit. In 1963, Agriculture Refinance and Development Corporation was constituted to make refinance facility available. Yet, there were many problems in the allocation of agricultural



credit. As a solution, a recommendation to set up a bank at national level was made by a committee set up by RBI.

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## **14.2 ESTABLISHMENT OF NABARD:**

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The existing institutional credit flow from commercial banks (public & private), co-operative banks to the agriculture and rural sector was inadequate. A need was felt to have an apex bank for agricultural and rural development in an agrarian country like India. Expert Committee had also recommended for the same. As a result, NABARD was established through a separate bill presented in the Parliament on 12<sup>th</sup> July 1982. It was expected to provide loan assistance to small, handicraft and village industries and to take over the agricultural credit function of RBI. NABARD functions as an apex body in the co-operative credit structure in India.

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## **14.3 NABARD'S CAPITAL :**

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NABARD had an authorized share capital of Rs.100 Crores and paid-up capital of Rs.100 Crores. It was raised to Rs.2,000 Crores in 1999. NABARD's capital is subscribed by RBI and Central Govt., 50% each. It receives finance from Central Govt. and World Bank. It can also raise capital from the open market. NABARD also receives funds from National Agriculture Credit Fund (Stabilization fund). It is dependent on RBI for short term and working capital requirement. During last few years, NABARD's capital & funds have increased enormously.

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## **14.4 MANAGEMENT OF NABARD :**

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NABARD's management consists of 16 directors. They are appointed in the following manner :

RBI's deputy governor is the Chairman of the bank, RBI appoints 3 directors, Central Govt. appoints 3 directors, 2 experts from co-operative banks and 1 from commercial bank are appointed as directors. State Govts. appoint 2 directors. 2 Experts from the area of rural economy and rural development. 1 Managing Director. 1 Full time Director. The Bank has head office at Mumbai and other 16 Regional offices and 7 sub-offices in India.

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## 14.5 OBJECTIVES:

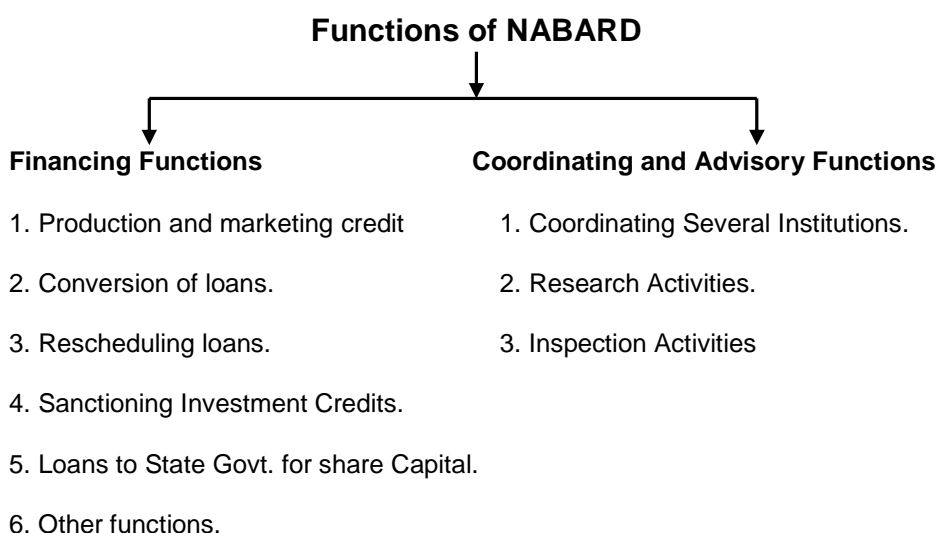
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1. To Refinance State land Development Banks, State Co-operative Banks, Scheduled Commercial Banks and Regional Banks for supporting production and Investment credit for Development activities.
2. To co-ordinate the activities of different agencies engaged in developmental activities and with RBI, Central Government etc.
3. To modify the present structure of credit institutions, and to arrange training of the personnel.
4. To undertake evaluation of the projects refinanced by it.

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## 14.6 FUNCTIONS OF NABARD

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### A) Financing Functions :

#### 1. Production and marketing credit :

It is the most important function of NABARD. It includes refinance, loans and advances given for agricultural purpose, marketing purposes etc. It gives loans for marketing activities of artisans and small-scale industries also, including village and cotton industries.

#### 2. Conversion of loans:

Under conditions of drought, famine or other natural calamities and also in military operations, short term loans are converted into medium term loans are converted into medium term loans for a maximum period is also seven years.

**3. Rescheduling loans:**

In unforeseen circumstances the bank is authorized to reschedule the loans made to artisans, small-scale industries, villages/cottage industries etc. Such period is also seven years maximum.

**4. Sanctioning Investment Credits:**

For promoting agriculture and Rural Development the NABARD extends investment credit to Regional Rural Banks, State Co-operative Banks and Land Development Banks etc.

**5. Loans to State Govt. for share Capital:**

The Banks contributes to the share capital and can purpose or sell securities of institutions found by it.

**6. Other functions:**

In an effort to promote agricultural and rural development the bank also grants direct loans for a maximum period of 25 years. It can extend guarantee for purchase of capital goods also, on deferred payment basis. It provides security for loans with prior approval of the Central Government.

**B. Coordinating and Advisory Functions****1. Coordinating Several Institutions.**

NABARD is also entrusted with the task of coordinating the operations of several institutions engaged in the field of rural credit.

**2. Research Activities.**

NABARD maintains a Research and Development Fund to help and to promote research activities in Agricultural sector and rural development sector. It gives grants also for Research work under section 38.

**3. Inspection Activities:**

NABARD undertakes the inspections of Regional Rural Banks (RRB'S) and the Co-operative Banks etc. These banks are asked to furnish the copies of the returns.

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**14.7 ROLE OF NABARD IN RURAL DEVELOPMENT:**


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1) It provides refinance to agriculture, small and village industries, handicrafts etc.

2) It provides short, medium and long term loan assistance to RBI approved State Co-operative banks, rural development banks, land development banks and other institutions.

- 3) NABARD provides long term loans (20 years maturity) to state govts., so that they can subscribe to the share capital of co-operative credit societies.
- 4) It provides long term loans and helps in raising capital to those institutions, which are working for agricultural and rural development and are approved by Central Govt.
- 5) NABARD plays the role of a coordinator among the activities of Central Govt., State Govts., and planning commission so as to develop the rural economy.
- 6) NABARD is entrusted with the responsibility of inspecting the working of RRBs, co-operative banks and primary co-operative institutions.
- 7) It has instituted 'research and development fund' for financing the agricultural and rural development related research.
- 8) It also provides financial assistance on a large scale for mechanization in agriculture, minor irrigation, forest conservation and horticulture.

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#### 14.8 NABARD'S PERFORMANCE:

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NABARD functions as an apex bank among the institutions providing credit for the development of agriculture, small and village industries, handicrafts etc. NABARD's performance is described below :

- i) **Short term loans-** NABARD's short term loan assistance to agricultural sector was Rs.8,160 Crores in 1999-2000, which increased to Rs.8,820 Crores in 2003-04. the rate of interest charged on these loans is 3% less than the regular one.
- ii) **20 point programme** - Under the new 20 point programme, banks are provided loan assistance so that they can lend to small and marginal farmers and economically weak units. Such a lending is to be done at a specific rate of interest.
- iii) **Medium-term loans** - Medium term loans are provided for the development of agriculture.
- iv) **Long-term loans-** NABARD extends long-term loans to state govts., so that they can subscribe to the share capital of co-operative institutions.

v) **Increase in refinance-** NABARD provides refinance to state co-operative banks and regional rural banks for the short and medium-term. By the end of 2002, it had provided refinance assistance to the tune of Rs.6,590Crores to state co-operative banks and RRBs. State Govts.,also receive special assistance from NABARD for purchasing shares of weak cooperative institutions and banks.

During 2001-02, NABARD had provided refinance of Rs.12,000Crores to weaving institutions and industrial co-operative institutions for purchasing fertilizers and other inputs, stocking and distribution as also for production and sale.

vi) **Assistance under Integrated Rural Development Programme :** It provides refinance to weak units for minor irrigation, animal husbandry, fishing business, small business etc. under IRDP.

vii) **Priority to agricultural mechanization:** NABARD has given priority to mechanization of agriculture. Nearly 28% of its loans have been given for this reason.

viii) **Development of backward regions:** NABARD has provided special attention for increasing agricultural investment in those states, which have less developed agricultural sector. Backward states have received 50% of loan assistance provided by NABARD. U.P., Bihar, Rajasthan, Madhya Pradesh, Orissa are the main beneficiaries.

ix) **Establishment of Rural Infrastructure Development Fund:** Rural Infrastructure Development Fund was established by NABARD with the help of Central Govt., in 1995-96. This fund is meant for financing development of rural infrastructural projects like major irrigation, roads, water management, flood control etc.

During 1995 and 31st March 2004, this fund had provided Rs.16,300Crores for the construction of roads and bridges, Rs.12,140 Crores for irrigation and Rs.6,240 Crores for other reasons, that is, a total of Rs.34,680 Crores. During 2003-04, Rs.7,605Crores were spent on 7,827 schemes.

x) **Efforts for re-structuring of co-operation:** NABARD has made efforts for restructuring co-operation in the country. Primary Agricultural Credit Societies were restructured. It also provided help for rehabilitation of district central co-operative banks.

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## 14.9 EVALUATION OF NABARD :

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The Khusro Committee set-up for the evaluation of NABARD has stated that it has done a commendable job in the sphere of refinance. The loan assistance provided by NABARD has helped in the development of agriculture, small and village industries and the rural sector as a whole. However, NABARD has failed in preventing the laggardness of co-operative banks. It has done an appreciable task in some states, while in other states; its performance has been very poor. In sum, NABARD has been playing an important role in the development of agriculture and rural sector.

### Check Your Progress:

Q.1 Answer in one sentence.

- i) When was NABARD established?
- ii) Who provides capital to NABARD?
- iii) How many members does NABARD's board consist of?
- iv) Which fund was set-up by NABARD for rural infrastructure development?

Q.2 State whether true or false.

- i) NABARD functions as an apex institution in the co-operative credit structure.
- ii) Govt. of India and RBI contribute 50% each in NABARD's capital.
- iii) NABARD depends on state govts., for short-term and working capital.
- iv) RBI's deputy governor is the Chairman of NABARD.
- v) NABARD provides only long-term loan assistance.

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## 14.10 QUESTIONS:

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A. Long answer questions.

- i) Describe in detail functioning of NABARD.
- ii) Explain NABARD's contribution in agriculture and rural development.

B. Write short notes.

- i) NABARD,
- ii) NABARD's performance,
- iii) NABARD's capital structure and management.



