Rural Management - Financial Products for Rural Markets

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About the Book

The Indian economy has seen an improvement in the sophistication and depth of financial products since the start of economic reforms in the 1990s. The focus of the financial products has been majorly on the richer and middle income group of people. Our economy comprises of population coming from two main sectors i.e. Urban and Rural sector. It is very important that the people in the rural areas are provided an opportunity so that they could be a part of the financial system and contribute towards the growth of the economy. This book is divided into five chapters and each chapter focuses on various aspects of financial products for the rural markets.

This book has been prepared keeping in mind various angles of rural market. The first chapter gives an idea about the rural financial services and framework. The second chapter is focused on financial system and rural finance in India. The third chapter describes financing of Short term Agri-credit. The fourth chapter discusses about the various financial products which are available for Rural India. The fifth chapter describes the integration of rural market.

This book has many figures, tables and graphs to make explanation easily understood by the readers. There are 'to do activities' mentioned after every unit to make reader practice while learning. At the end of each chapter, questions have been mentioned to help the reader to evaluate the topics which have been mentioned in this book.

The people of rural sector have been dependent upon the traditional credit schemes from the local money lenders. There have been many sufferings among the people of rural sector due to the traditional credit schemes, as local money lenders used to charge high interest rates and this lead to farmers' indebtedness. The rural segment of the Indian economy has been contributing to a great extent to Gross Domestic Product (GDP). These people should be promoted to be included in the financial system and there is a need to educate this segment of the economy to avail the financial services. It is very important to make the financial products available for the financially excluded population of India. Sometimes the term 'Financial Inclusion' is regarded in a narrow sense. The government has been pushing the Banks to work towards Financial Inclusion of the excluded part of the economy. There is a need that Financial Inclusion be understood in the real sense and not be restricted only to opening of Savings Deposit accounts.

Bank deposits could be the first step towards financial inclusion. Financial Inclusion is much more than that, there are many financial services which should be made available to the people of rural sector. Rural financial services include many services like savings deposits, agricultural lending, lending for non-agricultural production and consumption and other financial service such as Insurance. The provision of loans to people of rural sector can reduce the gap of uneven income to some extent among the people of Urban and rural sector.

I would like to thank Dr Meghna Jain, Assistant Professor in Gyan Ganga Institute of Technology and Sciences, Jabalpur for contributing to this book and for her outstanding insights. I would like to thank MGNCRE Team Members for extending extreme support in completing this book.

Dr W G Prasanna Kumar
Chairman MGNCRE

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Chapter 1 Idea and Significance of Rural Financial Inter Intercession

Introduction

In India, financial sector is predominantly the banking sector having commercial banks which amount to majority in total assets of financial system. Indian government has introduced various reforms for liberalizing, regulating and enhancing the financial industry. Financial services sector comprise of various organizations like Insurance companies, Commercial banks, Non-Banking Financial Companies (NBFCs), Pension funds, mutual funds, Co-operatives and some other smaller financial entities. The regulator of Banking sector have allowed entry of new entities like the Payment banks which have come up in the last few years and this has added to various types of entities which have been operating in the financial sector. It is challenging to provide financial services in the rural areas since Agriculture and other rural economic activities have unique characteristics because they are dependent on natural resource, longer production cycle and vulnerability towards multiple risks. In the rural areas, there is a sub-division in land and also smaller ticket size in the rural non-farm activities that require provision in loans which are smaller in size and exist in larger numbers and they involve operational cost for the banks.

Rural finance can be referred to the financial services that are offered and used by people in rural areas having different levels of income. Agricultural finance could be regarded as a very important part of rural finance that is dedicated towards finance for agriculture and other related activities. Rural finance includes financial service for various purposes and also from diversified sources that tailored to need of poor people residing in the rural areas. The finance providers in the rural market included financial institutions like Banks, Credit unions and also non-financial mechanism.

Financial intermediation is when strengthened could provide lower income household with a more consistent flow of cash and also a better access towards opportunities in market, having options for mitigation of risks and also improving resilience for unforeseen shock, with mechanism for securely transmission of payments and also receiving remittance at affordable costs and reliable saving instruments. Financial intermediation has expanded entrepreneurial opportunities for the rural entrepreneurs. The people in rural areas are aggregating, adopting improved technology and also other activities which could reduce transaction cost and lead to expansion of value addition. Banks have been playing a very important role in economic development of the country.

The Indian Government and the Reserve Bank of India (RBI) have been putting concerted efforts so as to promote financial inclusion. Financial Inclusion has been considered as one of important national objective of our nation. The main objective of these initiatives is reaching large section of financially excluded population of India.

RBI adopted bank-led model towards achievement of financial inclusion. Adoption of this model has removed all the regulatory bottle neck so as to achieve greater level of financial inclusion. For achieving targeted goals, RBI has created conducive regulations in environment and also provided support to banks to accelerate financial inclusion effort. Financial inclusion focuses on the access or ownership to particular financial product and services like deposits, savings, credit, insurance and money transfer provided by mainstream financial services providers.

From the demand perspective, people having lower income and lower saving level could lead to low demand for financial service, in particular the deposit facility. There is also a possibility that people have access towards financial services but do not wish to access them. People in rural areas have various problems which resist them from using banking services, like some of them feel that financial services are not affordable, may not suit their needs and some fear that the Banks or Financial Institutions might decline providing financial services if these people request them. Sometimes

credit facility is not provided to people residing in rural areas as there exists credit risk and this discourages the lenders to serve them. Financial products and services for rural market are Savings (deposit), Loan or credit, Pension, Insurance (protection plans) and remittance.

Objectives of the Chapter

- To understand the nature, demand and supply of rural financial services
- To provide an insight into the structure of Indian Financial system
- To understand Rural Financial framework
- To understand the concept of Financial Inclusion
- To understand financial products and services being offered to rural market

Content

1.1 Financial Services Needs for Improvement

Financial Services

The Financial sector in India is diversified and is undergoing expansion rapidly with the existing financial service firms and the new entities that are entering market. Financial services sector comprise of Insurance companies, Commercial banks, NBFCs, Pension funds, mutual funds, Co-operatives and some other smaller financial entities. Regulator of Banking has allowed the entry of few new entities like Payment banks that have come up in last few years and this has added to the types of entities that are operating in financial sector. In India, financial sector is predominantly the banking sector having commercial banks which amount to majority in total assets of financial system. Indian government has introduced various reforms for liberalizing, regulating and enhancing the financial industry.

It is a challenge to provide financial services in the rural areas as Agriculture and rural economic activity have unique characteristic as they are dependent on natural resource, longer production cycle and vulnerability towards multiple risks. Further, there exists a sub-division in land and smaller ticket size in rural non-farm activity which requires provision in the loans that are small in size in larger numbers that often raise operational cost for banks. The ambit of the non-

agricultural activities is widening and there is higher need for rural finance even for the non-agricultural activities. The poorer group of people requires the basic saving services and even micro-credit for covering the production cost and also emergency expenses; farmers and farmers' organizations requires large amount of credit for financing inputs, production, processing, marketing and even for the risk mitigation product like insurance for securing life and also assets. There is paradigm shift in rural finance as the people in rural area are not limited only up to opening of saving account or just dealing with basic loan products; the rural clientele are not limited to farmers and the uneducated only but it includes generation that could use and adapt technology. Rural finance in turn advocated a design that is demand driven and is providing an efficient provision for multiple financial services and products through inclusive financial system comprising of sustainable institutions that are serving diversity in rural clientele.

Role of Central banks and financial authorities in Financial Inclusion

Central Banks and Financial authorities play a very crucial role in Financial Inclusion. Looking after core mandates i.e. financial stability and price – the central bank and other financial authorities could boost trust in financial system this provides base for financial inclusion. This link is indicated by red arrow in diagram below. People do not start using the formal financial services if they don't have trust on currency or financial institution like banks, Cooperatives and credit unions. Central bank could help in building trust in both the dimensions. Safeguard price stability can build trust in currency and sound framework of prudential supervision can build trust in these Institutions.