## REGIONAL RURAL BANKS

### A) REGIONAL RURAL BANKS (RRBS)

#### Unit Structure

- 15.1 Objectives
- 15.2 Introduction
- 15.3 Establishment and Nature of RRBs
- 15.4 Responsibility of RRBs
- 15.5 Capital of RRBs
- 15.6 Management of RRBs
- 15.7 Objectives of RRBs
- 15.8 Functions of RRBs
- 15.9 Progress of RRBs
- 15.10 Problems of RRBs
- 15.11 Measures
- 15.12 Check your Progress
- 15.13 Questions

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#### 15.1 OBJECTIVES :

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- Study the establishment & nature of RRBs
- To Understand the responsibility of sponsor bank
- To Understand capital structure and management of RRBs
- To Study objectives & functions of RRBs
- To Study progress and problems of RRBs
- Study the measures adopted to solve the problems of RRBs

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#### 15.2 INTRODUCTION :

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Nearly 70% of India's population lives in rural sector. So, economic development of India in true sense is possible only if rural sector develops, and that is possible only if the institutional credit reaches the countryside. The 'Banking Commission' of 1972 floated the concept of rural banks. A study group on rural banks, chaired by M. Narasimham, upheld the concept and recommended

establishment of rural banks. In 1976, 'Regional Rural Banks Act' was passed.

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### **15.3 ESTABLISHMENT & NATURE OF RRBS :**

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5 RRBs were set up on the occasion of Mahatma Gandhi's birthday 2nd October. These were established at Moradabad and Gorakhpur in U.P., at Bhivani in Haryana, at Jaipur in Rajasthan, and at Malada in West Bengal; and were sponsored by Syndicate Bank, State Bank of India, Punjab National Bank, United Commercial Bank and United Bank respectively.

Regional Rural Banks are set up on the initiative of State and Central Govt., sponsored by a bank and work in the rural areas. Their operation area is limited to either one or two districts. These banks lend to small and marginal farmers, rural artisans, agricultural labourers etc. and charge interest rate, which should not be more than the one charged by primary agricultural credit societies (PACS) in the State.

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### **15.4 RESPONSIBILITY OF RRB:**

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As per the amendment of 1987, the sponsoring bank should guide in the area of capital raising, employee recruitment, training, managerial advice, etc.

Sponsoring banks provide help to RRBs in the following areas :

- i) Contributing in the capital of RRB.
- ii) Providing managerial help
- iii) Making required staff available
- iv) Financing training expenses
- v) Providing financial help under refinance
- vi) Providing guidance for the investment

Though the above types of help is to be provided during first 5 years, sponsoring banks are found to be continuing the same even after 5 years.



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## **15.5 CAPITAL :**

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Every regional bank has an authorized capital of Rs.1 crore, with 1 lakh shares of Rs.100 each. The issued and paid up capital is of Rs.25 lakhs; of which 50% is contributed by sponsoring bank, 35% by central Govt. and 15% by state Govt. An amendment of 1987 raised authorized capital to Rs.5 Crores and paid-up capital to Rs.1 Crore.

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## **15.6 MANAGEMENT :**

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Board of Directors, which consists of 9 members, is responsible for day-to-day working of RRBs. Of the 9 directors, 4 are appointed by the central govt., of which 1 is elected as Chairman. Two directors are appointed by State Govt. and remaining 3 by sponsoring bank. The total number of directors should not cross 15. RBI and NABARD are allowed to appoint one director each. The tenure of the board of directors is 5 years. After the establishment of NABARD, all the powers regarding RRBs have been transferred to it.

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## **15.7 OBJECTIVES OF RRBs:**

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Following are the objectives of RRBs:

- i) Extending loan assistance to small & marginal farmers, artisans, small entrepreneurs, traders and agricultural labours.
- ii) Helping in accelerating the growth of rural sector.
- iii) Developing saving habits among rural people.
- iv) Freeing the rural people from the clutches of moneylenders.
- v) Removing regional imbalances.

### **Characteristic Features of RRBs:**

The RRBs have the following Characteristic Features:

1. The areas of operation of the Regional Rural Bank are broadly confined to a district. A district is a well-established administrative entity. Normally one RRBs is expected to cover a population of 10 to 15 lakhs.
2. RRBs have an authorized Capital of 1 crore and an issued capital of Rs. 5 lakhs. The issued capital was subscribed by the Government of India, the sponsoring bank and the concerned

state government in the proportion of 50 % , 35 % and 15 % respectively.

3. RRBs are usually sponsored by the public sector banks. The RRBs enjoy the status of public sector banks, they get direct access to the RRBs refinance facilities.
4. The Management of RRBs vests with the board of directors headed by the chairman who is usually an officer of the sponsor bank but appointed by Govt. of India.
5. The RRBs are free to recruit their own staff-clerks, subordinate staff and accounts.
6. For collecting deposits from the rural areas, RRBs have been allowed to offer slightly a higher rate of interest on their deposits as in the case of co-operative banks.
7. The RRBs keep their deposits with the sponsor banks or with the public sector banks.
8. For their loan operations, the RRBs mostly depends upon sponsor banks and RBI (now NABARD) for finance.

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## **15.8 FUNCTIONS OF RRBS :**

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### **RRBs perform following functions:**

1. The RRBs are mainly required to open branches in the rural areas. The RRBs are expected to spread their branch network in remote rural areas.
2. The RRBs are required to mobilize deposits as far as possible from the small men living in remote rural areas. The aim is to promote saving and investment habit of the rural people who were earlier lacking these habits.
3. Providing individual or group loans to rural people.
4. Ensuring that financial activities are productive and viable.
5. Devising new schemes of credit allocation to people from backward castes (i.e. S.C.s & S.T.s ) and generating self-employment opportunities to them.
6. Making efforts for the upliftment of the economically weak people by introducing special credit allocation schemes for them.
7. Accepting deposits and other banking functions are also performed by RRBs.

## 15.9 PROGRESS OF RRBS :

RRBs have played an important role in increasing the flow of institutional credit to the rural sector since inception. At present, 196 RRBs are working in 23 States with a network of 14,500 branches. 95% of their loan assistance is given to weak units and 90% branches have been opened in those areas, which were not served by banks earlier. The progress card of RRBs is described below :

### Progress of RRBs :

	1991	1995	1999	2003	2005	2010	2011	2012	2013
No. of RRBs	196	196	196	196	196	82	82	64	57
No. of Branches	14527	14509	14999	14500	14484	15480	16909	17861	19082
Deposits (Rs.in Crores)			27065	48500			186336	211488	239494
Loans (Rs.in Crores)			11355	21773			116385	137078	159406

Source : NABARD Annual Report 2013-14

## 15.10 PROBLEMS OF RRBS :

### RRBs face following problems:

- 1. Inadequate Deposit Mobilization:** The deposit mobilization of RRBs has remained at a very low level. The area of operation for each RRB is confined to a district only. The weaker section population in the rural areas who have very low saving capacity, the deposit mobilization stands at a lower level.
- 2. Organizational problems:** The performance of the RRBs is adversely affected by the lack of co-ordination between those, which control it (i.e. sponsoring bank, NABARD, Central and State Govt.). Further, their area is limited to one or two districts. Shortage of expert staff is also a problem.
- 3. Problem of recovery:** These banks have not been successful in recovery of loans. In case of some banks, the recovery percentage is 55. Faulty allocation, absence of monitoring, misuse of funds, political interference, and natural calamities are responsible for poor recovery percentage.
- 4. Huge losses:** Finance minister, in his 1994-95 budget, stated that 150 RRBs out of 196 were in loss at least once during first

5 years. The reasons responsible include poor recovery percentage, increase in expenditure due to continued branch expansion, less than proportionate increase in income and lack of skilled manpower.

5. **Management problems:** RRBs are small institutions working at district level. The sponsoring bank appoints the managerial staff, which can't take decisions on its own. Board of Directors, do not meet regularly and control from multiple entities creates delays in decision-making.
6. **Lack of local Participation:**  
RRBs have not received sufficient local participation. The RRBs have been thrust upon the rural people from above without involving local people in its operation and management.
7. **Absence of Suitable Staff:**  
The RRBs are not manned by adequate staff. The Managers and field officers belong to the rank of deputed staff of the sponsor bank. Most of the staff recruited by RRBs lack proper training and guidance.

#### **MEASURES TO IMPROVE THE WORKING OF RRB:**

1. **Uniform Policies:**  
The loan policies and credit procedures of Regional Rural Banks should be uniform, simple and flexible. Beside credit, the RRBs should provide a package of services like Marketing and distribution of inputs, storage and godown facilities.
2. **Prompt Recovery:**  
There is need for quick and prompt recovery of loans by RRBs. For this they should have adequate trained and expert field staff to undertake field supervision and end use credit.
3. **Support of Government:**  
State Government need to support the RRBs in a big way. It is the responsibility of state governments to provide infrastructural facilities, transport and communication network, regulated markets, Schools and medical facilities in the rural areas.
4. **Deposit Mobilization:**  
The RRBs need be encouraged to provide even to borrowers other than small borrower. This would increase the profitability of the banks.
5. **Rationalize credit Supply:**  
It is further suggested that the RRBs need to supply credit uniformly to benefit all the sector of rural economy. It is

observed that RRBs mainly concentrate their loan operations in agriculture. Sectors like village and cottage industries, retail traders and professionally self-employed workers get very little credit from RRBs.

#### **6. Proper Co-ordination:**

There is need for proper coordination between RRBs and other institutional financing agencies operating in the rural areas like commercial banks and co-operative banks.

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### **15.11 IMPORTANT MEASURES:**

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Narsimham Committee, and the Agricultural Credit Review Committee, chaired by Khusro have recommended that RRBs be merged with either sponsoring banks or other commercial banks. However, M.L.Dantwala has opined that this is not the solution to the problems of RRBs.

Following measures have been recommended for solving the problems and making RRBs strong.

- i) RRBs be allowed to function beyond their jurisdiction
- ii) Separate machinery be formed to monitor their functioning
- iii) New capital be injected in them
- iv) These banks should attempt to develop saving habits among rural people and link their loans to the savings

Govt. should pay more attention to the problems of RRBs as these can play very important role in rural development.

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### **15.12 CHECK YOUR PROGRESS:**

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Q.1 Answer the following in one sentence.

- 1) When was the RRBs Act passed?
- 2) How many RRBs were set up in the beginning and where?
- 3) Whom can the RRBs tend to?
- 4) How are the RRBs managed?
- 5) How many RRBs are there in India at present?

Q.2 State whether true or false.

- 1) Every RRB has its sponsoring bank.
- 2) The area of RRBs is very wide.
- 3) The sponsoring bank does the functions like capital raising, recruitment of employees, training, managerial advice etc. during initial 10 years.
- 4) RBI contributes 50% of the capital of RRBs.
- 5) Authorized capital and paid-up capital of RRBs was raised to Rs.5 Cr. & Rs.1 Cr. respectively since 1987.

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### 15.13 QUESTIONS :

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A) Long answer type questions.

- i) Explain in detail the objectives and functions of RRBs.
- ii) Evaluate the working of RRBs
- iii) What are RRBs? Explain their problems and measures.

B) Write short notes.

- i) Regional Rural Banks.
- ii) Functions and progress of RRBs.



## SELF HELP GROUP

### Unit Structure :

- 16.0 Objectives
- 16.1 Introduction
- 16.2 Concept of Self Help Group
- 16.3 Need and Importance of Self Help Group
- 16.4 Characteristics of SHGS
- 16.5 Self Help Groups
- 16.6 Functions of SHGS
- 16.7 Objectives of Self Help Group (SHGS)
- 16.8 Rules and Regulations of SHGS
- 16.9 Working of Self Help Groups
- 16.10 Typology of SHG

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### 16.0 OBJECTIVES

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- 1) To Understand the concept, Need & Importance of SHG.
- 2) To Understand the functions, objectives of SHG.
- 3) To Understand the working of SHG.

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### 16.1 INTRODUCTION

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SHGs are novel and innovative organizational setup in India for the women upliftment and welfare. All women in India are given chance to join any one of SHGs for training and development, so as to be prospective entrepreneur and skilled worker. The SHGs are promoted by the Government as if women in India may not be resourceful enough to be entrepreneurs. When the SHGs arrange training facilities to carry out certain kind of work which are suitable for women in India, bank must arrange financial assistance to carry out manufacturing and trading activities, arranging marketing facilities while the Governments will procure the product of SHGs, arrange for enhancing the capacity of women in terms of leadership quality and arranging for the management of SHGs by themselves so as to have administrative capacity. As a social movement with

government support. SHGs become more or less a part and parcel of the society.

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## **16.2 CONCEPT OF SELF HELP GROUP**

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The concept of self-help groups had its origin in the co-operative Philosophy and the co-operators by and large, including the National Federations in the credit sector, could not think of any better SHG than a primary co-operative credit society itself. As SHG are small and economically homogenous affinity groups of rural poor, they are voluntarily coming together for achieving the following.

1. To save small amount of money regularly.
2. To mutually agree to contribute a common fund.
3. To meet their emergency needs.
4. To have collective decision making.
5. To solve conflicts through collective leadership mutual discussion.
6. To provide collateral free loan with terms decided by the group at the Market driven rates.

Today, the self-help group movement is increasingly accepted as an innovation in the field of rural credit in many developing countries including India to help the rural poor considered a vehicle to reach the disadvantaged and marginalized section, which in the normal course cannot avail of credit facility from the bank.

A self-help group is defined as a group consisting of people who have personal experience of a similar issue or life situation, either directly or through their family and friends. Sharing experiences enables them to give each other a unique quality of mutual support and to pool practical information and ways of coping. Self help groups are small informal association of the poor created at the grass root level for the purpose of enabling members to reap economic benefits out of mutual help solidarily and joint responsibility. Self help groups are formed voluntarily by the rural and urban poor to save and contribute to a common fund to be lent to its members as per group decision and for working together for social and economic uplift of their families and community.

A self help group is defined as a "self governed, peer controlled information group of people with similar socio-economic background and having a desire to collectively perform common purpose." Self help group have been able to mobilize small savings either on weekly or monthly basis from persons who were not expected to have any savings. They have been able to effectively recycle the resources generated among the members for meeting the productive and emergent credit needs of members of the group.



The Tamil Nadu Corporation for Development of Women Ltd. (TNCDW) in its credit guidelines for the SHGs defines as a small economically homogenous affinity group of rural poor, voluntarily formed to save and contribute to a common fund to be lent to its members as per group decision and for working together for social and economic uplift of their family and community.

**The distinguishing features of self-help groups are given below.**

- i) An SHG normally consists of not less than five persons (with a maximum of twenty) of similar economic outlook and social status.
- ii) It promotes objectives like economic improvement and raising resources for development and freedom from exploitation.
- iii) It has its own by-laws for the proper functioning of the group as well as for the observance of certain rules by the group members and regulations concerning membership.
- iv) The form of such a group could be mostly on an informal basis (unregistered).
- v) Periodical meetings of members are held for solving their problems (economic and social) and they collect fixed savings of the members.
- vi) The savings of members are kept with a bank in the name of group and authorized representative of the group operates the bank account. The deposit kept in the bank is used for giving loans to members for purposes including consumption at the rate of interest decided by the group (usually higher than what the banks charge).
- vii) Sources of funds are the contribution of member's savings, entrance fee, interest from loans, proceeds of joint business operation and income from investment. Funds may be used for loans, social services and common investment.

The SHG, being a group of like-minded persons, gets empowered to solve most of its problems of a non-financial nature such as raw material and input supply marketing, better adoption of technology, education and training for realization of its objectives for development.

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### **16.3 NEED AND IMPORTANCE OF SELF HELP GROUP**

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Self help groups are necessary to overcome exploitation, create confidence for the economic self-reliance of rural people, particularly among women who are mostly invisible in the social

structure. These groups enable them to come together for common objective and gain strength from each other to deal with exploitation, which they are facing in several forms. A group become the basis for action and change. It also helps building of relationship for mutual trust between the promoting organization and the rural poor through constant contact and genuine efforts. Self help groups play an important role in differentiating between consumer credit and production credit, analyzing the credit system for its implication and changes in economy, culture and social position of the target groups, providing easy access to credit and facilitating group/organization for effective control, ensuring repayments and continuity through group dynamics; setting visible norms for interest rates, repayment schedules, gestation period, extension, writing of bad debts; and assisting group members in getting access to the formal credit institutions. Thus, self help group disburses micro credit to the rural women for the purpose of making them enterprising women and encouraging them to enter into entrepreneurial activities. Credit needs of the rural and urban poor women are fulfilled totally through the SHGs. SHGs enhance equality of status of women as participation, decision-makers and beneficiaries in the democratic, economic, social and cultural spheres of life.

The rural poor are in-capacitated due to various reasons such as; most of them are socially backward, illiterate, with low motivation and poor economic base. Individually, a poor is not weak in socio-economic term but also lacks access to the knowledge and information, which are the most important components of today's development process. However, in a group, they are empowered to overcome many of these weaknesses, hence there are needs for SHGs which is specific terms are as under :-

- ☐ To mobilize the resources of the individual members for their collective economic development.
- ☐ To uplift the living conditions of the poor.
- ☐ To create a habit of savings, utilization of local resources.
- ☐ To mobilize individual skills for group's interest.
- ☐ To create awareness about right.
- ☐ To assist the members financial at the time of need.
- ☐ Entrepreneurship development.
- ☐ To identify problems, analyzing and finding solutions in the groups.
- ☐ To act as a media for socio-economic development of village.
- ☐ To develop linkage with institution of NGOs.

- ☐ To organize training for skill development.
- ☐ To help in recovery of loans.
- ☐ To gain mutual understanding, develop trust and self-confidence.
- ☐ To build up teamwork.
- ☐ To develop leadership qualities.
- ☐ To use it as an effective delivery channel for rural credit.

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## 16.4 CHARACTERISTICS OF SHGS

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The important characteristics of self help groups are as follows :

1. They usually create a common fund by contributing their small savings on a regular basis.
2. The groups evolve a flexible system of operations often with the help of the non governmental organizations (NGOs) and manage their common pooled resource in a democratic manner.
3. Groups consider loan requests in periodical meetings, with competing claims on limited resources being settled by consensus regarding greater needs.
4. Loaning is mainly on the basis of mutual need and trust with minimum documentation and without any tangible security.
5. The amounts loaned are small, frequent and for short duration.
6. Rates of interest vary from group to group depending upon the purpose of loans and are often higher than those of banks but lower than those of moneylenders.
7. At periodical meetings, besides collecting money, emerging rural, social and economic issues are discussed.
8. Defaulters are rare due to group pressure and intimate knowledge of the end use of the credit as also the borrower's economic resources.

### Characteristics

- ☐ Homogeneous
- ☐ Common interest
- ☐ Voluntary in nature
- ☐ Mutual self-help
- ☐ Non-political
- ☐ Rotation of leadership
- ☐ Participatory Composition
- ☐ All the poor
- ☐ 15-29 members
- ☐ Own bylaw
- ☐ Opening group account

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## 16.5 SELF HELP GROUP

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: SHG - Conception framework and key features

### Key Features :-

- i. SHG formed only for the sake of savings and credit activities are less sustainable than those engaged in a range of activities that include production and action on social issues apart from savings and credit.
- ii. Motivation for the group formation and the profile of the leader is a major determinant of the strength of the group.
- iii. Women only groups are better able to address the specific needs and problems of the women members.
- iv. The role of the facilitator is critical in strengthening group processes and truly instilling the concept of self help. Their effectiveness in disseminating information, upgrading skills and facilitating linkages, contribute towards the extent of self-reliance of the group.
- v. Guideline cited by government and non-government agencies, for its growth and gradation, some times may be not possible to maintain. Actually the frame for reaching maturity varies with the socio-cultural setting of the regions, as well as the experience and approach of the promoting agency.
- vi. As the process of organization is a social process, seeking to change existing caste, class and gender hierarchies in society it may not always be possible to hasten the pace of the process.
- vii. Training, capacity building support and networking of groups in terms of cluster and federation is very much essential for their long term sustainability.
- viii. SHGs are playing a vital role to fulfill the constitutional mandate of 73rd amendments mobilizing women folk at the Gram sabha.
- ix. The SHGs have had a range of impacts, economic, social and political on the lives of their members. In some cases, they have succeeded in providing cheap and easy credit to the members, in many others they have not.
- x. Level of awareness of rural people has been greatly enhanced, giving the women folk, a new confidence.

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## 16.6 FUNCTIONS OF SHGS

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The important functions of SHG are the following :-

- i) Enabling members to become self-reliant and self-dependent.

- ii) Providing a forum for members for discussing their social and economic problems.
- iii) Enhancing the social status of members by virtue of their being members of the group.
- iv) Providing a platform for members for exchange of idea.
- v) Developing and encouraging the decision making capacity of members.
- vi) Fostering a spirit of mutual help and cooperation among members.
- vii) Instilling in members a sense of strength and confidence which they need for solving their problems.
- viii) Providing organizational strength to members.
- ix) Providing literacy and increasing general awareness among members, and
- x) Promoting numerically and equipping the poor with basic skills required for understanding monetary transactions.

#### **Functions**

- ☐ Regular meeting
- ☐ Compulsory saving
- ☐ Credit management
- ☐ Book keeping
- ☐ Build up common fund
- ☐ Community action programmes
- ☐ Awareness and training
- ☐ Participation in decision making process
- ☐ Participation in local self-government
- ☐ Participation in microlevel training at Gram Sabha

SHG is local level institution with mission of socioeconomic and sustainable.

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### **16.7 OBJECTIVES OF SELF HELP GROUP (SHGS):**

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The main objectives of SHGs can be summarized as under:

1. To mobilize the resources of the individual member for collective economic Growth.
2. To in calculate the habit of thrift and saving amongst members.
3. To uplift the living conditions of the poor rural households.
4. To assist and promote the utilization of local resources.
5. To provide financial assistance to the members at the time of need.

6. To provide a platform for socio-economic development of the village.
7. To develop linkages with Non-government Organizations (NGOs), Banks, and Public services.
8. To build mutual trust, understanding and self-confidence.
9. To assist in the recovery of loans.
10. To create a general awareness about their rights.
11. To promote development of entrepreneurship.
12. To organize training and skill development program.
13. To build up team work and promote collective decision making through common management.

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## **16.8 RULES AND REGULATIONS OF SHGS**

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### **(a) Memberships :-**

1. Only one responsible person from a family aged around 21-60 years can become member in the groups.
2. The members/persons who are involved in any party politics activities or involved in any type of antisocial activities or the willful defaulters are not eligible for membership in the group.
3. The size of the group shall be around 10 to 20 members.