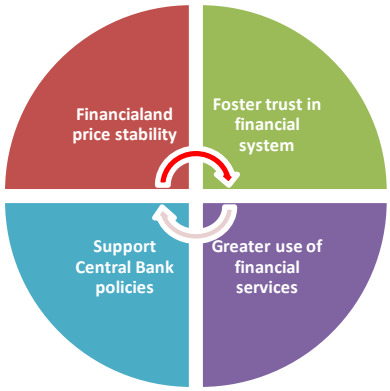

Figure 1.1 How a Central Bank's core objectives support financial inclusion
Source : Bank for International Settlements (BIS)

Nature of Rural Financial Services

Financial services in Rural areas is not only restricted to agricultural lending rather also related to lending for farm household for consumption purpose and non-agricultural production, loans rural firms which are dealing with non-farm activities, insurance and rural saving deposit services. The credit provision helps in smoothing the uneven expenditure and income streams. This service of lending money to people in rural areas is a service of different type as actually each loan involves exchange of access to resources for undertaking to repay in future. As in some other cases of loan in urban areas also involve the provision of some security while availing any loan facility, which is majority of times not possible in rural areas while loan is granted in rural areas. There is a lot of risk involved while providing credit to people in rural areas and the risk could be of two kinds like one is when the borrower is unable to pay against the loan and second is that when the borrower is unwilling to repay.

The overall lending activities entail :

a. Exchange of today's consumption for latter period's consumption
b. Protection against the default risk
c. Acquiring of information about the applicant of loan (Screening problem)
d. Measure for ensuring that the borrowers take actions which can increase the probability of repayment (incentives problem)
e. Actions for increasing likelihood of the repayment by borrower who are able for doing it (enforcement problem).

There is an existence of non-repayment which means that private sector Institutions are usually not willing in providing credit unless collateral security is provided or in case lender has a particular tie with borrower. Higher transaction cost is associated with the imperfect information (i.e. searching, monitoring and enforcing) and also risk, increases cost of the credit transaction and lowers effective demand. Transaction cost increases as the rural population is dispersed in nature as compared to urban areas where there are many providers of credit. Government should willingly provide loans as compared to private sector as they are lesser risk-averse and have greater coercion power and hence they have more ability of obtaining repayment. Generally it is disadvantage relative to private sector as loyalty and local knowledge of borrowers is concerned which leads to problem of adverse selection and unwillingness of borrowers for repaying loans.

Demand for and Supply of Rural Financial Services

The Effective Demand for Rural Credit

Many problems relating to the rural financial service has been derived from the misunderstanding of nature of services' effective. There was a misconception that the farmers and few other rural dwellers required credit for the purpose of agricultural production purposes. An effectual demand for loan, backed by willingness and paying ability, could exist for smoothing variety of situation consumption and income streams are phased poorly. Credit for purposes which are non-agricultural in nature could be important as agricultural loan. Many rural dweller need credit in the form of consumption loan for meeting the cost of living during months before next harvest is due, but not for purchasing inputs for raising agricultural productivity. Secondly, another misconception was that the poor farmers were very poor for paying for credit but there was little demand. Evidence indicates that the poor households of rural areas are willing and also able to service loan in case they borrow to meet their own perceived need and have been screened and monitored adequately.

The Paradigm of Directed Credit Provision

The above mentioned misconceptions resulted in agricultural credit policy during 1960s and the 1970s which were based on paradigm. The policy's implications of paradigm were as below:

- It was function of central government for deciding:
  - What should farmers do with the credit
  - What should be credit cost for rural borrowers
  - Who should benefit actually from loans
  - What should be total agricultural credit's amount
- It was function of central government to provide:
  - Saving mobilization mechanism in rural area
  - Facilities of lending on subsidized basis.
- Responding to demand of farmers' for credit for various purposes other than the agricultural production, as it was government's priority.

Paradigm of the Centralized and Agricultural Credit Policy

- Major source for livelihood is agriculture and main engine for economical growth in the developing countries which indicates that development of production from agriculture is public priority
- Technological innovation and more inputs use are indispensable for increase in production
- Farmers required more financial resource for adopting technology innovations
- Mostly farmers are poorer, hence there exists a gap in the cash resource, this blocks adopting new technology and also credit is required for filling the gap
- Agriculture is said to be risky as the returns in this sector are lesser as compared to other economic sectors
- Market's rate of interest reflects various opportunities in the other sectors: money cost's too high for borrowing for productive purpose by the farmers
- Government should intervene with a subsidized lending (i.e. seek no profit, amortize higher transaction cost, spreading risk on national basis)
- Loans that aim at some specific governmental objectives, in such case subsidy is justified
- Agricultural loan must be focused on selected crop and technology which is of some interest to the government
- There is a need for extending subsidized credit by specialized government Institutions for some specific purposes should be established and also financed with public funds
- Specialization advised that collection from savings and lending functions of the financial intermediation have to be kept distinct
- Mostly borrowers of rural areas are poor farmers and lower cost credit responded to poverty alleviation consideration also
- Subsidized credit compensates farmers for higher taxation of agricultural sector like basic grain's price control, export tax, artificial exchange rate, etc.).