### **(b) Group Meeting :-**

1. The group members meetings should be held once a week or fortnight / month regularly on a convenient day, place and time as decided by the group.
2. The members should attend all the meetings in time without fail.
3. The member who unable to attend the meeting for genuine reasons, the same has to be intimated to the group in person or through a messenger in advance or at least informed at the same meeting. If fails the member is liable to pay fine for the absence as decided by the group.
4. The latecomers for the meeting and those who walk out in the middle without intimating the chairpersons are liable to pay fine as decided by the group.
5. If a member was absent for three consecutive meetings without genuine reasons such person's membership shall be suspended or cancelled with or without notice.
6. Unrelated issues / points should not be brought for discussion in the group meetings.

7. The members should not use vulgar words or physical force against any member during the meeting and the violators or mis-behaviours have to pay fine as decided by the group or their membership shall be cancelled.
8. The members should not sleep or stay separate from the group during the meeting.
9. All the members should have to sign in the minute's book at the end of the meeting after recorded proceedings of each meeting are readout and confirmed.

**(c) Members Participation in the Group :-**

1. All the members should participate in the discussions and decision making process orally and mentally in the group meetings.
2. Equal opportunities and encouragement should be given to all the members for their full participation in the meeting and in all the activities of the group.
3. All the members should attend the related training/ workshop/ seminars/ exposures etc. within and outside the village without fail. The violators are liable to pay fine except for the genuine reasons.
4. The members should co-operate and participate in all the developmental activities related to the members families, village, the group environment etc.  
Appropriate actions against non-cooperators/ non-participants shall be taken by the group.
5. The members should participate in researching/learning dissemination and adoption of appropriate technologies for development.
6. The illiterate members should show interest and put efforts to become literates. The group shall run a learning center at the convenient time for this purpose.
7. All the members should involve in regular savings and credit management activities with a special focus.
8. All the members should work with concern towards creating/building socioeconomical safety society and stress on population control.

**(d) Duties and Responsibility of the Members:-**

1. All the members should promote co-operation and unity in the group.
2. The members should create equal opportunities and the give encouragement to all the members in the groups.

3. The member should mobilize, use and manage the needy resources properly / judicially.
4. It is the responsibility of all the members to take necessary collective action against the willful defaulters and recovers the loan amount.
5. The members should take responsibility carefully for their all-round development and should also take leadership responsibility in the group with service motive.
6. All the members should involve in planning, implementing, monitoring and evaluate the development programmes of the family, village and environment time to time and to give attention for the results of evaluations with proper actions.
7. The member should promote and protect the unity and integrity of the group and the village.

**(e) Executive Committee :-**

1. An executive committee consisting three representatives selected unanimously in the group should take overall responsibility of the smooth functioning of the group.
2. The period of the executive committee shall be six months or one year as group decides and the new committee should be selected three months in advance and trained to take over the position of their representatives.
3. The above three position of the representatives shall be called as (a) President, (b) Secretary (c) Treasurer. Two out of the above three shall jointly operate the Group's bank account. This committee is responsible for the group's cash at hand, cash at bank or post office.
4. The executive committee members should ensure remitting the cash at hand immediately to the group's bank account. The cash in hand should not be kept more than two days for emergencies, if kept, the concerns member should pay fine plus interest as decided by the group.
5. The active member/cashier/treasurer should ensure proper maintenance of books of accounts of the group on day to day basis regularly up to date. They are also responsible for getting the accounts inspected once a month and audited once in six months or year and to submit the accounts statements and reports to the group meeting for appraisal.
6. The executive committee should facilitate the programme planning, timely implementation, monitoring, evaluation and actions.
7. The executive committee should facilitate the regular group meetings and smooth functioning of the group.



8. The executive committee members should have good contact with the Govt. Departments, credit institutions, voluntary organizations and other related institutions and mobilize resources for the improvement of group and village.
9. The executive committee members can execute any agreement/deeds/ contact on half of the group with prior discussions and resolutions in the group each time for each subject.

**(f) Members Savings in the Group :-**

1. Each and every member should save atleast minimum or maximum as per members wish per week or per month in the group which should be maintained in each individual members name.
2. Savings account may be withdrawn by the members only at critical circumstances with prior approval of the group. However, the member should maintain a minimum balance of Rs. 1000/- in their savings account.
3. No interest will be paid for the members savings with group. But 12% interest shall be paid for the amount kept in the group as fixed deposit for a minimum period of six months.
4. The members should save from the family income earned only, but not the borrowed money for interest.
5. The members will not be encouraged to adjust their savings amount against their loans due to the group. Only at extreme circumstances, the group shall consider to adjust.

**(g) The Credit Management :-**

1. The credit can be given to the needy members of the group for the purposes such as consumption, income generation, asset creation, clearing the old burden loans, socio-religious and any other appropriate purposes.
2. The credit shall be given to the needy person of the group only after careful study, through discussion and unanimous decision on the quantum of credit, rate of interest and the repayment schedule for each loan.
3. All SHG members regularly save a small amount. The amount may be small have to be regular and continuous habit with the members.
4. Savings first credit later should be the motto of every SHG member.
5. The loaner should give a written agreement to the group for the loan amount as the official procedures in the presence of the witness to the group at the time of taking credit. The loaner should give a guarantor within the group if necessary.

6. The loan amount should be utilized for the agreed purpose only. In case of any change of purpose, it should be approved by the group in advance. The violators are liable to pay fine/penal rate of service charge.
7. The loaner should repay the credit/loan amount with service charge as per repayment schedule agreed upon. If failed such member is liable to pay fine or penal rate of service charge @ Rs. 12% annum in addition to the normal rate of service charge from the date of overdue or as decided by the group.
8. The members those who are irregular for the SHG meetings or irregular in savings are not eligible for credit/loan from the group.
9. All the members shall have equal opportunity for loan from the group on eligibility/priority basis.
10. The funds of the group should be revolved to the optimum extent for the benefit of all the members.
11. The group can avail loan from the bank and other credit institutions, NGOs, other groups and other available sources for its activities and the same has to repay in time as per the terms and conditions agreed upon.

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## **16.9 WORKING OF SELF HELP GROUPS**

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There are no uniform rules and regulation for the SHGs, and they may vary from group to group. The promoter of the group formulates the rules and regulations, which may be suitable for the all groups, are summarized bellow.

### **1. Group Formation :-**

The group formation is proceeded by a village level household survey together the baseline area. The promoters should conduct this, and a suitable poverty assessment method should be used for the purpose.

To facilitate sustainability, the total number of members of the group should range between 12 and 20. The age limit for membership will be 21 to 60. The group must be a homogeneous one though not necessarily from the same caste or religion. The target group must be the poorest.

### **2. Meetings :-**

The group must meet weekly or fortnightly for collection of savings and repayment of loan amount and for discussing all other matters. The group meetings need to be conducted at President's house, members of groups or Gram panchayat or temples, with a certain discipline in relation to regularity, time and items to be discussed.

**3. Group Savings :-**

The group members must be encouraged to save as much as each can without it being a uniform amount for all. Usually the SHGs start off with a minimum savings of all members. As the years pass, they may opt for optional savings according to the capacity of each member.

**4. Group Common Fund :-**

The amount such as fines imposed on members, grants from the NGOs, bonuses for various programmes and service charges on external loans should be put into the common fund of the groups. All common expenses related to the groups may be met from this common fund.

**5. Rotation of Group Fund:-**

All savings and excess of common fund would be rotated as short-term loans amongst the members at rate of interest decided by the majority members of groups and loan is given to needy members on the priority basis.

**6. Books and Registers to be Maintained :-**

The books and registers to be maintained by treasurer/literate members of group to ensure proper accounts are given below for transparency. Attendance register, Minutes book, Savings ledger, Loan ledger, General ledger, Cash book, Individual pass book, Receipt book and Payment voucher etc.

**7. Training :-**

The staff of NGO, DRDA and bank staff imparts training of skill development, self employment like fenile making, agarbatti making, soap making, making dairy products etc. through MICON and entrepreneurship development. So as to start his own business for the betterment of life.

**8. Annual Auditing :-**

A qualified auditor should audit the accounts of the groups annually. The self help groups should meet the audit cost. But most of SHG could not audited annually.

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**16.10 TYPOLOGY OF SHG**


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**1] Model -I****Self help groups formed by NGOs and linked to banks**

In this model, NGOs would organize the poor into groups undertake training for awareness and understanding building, entrepreneurship and skill training help in arranging inputs, extension and marketing, introduce savings and internal lending,

help in maintenance of accounts and link them with the banks for credit requirements. Banks directly provide loans to SHGs with recommendation of NGOs. In this model, NGOs act as facilitators.

## **2] Model - II**

### **NGO forms and perform financial intermediary role as a lender to SHG after sourcing loans from bank**

In this model, besides acting as facilitator, the NGO also works as financial intermediary. Here, the loan is given to NGO by the bank for on lending the SHGs. In this linkage model, NGO would be legally responsible for repayment and would bear the risk of non-payment. Involvement of NGOs in microcredit system would have positive influence as they are the grass root agencies with information about borrowers. Thus, adverse selection and production of recovery could be avoided. At the same time, NGO would be in a position to help the rural poor, particularly the women to bring them above poverty line create rural employment. The growth rate of SHGs and micro-credit have been phenomenal which certainly reveal that the rural people involved in their growth are able to improve their micro-entrepreneurial skills with the help of their own savings and additional bank credit, as required.

## **3] Model - III Bank - SHGs Association**

In this case, banks directly promote self help groups. Here, the bank assume to play the role of NGOs and ensure linkage with SHGs. This SHG-NGO-Bank integration is very much essential to credit delivery for self-employment and other business activities, which could be an effective vaccine against poverty. But the ultimate goal of this linkage programme is not just promotion of SHGs. The challenge of poverty alleviation must come at the center stage. It is already an established fact that micro credit is an important means of poverty alleviation. The SHG route is one of the cost effective methods of credit flow to the poor who need most. There are a variety of SHGs or peer groups the world over. For example, in the Grameen bank, a group consist of only five members. Out of these five, one is the president, one is secretary and one treasurer. Only two members are ordinary members. When the loan is available, the group gives it first of all to the ordinary member and only later to its office bearers. This implies many lessons, while some members hold position, others benefit by early loans.

In Grameen bank model, six groups i.e. 30 members form a center and a lending activity of the bank is done only in the branch offices. A branch office operate within 10 kms of all centers, weekly meetings of the groups are held. When they gather, the women first

of all do some physical exercise and they recite the 16 principles for their social development. Thereafter, the repayments of loans are made and then regular savings are collected. These are considered subject to recommendations by the center. On another day, the borrower has to visit the branch office to collect the loan amount. For an SHG within the pattern of loose collective, there is a variation. The group may be a cooperative credit society or a federation of cooperative societies. In case, the groups are federations, the savings are collected by the group leader and brought to the federation office, which maintain detailed accounts of group savings.



## LINKAGE BETWEEN BANKS AND SHGS

### Unit Structure :

- 17.0 Objectives
- 17.1 Introduction
- 17.2 Initiatives by NABARD
- 17.3 Refinance Assistance Provided by NABARD
- 17.4 Role of Government Organization

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### 17.0 OBJECTIVES

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- 1) Studying the linkage between Banks & SHGS
- 2) Understanding the Initiatives of NABARD for Improving SHGS.
- 3) Understanding the role of Government organization to improve SHGS.