The Supply of Rural Financial Services

Unique problems of supplying agricultural finance

There are special factors which are likely for influencing supply of the agricultural finance. These include:

- High financial transaction cost for attending dispersed as well as small farm household
- Seasonality and importance of opportunity timings of on-farm finance for input application, cultivation practices, harvesting, heterogeneity in lending needs of farmers and relatively long duration about agricultural lending contract
- Dependence on management of sustainable natural resource management as well as relatively lower profitability in on-farm investments
- Some weather and some other production risk, along with the marketing risks which are related to agriculture, which require proper risk management technique, for the producers as well as financial intermediaries
- Limited availability of collateral that the farm households could offer, which highlights need for increasing securities of existing loan's collateral or developing appropriate substitute for collateral
- Reality that the farm household are confronted by emergency needs as well as that their repayment of loan capacity is more dependent on consuming and the social security contingency
- There is a need for providing training adequately to farmer clients as well as staff

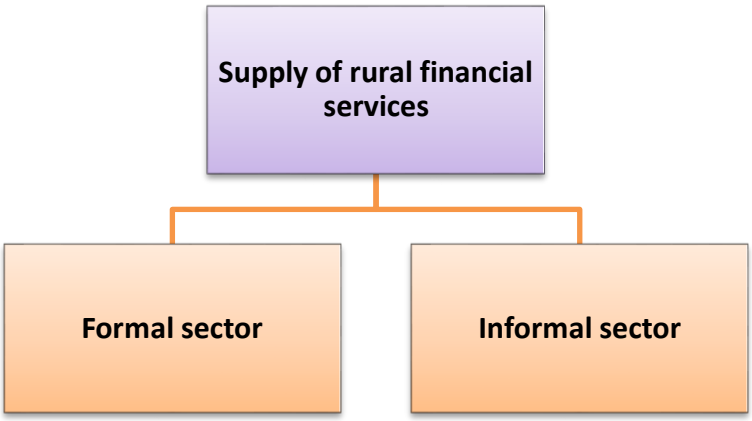

Figure 1.2 Supply of rural financial services

Formal Sector

In the developing countries, the suppliers or the financial intermediaries are of two types. One is the formal sector and the other is the informal sector. Formal sector consist of banks and Non-Banking Financial Institutions (NBFIs) that provides intermediation service between depositors and borrowers. Banks and NBFIs fall under banking law, they are supervised and regulated. In past, they typically charged lower rate of interest which were subsidized by government. Many a times, lesser attention was given to voluntary saving mobilization in the rural areas since small farmers were poor and they were considered having a lower propensity towards saving.

Informal Sector

Informal sector in developing countries comprise of professional moneylenders, commission agents, traders, landlords, friends /relatives – those who generally lend money from their own wealth and are not supervised or regulated by National monetary authority. Major difference between the two types of suppliers is mechanism used to deal with screening, incentive and monitor problems with informal sector that rely more than formal sector on their close knowledge about their clients in overcoming these problems.

'Crowding Out' Informal Sector

The Informal financial market existed in the rural areas, but was ignored by the government policies for a long time. The paradigm shift in agricultural credit excludes the informal market from playing role due to two reasons – firstly the operators in the informal financial market don't share same commitments as government in promoting the agricultural production. Secondly, they would be charging exorbitant rate of interest, that allegedly the agricultural producers would not find it affordable to pay. In many developing countries, for many years government hindered spontaneous development of the informal financial intermediaries through occupation through the subsidized operations, market's space which informal operators would have exploiting and developing. This effect is defined as the 'crowding out effect' of government's agricultural credit policy.

To Do Activity

Explore at least two points for the following differences :

- Agricultural and non-agricultural sector
- Formal and Informal sector for supply of rural financial services

1.2. Rural Improvement

Micro finance denotes financial services i.e. Savings, insurance, credit, payment transfers etc for the poor and the people of low-income level. Rural finance can be referred to the financial services that are offered and used by people in rural areas having different levels of income. Agricultural finance can be regarded as a part of rural finance which is dedicated to finance for agriculture and related activities like inputting supply, producing, distributing, wholesaling and finally marketing. Rural finance includes financial service for various purposes and also from diversified sources that tailored to need of poor people residing in the rural areas. The providers included financial institutions like Banks, Credit unions and also non-financial mechanism.