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### 17.1 INTRODUCTION:

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NABARD continues to provide 100 percent refinance to banks at an interest rate of 6.5 percent per annum. Other support measures include facilitating training of the bank officials and the field staff of the NGOs. The federation of NGOs/SHGs and other related institutions through financial assistance, faculty support and the like. As many as 550 NGOs are participating in the programme of them. Women SHGs constituted about 94 percent. On the whole, the programme benefited 5.60 lakh rural poor families in 280 districts. The southern region continues to dominate the linkage programmes with share of 65 percent followed by the Western (11 percent), the Eastern (11 percent), the Central (10 percent) and the Northern Region 8 percent. Andhra Pradesh, Karnataka and Tamil Nadu states has taken the lead in promoting the SHGs and in establishing the bank SHG linkage, the bank linkage is generally established after the successful functioning of individual groups for six months to a year. The concept of the SHGs has not been as successful in the north-east and some of the eastern states. Area

specific programme need to be formulated to meet the varying socio-cultural practices.

After successful experimentation in couvery - Grameen Bank, Mysore (Karnataka) in association with an experienced NGO, namely MYRADA, more and more RRBs are involving themselves as SHGs. Some government agencies like Zillah Panchayat have also taken initiatives to promote SHGs and such efforts are supported by the NABARD through assistance in organizing training programmes for the staff. Notwithstanding 100 percent refinance from the NABARD, commercial banks perceive this activity as unprofitable. Hence, only Regional Rural Bank and cooperative banks take up such financing. The RBI has been preventing upon the commercial bank to formulate their respective policies on micro credit and promotion of SHG. The NABARD has been organizing the SHGs workshop involving bankers and development personnel to accelerate the process of SHG bank linkage. The RBI has issued circular to the commercial banks to reckon micro credit extended to individual borrower or the tough intermediaries as parts of their priority sector lending. The circular also stated that micro credit should forms an integral part of the corporate credit plan of the bank and should be received at the biggest level on a quarterly basis.

The RBI issued a circular dated July 24, 1991, to the commercial banks advising them to participate actively in the pilot support for linking self help groups with banks. The NABARD, after consultation with a few interested banks and voluntary agencies, issued a set of guidelines on February 26, 1992, which, while being adequately comprehensive were kept flexible enough to enable participate banks and field level bankers to involve and to contribute to strengthening the project concept and strategy. When the pilot project was initiated by the NABARD, the self help groups model was adopted and was called as an Indian model, later, in the early nineties, the NABARD called it the SHG-Bank linkage model.

The SHG-Bank linkage programme was show to take off, but has been speeding along since 1999. But it grew rapidly over the years reaching 1,079091 SHGs in 2003-04 in India, of these about 1.6 millions are linked to banks.<sup>11</sup>

5.9 Evolution of Self Help Groups in India

In India, soon after independence, there has been an aggressive effort on the part of the government, which was concerned with improving the access of the rural poor to formal credit system. Some of these measures have been institutional,

while some others were through implementation of focused programmes for removal of rural poverty. Reaching out of the far-flung rural areas to provide credit and other banking services to the hitherto neglected sections of the society is an unparalleled achievement of the Indian banking system. The main emphasis is the spread of the banking network, introductions of new instruments, credit packages and programmes. These were to make the financial system responsive to provide credit to the weaker sections in the society. Comprising small and marginal farmers, rural artisans, landless agricultural and non-agricultural labourers and other small borrowers falling below poverty line. With the implementation of the above policies, further Government of India its developmental planning emphasized the promotion of agriculture and other allied economic activities through credit intervention for ensuring integrated rural development and securing the prosperity of the rural areas. In pursuance of this, formal credit institutions have been guided by the principle of growth with equity and a large share of the credit disbursed for various activities was channelized towards the weaker sections of the society.

Consequently, by the implementation of several poverty alleviation programmes, the number of people below the poverty line has declined from 272.7 million in 1984-85 to 210.8 million in 1989-90. In 1991-2000, which constitutes over 21 percent of the population. The number of operational holdings is expected to have crossed the 100 millions mark with more than 80 percent being small and marginal holdings. The institutional credit system needs to meet the challenges of delivering credit to an ever-increasing number of rural people who need greater access to formal credit. It may have to reinforce its own structure at the grass root level and also have to devise new ways of reaching out of the rural poor.

As a result, the experience of implementation of the above discussed poverty alleviation programmes lead to the introduction of the Integrated Rural Development Programme (IRDP) on 2nd October, 1980 with the specific objectives of raising the poor rural families above the poverty line. Such families considered credit support from banks as an important input in taking up economic and gainful activities. In spite of these impressive achievements in the expansion of the credit delivery system and special programmes, nearly half the indebted rural households are still outside the ambit of the institutional system. They approach the moneylenders for meeting their consumption and production in the



absence of institutional support. Some of the poor who have not been reached even by the vast network of the institutional credit delivery system, have organized themselves into self-help groups (SHGs) and many such groups have come into existence either spontaneously or with the active involvement of the voluntary agencies which motivated the rural poor to pool their meager financial resources for meeting their small and frequent consumption and production credit needs.

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## **17.2 INITIATIVES BY NABARD**

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NABARD has been playing the role of propagator and facilitator by providing conducive policy environment, training and capacity building besides extending financial support for the healthy growth of the SHG linkage programme. Over the years, various steps have been taken in this regard may be enumerated as under :-

1. Conceptualization and introduction of pilot programme in February 1992 for linking 500 SHGs with banks after consultations with Reserve Bank of India, Banks and NGOs.
  2. Introduction of bulk lending scheme in 1993 for encouraging the NGOs which were keen to try group approach and other financial services delivery innovations in the rural areas.
  3. Developing a conducive policy framework through provision of opening savings bank accounts in the names of SHGs (through they are informal groups), relaxation of collateral norms, simple documentation and delegation of all credit decisions and terms to SHGs.
- Training and awareness building among the stakeholders.
  - Provision of capacity building support of NGOs/SHGs/Banks.
  - Mainstreaming the SHG linkage programme as part of corporate planning and normal business activity of banks in 1996 and internalizing, training, monitoring and review mechanism.
  - Encouraging banks (RRBs and DCCBs) for promotion of SHGs.
  - Financial support to NGOs for promotion of SHGs.
  - Encouraging rural individual volunteers in promotion and nurturing of SHGs.

- Close monitoring.
- Dissemination through seminars, workshops, occasional papers and print media.
- Constitution of High Powered Task to look into the aspects of policy and regulation of microfinance and suggest policy, legal regulatory measures for smooth and unhindered growth of microfinance sector.
- Setting up a microfinance development fund in NABARD for meeting the promotional costs of up-scaling the microfinance interventions. The funds has since been redesigned as microfinance development and equity fund.
- Initiating the credit rating of the microfinance institutions through accredited credit rating agencies of India by meeting 75 percent of the cost of the rating as grant. This is done to enable the microfinance institution to approach banks for commercial borrowing and extending micro-credit to the poor.

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### **17.3 REFINANCE ASSISTANCE PROVIDED BY NABARD**

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Self Help Group is a visible organized setup to disburse micro credit to the rural women and encourage them in entrepreneurial activities. SHGs and micro-credit are the solutions to speed up the socio-economic development of poor women. NABARD has been working as a catalyst in promoting and linking more and more SHGs to the banking system. A Microfinance Development Fund has been constituted in NABARD. This would be utilized for scaling up the SHG-linkage programme and supporting other microcredit initiatives. Special emphasis is provided for building the capacities of the poor with particular emphasis on vulnerable sections including women, scheduled castes and scheduled tribes. The refinance assistance provided by NABARD with regard to microcredit presented in.

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### **17.4 ROLE OF GOVERNMENT ORGANIZATION**

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An SHG is a small affinity group of 10-20 members from homogenous strata. It is formed and groomed by an NGO or bank branch or a government agency called self help promoting institution (SHPI). The members of the group are encouraged to

collect regular thrift on a weekly or fortnightly or monthly basis and use the pooled resources to give interest bearing small loans to needy members. The SHPI trains the members to maintain simple accounts of the collected thrift and loans given to members. The regular meetings also provide them a platform to discuss and resolve many social and common issues, thus fortifying their togetherness. A savings bank account is opened with a bank branch and regular thrift collection and loaning to members build up the financial discipline among the members to encourage the bank to provide larger loans to the group.

Government organizations are as follows :

- 1) District Rural Development Agency (DRDA)
- 2) Krishi Vidyan Kendra (KVK)
- 3) Mahila Arthik Vikas Mahamandal (MAVIM)

**1) District Rural Development Agency (DRDA) :-**

The Swarnajayanti Gram Swarozgar Yojana (SGSY) has been launched with effect from 1.4.1999 as a new self-employment programme for the rural poor. The SGSY is being implemented by the DRDA through the Block Development Office. The SGSY programme replaces the self-employment and allied programmes - Integrated Rural Development Programme (IRDP), Training of Rural Youth for Self-employment (TRYSEM), Development of Women and Children in Rural Area (DWCRA), the Ganga Kalyan Yojana (GKY) as well as Million Scheme (MWS) are no longer in operation. The salient features of the Swarn Jayanti Gram Swarozgar Yojana are given below.

- The Swarn Jayanti Gram Swarozgar Yojana (SGSY) aims at establishing a large number of micro-enterprises in the rural areas, building upon the potential of the rural poor.
- The SGSY emphasis on the cluster approach for establishing the micro enterprises. For this 4-5 key activities have to be identified in each block. The major share of SGSY assistance has to be in activity clusters.
- The SGSY adopts a project approach for each key activity. Project reports are to be prepared in respect of each of the identified key activities. The banks and the financial institutions have to be closely associated and involved in preparing these project reports, so as to avoid delays in sanction of loans and ensure adequacy of financing.

- The existing infrastructure for the cluster activities should be reviewed and gaps to be identified. Critical gaps in investment have to be made up under SGSY, subject to a ceiling of 20 percent of the total allocation made under the SGSY for each district. This amount is maintained by the DRDAs as SGSY – Infrastructure fund and which can also be utilized to generate additional funding from other sources.
- The assisted families may be individuals or groups (Self Help Groups) the SGSY, however, favours the group approach.
- The SGSY seeks to lay emphasis on skill development through well designed training courses. Those who have been sanctioned loans, are to be assessed and given necessary training. The design, duration of the training and the training curriculum are tailored to meet the needs of the identified key activities. DRDAs are allowed to set up to 10 percent of the SGSY allocation on training. This may be maintained as SGSY training fund.
- The SGSY provides for promotion of marketing of the goods produced by the SGSY swarozgaries, which involves provision of market intelligence, development of markets and consultancy services, as well as institutional arrangements for marketing of the goods including exports.
- The SGSY is a credit-cum-subsidy programme. However, credit is the critical component of the SGSY, subsidy a minor and enabling elements. Accordingly, the SGSY envisages greater involvement of the banks.
- Subsidy under SGSY is uniform at 30 percent of the project cost, subject to a maximum of Rs. 7500. In respect of SC/STs, subsidy is 50 percent and Rs.10,000/- respectively. For Self Help Groups, the subsidy is at 50 percent of the cost of the scheme, to a ceiling Rs. 1.25 lakh. There is no monetary limit on subsidy for irrigation projects. SGSY particularly focus on the vulnerable groups among the rural poor.
- Funds, under the SGSY are shared to central and state governments in the ratio of 75:25.21 As on March, 2011, 12171 self help groups organized by DRDA in the Amravati district. For the year 2010-11 revolving fund assistance had been released to 11215 groups and loan assistance for economic activity has been released to 571 groups. For the year

2009-10, the programme aims to cover 11217 groups with revolving funds assistance and economic assistance for 9250 self help groups.

## **2) Krishi Vidyan Kendra (KVK) :-**

Krishi Vidhan Kendra was started in 1996 as a first KVK of the country with a view to update the technical skill of the farm public, to train the farmers, farm women and rural youth in scientific farming, to provide in service training to the staff of developmental departments and to evolve new varieties of crop plants suited to the region.

This Kendra was administered by State Government. The technical and administrative control of this center have been taken over by the Maharashtra Government and this Kendra is registered as a society. This Kendra is financed by the ICAR as well as by the Maharashtra government.

Under ICAR programmes, this KVK is carrying out the activities as per the mandates of KVK which are as follows.

- ☐ Conducting on-farm testing for identifying technologies in terms of location specific sustainable land use systems.
- ☐ Organize training to update the extension personnel with emerging advances in agricultural research on regular basis.
- ☐ Organize short and long term vocational training courses in agriculture and allied vocations for the farmers and rural youths with emphasis on learning by doing for higher production on farms and generating self employment.

Women cell is functioning at this Kendra for the welfare of farm women. As on March, 2010, 101 self help groups were promoted under women cell in various villages. The leaders and members of these SHGs are trained on various aspects of agriculture and allied fields so as to enable them to start self-employment units. To fetch additional income for their families and improve nutritional and health like educational field, agriculture field is also developing and expanding in this age of information and technology. Krishi Vidnyan Kendras is not only limited to education and research but have been also become centres for creating employment and entrepreneurs.

### 3) Mahila Arthik Vikas Mahamandal (MAVIM) :-

MAVIM is the state women's development cooperation of Maharashtra, established on the 24th February 1975 on the occasion of International Women's year. The mission of the corporation is "To bring about gender justice and equality for women, investing in human capital and the capacity building of women, thus making them economically and socially empowered and enabling them to access sustainable livelihood."

The corporation has the objective of bring about women's empowering by mobilizing women and building organization of women, enhancing their capacities by training, increasing their self confidence and strengthening entrepreneurship among women and making credit and market accessible to women. The corporation also seeks to improve women's access to education, and increase their participation in decision making and governance.

MAVIM's head office is situated in Mumbai and the corporation has 34 district offices across the state of Maharashtra. MAVIM has professionally qualified personnel trained in social science in its head office and in district offices. MAVIM promotes self help group in villages its (1350) field workers known as Sahayoginies and through its 4 contracted NGOs. Reorganization of MAVIM from a commercial company under the company Act 1956 to being registered in September 2005 under section 25 of the company's Act as a not for profit company.

Work for following five component i.e.

- 1) Formation of SHG
- 2) Entrepreneurship development
- 3) Gender sensitization
- 4) Functional literacy
- 5) Social awareness

For fulfillment of above component MAVIM has appointed qualified and experienced staff and doing with NGO for the fast mobilization.



## **IMPACT OF SELF-HELP GROUP IN SOCIO-ECONOMIC DEVELOPMENT OF India**

### **Unit Structure**

18.0 Objectives

19.1 Introduction

18.2 Shortcomings' of the Self-Help Group In India

18.3 Suggestions to Improve Self-Help Group in India

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### **18.0 OBJECTIVES**

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- 1) To Understanding the impact SHG in Socio - Economic Development of India.
- 2) Understanding the Short coming of SHG in India.
- 3) Understanding to improve the Self - Help Group in India.

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### **18.1 INTRODUCTION:**

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Self - Help group is a method of organizing the poor people and the marginalized to come together solve their in divided problem. The SHG method is used by Govt., NGO, and other worldwide. SHG have bred playing considerable role in infrastructure development, marketing, technology support Communication level of member, confidence family violence, interaction. changing saving pattern. social justice, community action, sustainable development etc

#### **1.Saving and Financial Decision Making**

One of the primary benefits of participation in a SHG is the opportunity to save regularly, access formal savings institutions and participate in the management of these savings. They save regularly, have their own bank accounts and make deposits into these accounts. SHG is having a good impact on members, in their ability to save their hard earned money.

#### **2. Access to credit**

A corollary of participation in SHGs is an improvement in a woman's access to credit. Since the project is perhaps too early in

its implementation to directly improve women's access to credit. The financial mobility due to participation in the SHG has led to an improvement in the quality of life, according to some of the successful groups. Overall, many families were able to address their basic needs better than before. Some of NGOs reports have shown that the record on the repayment of loans by women was often better than that of men, and that women were also more likely to spend the income earned, on their families, leading to improved health and nutrition of the poor population and for improving the quality of their lives.

### **3. Employment:**

The implementation of SHG has generated Self-employment opportunities for the rural poor. The progress of the programme since inception assisted in formation of 35.7 lakh SHGs; assisted 1.24 Cr. Swarozgaris in establishing their own micro-enterprises. The Government of India released Rs.11, 486 Crore under the programme; bank credit mobilization is Rs.19, 017; Total subsidy provided is Rs.9, 318 Cr. The program helped many participants in improving their economic conditions. Another good accomplishment of the program is that it has adopted the SHG strategy. The number of assisted SHG/ group Swarozgaris has increased from 35,000 in 1999 – 00 to 1.15 million in 2007 – 08. At the same time the number of assisted individual Swarozgar has declined from 586 thousand in 1999 – 00 to 254 thousand in 2007 – 08. The National Bank for Agriculture & Rural Development (Nabard) will create a Rs.15 billion fund to cater women's Self-Help Groups in economically weaker districts in the country, After joining the Self Help Group the women are economically and socially empowered. This empowerment cannot be transformed or delivered it must be self generated such that it enables those who are empowered to take control over their lives.

### **4. Decision-making within the household**

The social impact of the SHG programme increased involvement in Decision-making, awareness about various programmes and organisations, increased access to such organisations, increased expenditure on Health and Marriage events, there is a Change in the attitude of male members of the families, Now they are convinced about the concept of SHG and encourage women to participate in the meetings and women reported that they have savings in their name and it gives them confidence and increased selfrespect. Within family the respect and status of women has increased. Children Education has improved significantly. Especially girl education was very low but now SHG members are sending their children including girls to school. The Sanitation in members' households has improved and it has led to better health in members' families. Now women are taking treatment from qualified doctors, even if they have to travel to



nearby towns. Members are now confident enough to raise social status.

### **5. Participation in local government because of SHG,**

Women know about their local political institutions such as the Gram Panchayats and have better knowledge of where to report certain types of grievances. As part of the political empowerment process, it is a pertinent fact that many women have not only been elected to the Grama Panchayats but have become the role holders too. In a majority of the cases, the women perceived themselves as now having some influence over decisions in the political life of village, and in a smaller number of cases, the women named their participation and influence in village political life as an important and note-worthy change. However, in general, the opportunities available to the women to participate in village life were limited, as most of the village processes were still being male-dominated and patriarchal. Though the SHGs generate positive impact on the rural economy through empowering women and enhancing the rural income of those participant households, the issue of group size has been of long standing concern.

### **6. Communication Level of Members**

Microfinance movement is having a good impact on members, in their ability to express their feelings and has made people more confident to express themselves.

### **7. Self Confidence among Members**

The group formation brought out the hidden talent and leadership qualities among the members. Therefore, it can be concluded that after joining the SHG the members have improved their status in family, become helpful in family finance and sometimes helped others too. Now, most of the SHG people feel that they get more respect; not only in the village, but our own family members treated us more respectfully. People of the village now invite us for social and community functions. Now our family members value our opinions whereas earlier they had no use for it. They encourage us and support us in our activities". "Now they get respected in the village society and have a definite identity in society. Family members think of them as a working woman and encourage them in their work". Improve their knowledge of banking, of how to undertake the different banking transactions, as also of dealing with government officials. They now feel confident about these things. They too feel an improvement in their social status. Family members changed their attitudes towards them after they started participating in the SHG. They now regard them brave women. The people of the village too give much more respect than before". Family members seek her opinion in many of the family decisions. Moreover, people from the society in general respect them.

## **8. Change in Family Violence**

Involvement with SHG has reduced this violence in 25 per cent cases especially due to reduction in economic difficulties. In most of cases the members revealed that their husbands should also be involved in SHGs.

## **9. Frequency of Interaction with Outsiders**

Members generally, got lesser opportunity to interact with bankers, Government officials, NGOs and others in the Pre-SHG period. It can be seen that in the Pre SHG period 25 per cent of the members were not interacting with officials whereas after associating with SHGs, 91 per cent members had interacted with the outsiders and out of total 44 per cent have interacted more than 4 times with outsiders. This interaction helped them to articulate their problems and improved their self-confidence.

## **10. Status of Access to Amenities**

Since SHG programme has economic as well social implications. It can be seen that there has been an increase of 40 per cent in SHG members in terms of their status of access to amenities factors. Therefore, it can be concluded that after joining the SHG the members have improved in getting access to amenities like medical, sanitation, education, market, water supply, transport. 1.17. Community Participation SHG members undertook a lot of community activities which they earlier could not have imagined themselves to have done. They distributed school uniforms to poor students; they undertook a plantation drive, distributed pen and notebook sets to poor students and donated some money to a charity during a national calamity. They participated in several social initiatives like the "Clean Village Drive" and other such social upliftment programmes since their involvement in the SHG. They organized a small function on India's Republic day. Perspective of the Social Worker Women who have participated in this have benefited economically. They are now able to buy household goods like televisions, furniture, telephones, jewellery and most importantly are able to save for the future. "Now they are much more confident in their dealings with government officials, bank officials, electricity board officials, Medical officers, the revenue officer, health scheme officials etc. They also participate in elections. Moreover, they make use of the various government welfare schemes available". However the years, women who have barely completed their schooling, who could earlier barely step out of their houses to talk to government officials or other village men, are today stepping out and caring for themselves and their communities with confidence. An interesting development is that the men, unlike earlier, are now encouraging women to step out of their houses to work and participate in these social and community events. Whether this is a welcome change or not needs to be understood. It has to be understood why they are doing so. One

reason they could be doing so is because of the increased household incomes and ready access to credit that the SHG participation of the women is resulting into. Sometimes this situation can be exploited if the men are alcoholic, so that the credit is actually wasted away. In this regard, however, the women are alert and aware and the SHG participation has given them the collective strength to stand up to it. They collectively stop any man from abusing his wife under the influence of alcohol. Now they are able to meet each other and discuss their problems. They understand each other's viewpoints and problems. Interaction with other women has resulted in building congenial relationships and has ensured fewer conflicts. It has also had the multiplier effect of spreading the SHG movement. Awareness of health related issues, personal hygiene, communicable diseases; effects of malnutrition, environmental issues, and sanitation have also increased as a result of training programs and their participation in the related projects.

### **11. Increased Nutritional status**

They find positive impacts on empowerment and nutritional intake. Female social and economic empowerment in program areas increased irrespective of participation status. Evidence of higher consumption is not income or asset formation. the program's main economic impact had been through consumption smoothing and diversification of income sources rather than exploitation of new income sources.