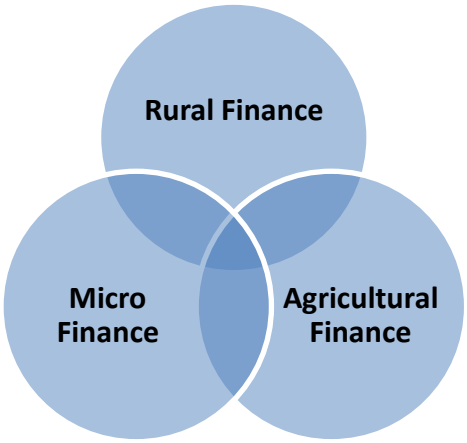

Figure 1.3 Financial Services in Rural Areas

Constraint to Financial Services in the Rural Areas

- Disperse demand among people for various financial service due to lower level of economic activities and density of population
- High information, high transaction cost that is linked to the poor infrastructure and lack in client information
- Weaker institutional capacities of finance providers in rural areas related to availability of limited well trained and educated people in the smaller rural community
- Crowding-out effect on subsidized and directed credits from the state-owned banks or Financial Institutions
- Existence of seasonality in many agricultural activity and also longer maturation period for other, that results in variable demands for credit and savings, cash flow becomes uneven and lag between loan disbursement and repayment
- Risk linked to farming like variable rainfall, diseases and pests, fluctuation in prices and smaller farmers' having poor access towards advice, inputs and markets
- There is a lack in usable collateral as the property is ill-defined and also land-use right, lengthy or costly registration procedure, and poor functioning of judicial systems

Challenges in Supporting Financial Service for Rural Poor

- Assuming that credit is regarded as a binding constraint, the agencies usually have equated rural finance with the agricultural credit traditionally, considering it as "input" for achieving the agricultural production target or objectives of the other projects. Credit is offered as on supply-driven basis having a superficial analysis about true demand in markets and very often at a subsidized interest rate through project implementation units or un-sustainable agricultural bank.

- There exists lack in cross-sectorial collaboration. There is insufficient incentive (for e.g., instruction from the management or rewards) for the financial sector and for rural or agricultural specialist for working together. Agricultural financial projects and rural development projects having finance component, are designed, implemented and also monitored without having expertise in financial sector.
- The options are not adequate hence the Financial Institutions get frustrated from lack in alternative model for replacing discredit approach that is of providing cheaper credit through the agricultural development bank and other schemes of agricultural credit. The new microfinance technology does not provide responses for all challenges that are faced in rural areas. Hence, many agencies are ignoring Agricultural finance virtually.

Case study : Financial Inclusion: Women Empowerment

The Mann DeshiMahila Bank, which is based in Mhaswad, Satara District, in Maharashtra, is an organization which works toward holistic progress of the women entrepreneurs as owners and customers of bank. It was founded in the year 1997, by Chetna Vijay Sinha, Mann DeshiMahila Bank created 17,000 women entrepreneurs. This regulated co-operative received an "A" grade from the Department of District Cooperative in the year 2000, it equips the clients with liquid asset that will help in financial empowerment which will enable women for becoming entrepreneur and also plan stable future for themselves and families. Services which the bank offers include savings, loans, insurance and pensions. Bank's partnership with the UTI Mutual Fund enabled bank to offer pension scheme to all the clients in the state of Maharashtra. Success of Bank was to create several sub-organizations which helped in overall development of Rural Women.

Reference: Creado, J. and Koshi R. (2008). Creating Leaders at the Bottom of Pyramid. *Microfinance Insight*. March

Activities for Improving Access to the Financial Services in the Rural Areas

1. Building staff capacity

Banks and Financial Institutions should encourage a greater interaction among the financial sector and the rural development employees for ensuring that the financial sector expertise gets included on the rural projects which has finance component.