### **12. SHGs and Environmental Management**

Research and policy has tended to focus on the relationship between poverty and environmental degradation in terms of pointing out that the poor are both victims and agents of environmental degradation. They are victims in that they are more likely to live in ecologically vulnerable areas, agents in that they may have no option but deplete environmental resources thus contributing to environmental degradation. As a result of increasing awareness, social conditions and poverty alleviation, are necessary to support environmental sustainability (SIDA 1996; Leach and Mearns 1991; UNEP 1995). Today SHGs have a role to play in poverty alleviation through empowerment of women in India. Moreover, women tend a greater involvement in environmentally sustainable activities and environmental management than men. Therefore, involvement of women in development programmes through SHGs can effectively increase awareness of society to ward environmental sustainability.

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## **18.2 SHORTCOMINGS' OF THE SELF-HELP GROUP IN INDIA**

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Though it was considered as a wonderful program by many stakeholders, the program failed on many counts is provided as follows:

### **1. Challenge of take off**

The program supported promotion of 292 thousand SHGs in the first year, i.e. 1999 – 00. The number remains around this level in all subsequent years with wide fluctuations from year to year. Similarly, 214 thousand groups passed Grade – I, in the second year of the program, i.e. 2000 – 01. It remains around this level in all subsequent years. Though there is significant growth in the number of groups that passed Grade – II, groups which have taken up economic activities are less. In total only 685 thousand groups have taken up economic activities. It is a little over one-fifth of groups promoted in the scheme.

### **2. Funds allocation and utilization**

The allocation of funds for the SGSY scheme by both central and state governments was Rs.1, 472 cr. in 1999 – 00, the first year of the programme. In the subsequent 7 years, the allocation remained below that of the first year. It was nearly half of the first year allocation in 2001 – 02 and 2002 – 03. The total amount allocated for the programme during 10 years is Rs.14, 467 cr. It is less than half of the budgetary allocation of Rs.30, 100 cr. for NREG in just one year, i.e. 2009 – 10. The principal reason for stagnation in funds allocation is non-cooperation of banks. The allocated meagre amounts were not fully utilized even in one year during the last 10 years program period. Total utilization is 74% of funds made available. However, the utilization ratios are increasing over the years. It has increased from 49% in 1999 – 00 to 86% in 2003 – 04. It remains well over 80% in the subsequent years. Though there is provision for utilizing of 10% of allocated funds for training and another 20% for development of critical infrastructure, utilization of funds in these two activities is quite less and relatively more funds were used for providing subsidies and grants to SHGs and individual Swarozgaris. As a result the program is often known as subsidy oriented programme.

### **3. Credit mobilization**

Mobilizing bank credit is a major challenge of the program, due to which the governments at centre and states could not increase the allocations over the years. In total, the target of credit mobilization is Rs.29, 831 cr. But little over half of that amount was mobilized during the last 10 year. However, the proportion of actual mobilization to target is increasing over the years. It is a healthy

sign. Because of lower than targeted mobilization of bank credit and allocation of a relatively higher proportion of funds for subsidy, the ratio of credit to subsidy was about two during the period and did not vary much from year to year. Thus, the credit subsidy ratio remained much below the target ratio of 3:1 (Gol, 2009). It also resulted in less than planned investment per Swarozgar.

#### **4. Challenge to target the real poor and vulnerable sections**

A comprehensive study by BIRD, 2007 on coverage of SCs/ STs in SGSY, which covered 10,848 Swarozgaris and non-Swarozgaris (control sample), pointed out exclusion of SCs and STs in the following ways and for the following reasons. Physical exclusion – by not being accepted as group members, Financial exclusion by denial of their due share either by group leaders or by implementing bank or block officials, Exclusion because they are already covered under some state government sponsored programs (often implemented by state (ST/ SC corporations) and in many cases are already defaulters of bank loans (BIRD, 2007). About 60% of the non-Swarozgaris (control sample) were found to be sure about their inclusion in the BPL list (BIRD, 2007). A more dismal picture is provided by a MoRD (2007) briefing, which shows that SGSY covers only 1% of the relevant household population, and only 33% of its beneficiaries are drawn from the poorest quintile, whereas as many as 14% are from the richest and 26% are from the two richest quintiles. Further, the total benefits are even more inequitably distributed with the richest quintile receiving as much as 50% as compared to 8% for the poorest (as quoted in Tankha, et al. 2008). The annual report of MoRD 2002 – 03, reported that in most of the areas, especially in Bihar and Uttar Pradesh, influential persons in villages were found to own a group (as quoted in Gol, 2009).

#### **5. Low survival rate of promoted micro-enterprises**

Many assisted Swarozgaris are either reluctant to create or acquire the planned assets or were disposing them immediately after acquiring. According to BIRD's study "in northern states, the success rate in terms of whether units exists or not in case of units financed to group Swarozgaris turned out to be even worse than that in case of individual Swarozgaris as only 17.7% units were found to be existing in case of group Swarozgaris as against the 31.11% units intact in case of individual Swarozgaris. The results indicate just opposite pattern to what most of us believe/ perceive that group approach of financing is better than the individual financing. However, in case of southern states, 76.6% units were found to be existing at the time of field visits which shows the better care by the government department as far as monitoring of units is concerned" (BIRD, 2007). The present author observed that in Andhra Pradesh some groups manipulated acquiring of assets/ livestock. According to the group members, they sent their

buffaloes to their relatives/ friends' houses a day before the proposed transaction. The next day they acted as if purchasing (their own) livestock from their relative/ friend in front of the officials. The Government of AP noticed these kinds of problems long ago and converted capital subsidy into interest subsidy in 2004. Now one hardly hears words like SGSY, subsidy and revolving fund among SHGs in rural areas of Andhra Pradesh. One can only hear the words „PavalaVaddi“ or „3% interest loans“. In other states, many studies reported that groups' focus is on subsidy. They dispose the capital/ livestock immediately, repay the bank loan and distribute the subsidy amount (see e.g. APMAS, 2008; Tankha, et al, 2008; BIRD, 2007).

#### **6. Low realized incremental income from Income generating activities**

The program envisaged that Swarozgaris would realize about Rs.2, 000 per month from the investment of about Rs.25, 000. Except a few case studies, no major evaluation study reported additional income anywhere close to Rs.2, 000 per month. In 2002 – 03, only 43% of the assisted Swarozgaris reported an increase in their income (as quoted in Gol, 2009). A rigorous study by Pathak and Pant (2006) in Jaunpur district of UP shows that SGSY has not contributed significantly to the change in the level of income of the beneficiaries (as quoted in Tankha, et al, 2008). According to a NIRD (2008) study, even in the better performing State of Andhra Pradesh the income gain to a Swarozgar from enterprise activities under SGSY was a mere Rs.1,228 per month (as quoted in Gol, 2009). BIRD presented an even grimmer picture. According to their study the poor income generation in both the cases of individual Swarozgaris (Rs.9, 391) and The group members shared these old stories (6 to 7 years old), since then they have repaid their loans and all officials got transferred. swarojgaries (Rs.6, 916 in northern states and Rs.11, 089 in southern states) per member per annum suggests for serious thinking about implementation of the program in its present format. Certain success stories, here and there should not be read as final outcome of the program and at the best, these can be documented and evaluated so that the reasons for success can be internalized into the future policy guidelines. The program also breaks the great myth that „group approach of lending“ is always better than the individual approach of financing (BIRD, 2007). Needless to say, that the above figures are only of surviving units. If failed units were also included, the average incremental income would be around a few hundred rupees or less. It may be recalled that about 50% of the Swarozgaris have taken up dairy. About another quarter has taken up other livestock rearing, including poultry and other primary activities. It is surprising to note that Indian villagers need training in activities like livestock rearing, the primitive and primary occupation in the country

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## **18.3 SUGGESTIONS TO IMPROVE SELF-HELP GROUP IN INDIA**

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### **1. Suggestions for designing the NRLM**

As three-fourths of households in the country are either poor or vulnerable, NRLM may cover all willing rural households, irrespective their BPL or APL status, in the SHG program for effective financial inclusion. It may be divided into two sub-programs, viz. Financial Inclusion and Livelihood promotion. Two programmes may be implemented sequentially. The first five years may be totally focusing on promotion and strengthening of SHG institutions and later focus may be on setting up of small and medium enterprises under SHG federations.

### **2. Suggestions to promote Financial Inclusion**

1. SHG banking may be allowed to function as core banking activity without any outside interference like target fixing, interest cap, loan size, etc.
2. The Government may promote quality SHGs through village/ cluster level; sub-district/ block level and district level federations.
3. Wherever banks are not accessible or not responsive, federations may be prepared to take up financial intermediation
4. Promoting agencies play a crucial role in developing quality institutions. Promoting agencies may be given adequate financial and capacity building resources and timeframe. Available evidence indicate that investment of about Rs.15,000 per SHG for 8 to 10 years is required to promote quality SHGs with strong federations and effective livelihood opportunities.
5. Promoting agencies should have a clear role transformation strategy and should implement the same in letter and spirit
6. NRLM may work on sensitization and orientation to bankers about the commercial value of SHG banking.
7. NRLM may understand the banks' concerns such as quality of groups, political interference in functioning of federations, wrong signals like loan waivers, etc and address them.

### **3. NRLM may provide interest subsidy as given in AP.**

Suggestions for promotion of small and medium enterprises

To obtain desirable employment transformation and to take full advantage of booming secondary and tertiary sectors, NRLM may focus on manufacturing and service sectors. The small and medium enterprises may be promoted to village/ cluster; sub-district/ block and district level SHG federations.

1. The potential units could be agro-processing units; milk processing units; common service providing units; cold storages; rural warehouses; market yards to organize weekly markets; etc
2. Appropriate institutions like „commodity cooperatives“ and „producer companies“ may be promoted under SHG federations to take up small and medium enterprises as per the pattern of the borrowing from the SHGs.
3. The federations could be assisted to have state of the art units by hiring professional consultancy firms, who can provide these units on turnkey basis.
4. NRLM may provide investment and working capital to the federations to set up these units
5. If banks are non-responsive, the apex financial institutions like state finance corporations/ SIDBI/ NABARD could be accessed.
6. Acquired units could be pledged as security to the banks and financial institutions.
7. These units would result in development of entrepreneurship in federations, provide a large number of regular employment opportunities to the members and boost the rural economies.
8. SHG concept should target the holistic development of women members. The ministry may bring out publications pertaining to different aspects of SHG and its development / empowerment.
9. It is felt that efficiency and effectiveness of SHG should be regularly monitored by a qualified and designated body to give corrective input wherever necessary as well as encourage the deserving ones.
10. Timely release of adequate loans and the eligible subsidy is important. SHG member education and awareness on the high poverty regions should be viewed as long term investment in human capital development. All stakeholders should invest their time for capacity building, handholding and development support.





## MICRO FINANCE

### Unit Structure

19.0 Objective

19.1 Micro Finance and Micro Credit

19.2 Challenges ahead for Microfinance in India

19.3 Conclusion

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### 19.0 OBJECTIVES

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Micro Finance is a movement which aims at providing financial services to those who do not have access to Finance or are neglected by the commercial banks and financial institutions. For some, micro finance is used to describe the supply of financial services to low income groups who typically lack collateral, steady employment and a verifiable credit history. The promoters of micro finance generally believe that provision of a wide range of financial services, especially savings accounts, to the poor will lead to generation of self-employment income and to help the poor people to come out of poverty.

In some regions, micro finance is a movement whose object is “a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services including not just credit but also savings, insurance and fund transfers.” For others, micro finance is an effective tool to fight poverty and a way to promote economic development, employment and growth through the support of micro-entrepreneurs and small businesses. In short, micro finance is a novel approach to “Banking with the poor.”

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### 19.1 MICRO FINANCE AND MICRO CREDIT:

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Very often the terms ‘Micro finance’ and Micro Credit’ are used as synonyms phrases. But it needs to be mentioned that micro finance is a broad category of services which includes micro credit. Micro credit is provision of credit services or extension of

very small loans to poor customers. In other words, micro finance is a broad concept and includes wide range of services to the poor, while micro credit is one of the aspects of micro finance and refers to the provision of micro loans (very small loans) to those who would otherwise have no access to banks and financial institutions. Micro credit thus, is a part of micro finance and micro credit, very often, as stated earlier, the two terms are used interchangeably.

**a) Features of Micro Credit Institutions:**

Micro credit, as stated earlier, is the extension of micro loans to very poor persons for generation of self-employment and income. Financial and Business services provided by Micro Finance Institutions (MFIs) generally include saving and credit. The main features of micro credit institutions which differentiate it from other commercial institutions are:

- i) It is an alternative to informal credit and a substitute for the 'loan sharks' who charge exorbitant interest and exploit the clients.
- ii) Requires no security or collateral to put up against loans.
- iii) Requires less paper work or documentation and have simple procedures.
- iv) Have very simple, easy and flexible repayment terms and simplified procedures.
- v) Generally assistance of members of group in case of a critical situation or a household emergency.
- vi) The most neglected and deprived segments of the population are efficiently targeted.
- vii) Groups interaction with each other's and maintaining close contacts.

**b) Objectives of Micro Credits Programmes:**

The main objectives of micro credit programmes can be briefly summarized as under:

- i) To safeguard the interests of the poor and to stop their exploitation caused by expensive informal credit.
- ii) To provide micro loans to the poor and low income groups at relatively cheaper rates as compared to accessible informal credit.
- iii) To finance such projects which are economically and socially viable but cannot be financed otherwise.

- iv) To empower women within households as decision makers and in society through economic participation.
- v) To tap all available resources to create maximum employment opportunities for the rural poor.
- vi) To generate self-employment and make people self-sufficient.
- vii) To eradicate poverty, accelerate the pace of growth and improve the living standards on sustainable basis.

### **c) Micro Finance in India:**

The origins of micro credit in its present form can be linked to be “Grameen Bank” in Bangladesh, which is the oldest and perhaps the best known micro finance institution in the world. Muhammad Yunus a Nobel Prize winner introduced the concept of micro finance in Bangladesh and established the “Grameen bank” in 1983. The National Bank for Agriculture and Rural Development (NABARD) took this idea and started the concept of micro finance in India. In this concept, there exists a link between Self Help Groups (SHG), Non-Government Organizations (NGOs) and Banks. The SHG–Bank linkage programme, introduced and encouraged by NABARD since 1992 in India is the ‘largest and fastest’ growing micro finance programme in the world’ and is being implemented by more than 30,000 branches of commercial banks, Regional Rural Banks (RRBs) and Co-operative banks in over 520 districts of the country.

### **d) Progress of Microfinance in India**

The institutions which engage in microfinance services in India follow three types of approaches namely

- i. The Grameen Bank approach
- ii. The Cooperative Societies (which are members of a cooperative bank) approach
- iii. The SHG Programme approach.

In the four years between 2003 and 2007, small borrower bank accounts (credit) i.e. upto Rs 25,000 increased marginally from 36.9 million to 38.6 million, while SHGs ‘borrowing members grew from 10 million to 40.5 million and MFIs borrowers grew from 1.1 million to 8 million’. In 2007-08, MFIs have added 6 million clients increasing their outreach to 14 million as per data brought out by Sa Daan. An innovative scheme in rural delivery system launched

by NABARD is the linking of SHGs of the poor with banks and bulk lending through NGOs. NABARD considers SHGs a pre-microenterprise stage for a majority of the rural population. The linkage project envisages active involvement of NGOs who play a crucial role in formation, nurturing, stabilising and guiding the SHGs into cohesive and dynamic groups inculcating the habits of thrifts and credit management and ultimately establishing linkage with the banks. Under the SHG-bank linkage programme, three linkage models have broadly emerged. Under the first model, banks directly link SHGs without the intervention of the NGOs. In the second model, banks provide credit to SHGs and NGOs act as Self Help Promoting Institutions (SHPIs). Under the third model, NGOs act both as SHPIs and financial intermediaries for channelising credit from banks to SHGs. The SHG-Bank Linkage Programme implemented by commercial banks, RRBs and cooperative banks has emerged as the major micro-finance programme in the country. Under the SHG-Bank Linkage Programme, as on March 31, 2009, 61,21,147 SHGs held savings bank accounts with total savings of Rs 5,545.62 crore as against 50,09,794 SHGs with savings of Rs 3,785.39 crore as on March 31, 2008. Thus more than 8.06 crore poor households were associated with banking agencies under the SHG- Bank Linkage Programme. The table one clearly shows the progress under SHG Bank Linkage programme in India.

\* From 2006-07 onwards, data in respect of number of SHGs financed by banks and bank loans are inclusive of SHGs financed under the Swarnajayanti Gram SwarozgarYojana (SGSY) and the existing groups receiving repeat loans. Owing to this change, NABARD discontinued compilation of data on cumulative basis from 2006-07. As such data from 2006-07 onwards are not comparable with the data of the previous years.

# Provisional

Source: GoI, 2009

As on March 31, 2009, commercial banks had the maximum share of SHG savings with savings of 35,49,509 SHGs (58 per cent) amounting to Rs 2,772.99 crore (50 per cent); this was followed by RRBs with savings bank accounts of 16,28,588 SHGs (26.6 per cent) and savings amount of Rs1,989.75 crore (35.9 per cent) and cooperative banks with

savings bank accounts of 9,43,050 SHGs (15.4 per cent) and savings amount of Rs 782.88 crore (14.1 per cent).

The share of the Swarnajayanti Gram Swarozgar Yojana (SGSY) in SHG savings accounts was 15,05,581 SHGs, forming 25 per cent of the total SHGs having savings accounts in banks. During 2008-09, the average savings per SHG with all banks increased from Rs 7,556 as on March 31, 2008 to Rs 9,060 as on March 31, 2009, varying between a high of Rs 12,218 per SHG with RRBs and a low of Rs 7,812 per SHG with commercial banks. As on March 31, 2009, the share of women SHGs in total SHGs with savings bank accounts was 48,63,921, accounting for 79.46 per cent as compared to the previous year's share of 79.56 per cent. During 2008-09, banks financed 16,09,586 SHGs, including repeat loans to existing SHGs, as against 12,27,770 SHGs during 2007-08, a growth of 31.1 per cent (number of SHGs).

As on March 31, 2009, 42,24,338 SHGs had outstanding (cumulative) bank loans of Rs 22,679.85 crore as against 36,25,941 SHGs with outstanding bank loans of Rs 16,999.90 crore as on March 31, 2008 (Table 5.9). This included 9,76,887 SHGs (6.5 per cent) with outstanding bank loans of Rs 5,861.72 crore (21.7 per cent) under the SGSY as against 9,16,978 SHGs with outstanding bank loans of Rs 4,816.87 crore as on March 31, 2008. Commercial banks had the maximum share of around 70 per cent of outstanding bank loans to SHGs followed by RRBs with a share of 23 per cent and cooperative banks with the balance. As on March 31, 2009, the average bank loan outstanding per SHG was Rs 53,689 as against Rs 46,884 as on March 31, 2008. It varied from a high of Rs 57,037 per SHG in the case of commercial banks to a low of Rs 31,460 per SHG in the case of cooperative banks. Financial Inclusion in.

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## **19.2 CHALLENGES AHEAD FOR MICROFINANCE IN INDIA**

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An evaluation of SHGs carried out by the regional offices (ROs) of the Reserve Bank revealed that there was scope for improvement in the area of maintenance of books of accounts. It also brought out that rotation of group leaders was generally not followed by SHGs. However, other best practices like strict adherence to attendance of group meetings, recording minutes of the meetings and prompt repayment of bank

loans were being followed. The momentum of growth in the micro-finance sector has brought into focus the importance of regulating the sector to function in an efficient and orderly manner. There would be need for greater transparency in their functioning and for facilitating their reach to un-banked population of the country. Interest rates in the microfinance sector have to be significantly higher than in the banking sector reflecting the much higher cost of doing business. This attracts criticism but it is important to remember that most microfinance institutions charge rates which are much lower than rates charged by money lenders. Borrowers stand to benefit from the experience of micro-finance institutions as these provide competition to money lenders (Planning Commission, 2006).

Over the past two decades, institutions that make microloans to low-income borrowers in developing and transition economies have focused increasingly on making their operations financially sustainable by charging interest rates that are high enough to cover all their costs. They argue that doing so will best ensure the permanence and expansion of the services they provide. Sustainable (i.e., profitable) microfinance providers can continue to serve their clients without needing ongoing infusions of subsidies, and can fund exponential growth of services for new clients by tapping commercial sources, including deposits from the public. MFIs on average have higher returns on assets than commercial banks do, but MFIs produce lower returns on equity for their owners. The median return on MFI owners' equity in 2006 was moderate—12.3 percent, roughly 4 percent lower than the return for banks (Rosenberg, et al.).

There have been incidents of state governments imposing restrictions on micro-finance institutions in a manner which does not reflect an appreciation of the realities on the ground. Excessive regulation and control of this sector may be particularly dangerous as it can prevent the development of a healthy and competitive micro finance sector which could compete with usurious money lenders (Planning Commission, 2006).

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### **19.3 CONCLUSION**

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Finance is the lubricant, which oils the wheels of development. All economies rely upon the intermediary function of finance to transfer resources from savers to investors. In market economies, this function is performed by

commercial banks, financial institutions and capital markets. In many developing countries, capital markets are at a rudimentary stage, and commercial banks are reluctant to lend to the poor largely because of the lack of collateral and high transaction costs. The poor would borrow relatively small amounts, and the processing and supervision of lending to them would consume administrative costs disproportionate to the amount of lending. Extending the reach of financial services to the poor through new technologies and simplified branch regulations hold promise. Bringing financial services to rural clients is the biggest challenge in the quest for broad-based financial inclusion. Often the main barrier to financial inclusion in rural areas is the great distances that rural residents must travel to reach a bank branch. Poor infrastructure and telecommunications, and heavy

Branch regulation, also restrict the geographical expansion of bank branch networks. In many developing countries there are fewer bank branches per rural resident than per urban resident. Non bank financial institutions like microfinance institutions help to fill this gap. Even though, in India, the microfinance model extends credit and savings to the poor, the challenges faced by the industry has to be rectified in due course for the effective working of the model.