2. Help in improving enabling environment

Banks and Financial Institutions having expertise for policy and influence with government should work on the following :

i. Enhancing transparency and also efficiency of court system and strengthening the property and land registries;
ii. Eliminating government subsidies on interest rate for the agricultural lending;
iii. Removing policy bias existing against agricultural sector, for e.g., control in prices on staple crop; and
iv. Investment in communication, physical infrastructures, and service like education and health

3. Building existing institutional infrastructures instead of creating newer and costlier delivery mechanism that may not be viable

Introduction of financial services which are designed for the poor can be made through the existing Banks working for agricultural development that meets the basic pre-conditions, postal system or even the retail stores.

4. Determining appropriate role of subsidies
Instead the interest rates to be subsidized for end-clients, Banks and Financial Institutions should use grant for promoting innovation and building the institutional capacity. Financial Institutions should resist political pressures for including the targeted or the subsidized credit among agricultural project.

5. Explore possibility of technology
Financial Institutions could help in reduction of costs of operation in the rural areas and also improvement in services being provided among rural clients through introduction of new technology.

6. Funding innovation in the delivery mechanism and products
Financial Institutions should offer flexibility in granting funds to people of rural areas that are seeking to adapt new financial products, or even result in reduction of delivery transaction cost. There is a requirement of Innovative solution to meet the needs which better fit income and the investment cycles of agricultural activity.

Role of Financial Intermediation in Economic Development
Financial intermediation refers to process which helps in channelizing funds from the supplier to prospective user. There exist many Institutions, instrument and markets which have evolved for providing financial intermediation services. These include the Formal institutions like Banks, semi-formal institution like cooperatives and the informal providers like traders and money lenders. It is a challenge to provide financial services among people of rural areas since agriculture has various unique characteristics like dependence on natural resource, longer production cycle and risk vulnerability, while the scattered population has greatly increased the operating costs. Financial intermediation when strengthened could provide lower income household with a more consistent flow of cash and also a better access towards opportunities in market, having options for mitigation of risks and also improving resilience for unforeseen shock, with mechanism for securely transmission of payments and also receiving remittance at affordable costs and reliable saving instruments. Financial intermediation expands entrepreneurial opportunity for rural entrepreneurs for aggregating, adopting improved technology and also other activities which could reduce transaction cost and lead to expansion of value addition.

Banks directly plays important role in the economic development of the country. Here, we can see certain specific role of banks as financial intermediary.

1. Self-Employment Programme
Employment growth is an indicating sign towards economic development. The financial Intermediaries are providing finance to start self-employment programme for generation of more income and production. In India, many programmes were initiated for self-employment scheme by banks after commercial Banks' nationalization.

2. Entrepreneurial Development Programme (EDPs):
EDPs have been launched successfully by Banks. Initially through the Lead Bank Schemes, employment opportunities were being developed by Banks at district level. Approach of Service Area was later adopted in the year 1978 through which specific areas have been allotted to banks to launch various economic programmes for developing such areas.

3. Integrated Scheme for Rural Development
In this scheme, the financial intermediaries have been financing economically and socially depressed people through loans being provided to them for many economic activities. In this case, one third

amount of loan is a subsidy and remaining amount of loan carries a low interest rate under the scheme of interest rate subsidy of Reserve Bank of India. Though this way, many economic programmes that aimed at improvement in the rural economic condition was undertaken.

4. Housing Finance

For improving the dwelling houses, the financial intermediaries provide housing loans. Refinance facility is also being provided by Housing and Urban Development Corporation (HUDCO). This facility has enabled various groups of people who are having fixed income for availing housing loan.

5. Priority Sector

There is a requirement based on guidelines issued by RBI for Commercial banks for providing a certain percent of lending to the priority sector that consist of agricultural and its allied activity like dairy, poultry, small scale and cottage industries, other small industry and business.

6. Development of Backward Areas

For preventing the regional disparity, the financial intermediaries are advancing loan to industry that are started in the backward areas. Certain concessions through tax benefits have been given by Government to such kind of industries and also banks have been providing cheaper loans to backward classes for attracting more industries.

7. Introducing Electronic System

Financial intermediaries are using computers for many of their activities and there is a proper network through which their branches are linked. This resulted in quick funds transfer between the centres and has also helped customers to realize their cheques speedily. For speedy clearing of cheques, Magnetic Ink Character Recognition (MICR) cheques were introduced.

Structure of Indian Financial System

Economic development of a country is reflected in progress of many economic units that could be classified broadly into corporate sector, household sector and government. There are different group of people, some have surplus funds and some are in need of funds. Financial system or the financial sector functions like an intermediary and helps in facilitating fund flow from surplus areas to deficit areas. Financial System is composed of many institutions, market, regulation and laws, practice, money managers, analyst, transaction and claim and liabilities.

The four major sub-systems which form a part of the Indian Financial system are :

- Financial Institutions
- Financial markets
- Financial Instruments
- Financial Services

These subsystems have been helping in capital formation. Financial system provides a mechanism which transforms savings to investments.

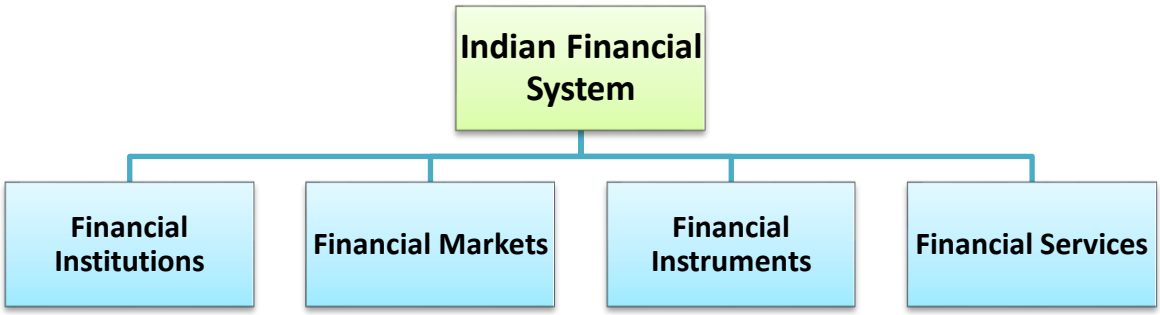

Figure 1.4 Components of Indian Financial System

I. Financial Institutions

These Institutions are intermediaries which facilitate the financial system to function smoothly through the interaction of investors and borrowers. Surplus units of savings are mobilized and allocation of these savings is done in the productive activities through a promise of providing better return. They have been providing a complete range of service to entities which wish to raise fund from market or elsewhere. The financial Institutions play a very important role in the functioning of financial system

The Financial institutions could be classified in two categories

- The Banking Institutions
- Non-Banking Financial Institutions (NBFIs)

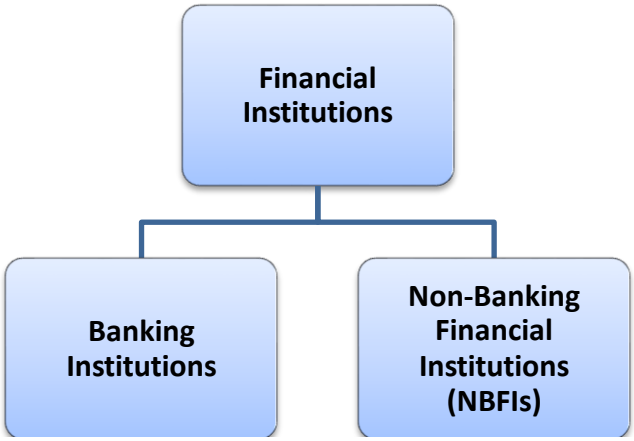

Figure 1.5 Financial Institutions

- **Banking Institutions**

They mobilize savings of people. They provide mechanism for smooth exchange of services and goods. They have been extending credit facility. These Institutions create credit besides supplying credit. The three basic categories of such Institutions are Commercial bank, co-operative bank and developmental bank.

- **Non-Banking Financial Institutions**

The NBFIs also deal in mobilizing the financial resources either directly or indirectly from people. They deal in lending money but do not create credit. NBFIs includes Life Insurance Corporation of India (LIC), Unit Trust of India (UTI), General Insurance Corporation (GIC), Development Financial Institution, organization of Pension, Provident Fund organizations etc. NBFIs can also

be categorized into investment companies, leasing companies, housing companies, hire purchase companies, investment institutions, specialized financial institution like Export – Import (EXIM) Bank of India etc., other state level institution etc.

II. Financial Markets

This is another subsystem of the financial system. There is a requirement of efficient financial market for speedy development of the economy. Vibrant financial markets enhance efficiency of formation of capital. It facilitates the flow of savings into investments. It acts as a bridge and connects financial intermediary with an additional set of player. Financial market acts as the backbone of economy. It provides monetary support towards the growth of economy. Growth of financial market acts as barometer of economy's growth. Financial market is the centre or arrangement that provides facility to buy and sell financial claim and services. This is the market in which there is trading of money and monetary claims. Financial market exists where financial transaction takes place. Financial transaction includes issuance of equities by companies, bond purchase in secondary market, money deposits, funds transfer among bank accounts etc. Participants in financial market are corporation, financial institution, individual and government.

Functions of Financial Markets

1. Facilitating creating and allocating liquidity and credit.
2. Serving as intermediary for mobilization of saving.
3. Helping in process of economic growth.
4. Providing financial convenience.
5. Providing information and facilitating transaction at lower cost.
6. Catering various credit needs of business organizations.

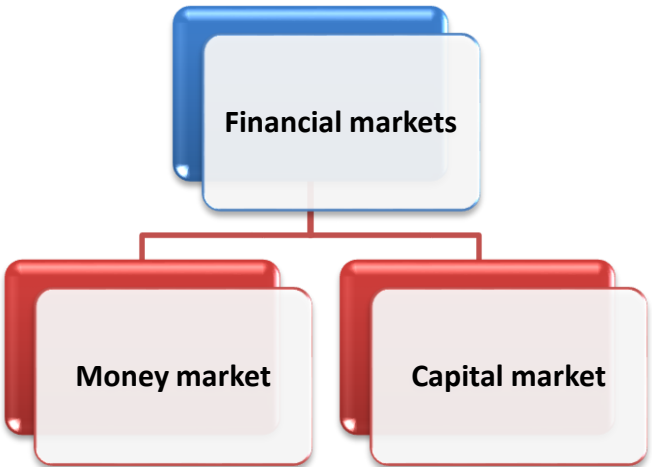

Figure 1.6 Financial Markets

Classification of Financial Markets

- **Money market**

It is a market in which short term fund is lent and borrowed. This market deals with short term assets that have maturity period of less than one year or one year. The types of securities which are traded in this market are Highly Liquid and liquid securities. Money market securities include Treasury Bills, market of Call money, commercial bills market etc. Main participants of this market include Banks, Financial institution and the government.

- **Capital market**

It is a market for long term fund. The market deals in claims of long term nature, security and stock having more than one year maturity period. In this market, productive capital is raised for industrial purpose. The examples of capital market are Stock market, derivatives market and government's bond market. In short, the capital market deals with long term debt and stock.

III. Financial Instruments

These include financial asset, security and claims. Financial instruments include financial asset and financial liability. Financial asset represents claim for payment of sums of money sometimes in future and periodic payment in form of dividend or interest. Financial liability is counterpart of financial asset. These represent a promise for paying some portion of wealth and prospective income to others. Financial liabilities and assets arise from basic financing process. Certain financial instruments are transferable/ tradable and some others are non-transferable /non-tradable. Financial asset like Bank deposits, Deposit in post offices and companies, insurance policy, Provident fund, Pension funds and National Savings Certificates (NSCs) are non-tradable. Other Securities like debentures, equity shares, government bonds and securities are tradable. Financial instrument could be of capital market, money market or hybrid instrument.

Classification of Financial Instrument

- **Primary Instrument**

These instruments are issued directly by ultimate investors to ultimate savers. Examples of these instruments are debentures and shares that are issued directly to public.

- **Secondary Instrument**

These instruments are issued by financial intermediary to ultimate savers. Examples of these instruments are mutual funds which issue security through units to public.

Figure 1.7 Characteristics of Financial Instrument

IV. Financial Services

Development of matured and sophisticated financial system led to emergence of new sector in the nation. The new sector was known as the financial service sector. The objective of financial services is intermediating and facilitating the financial transaction of Institutional and individual investors. Financial institution and the financial market help financial system through these financial instruments. Financial service includes all the activities that are connected with transforming saving into investments. Financial service includes hire purchase, lease financing, merchant banking, installment payment system, forfeiting, factoring etc.

To Do Activity

Form groups of 5 – 6 students and discuss in detail about any of the following topics and present the summary of the discussion in front of the class :

- Banking Institutions
- Non-Banking Financial Institutions
- Money market
- Capital market
- Financial Instruments
- Financial Services

1.3. Rural Financial Framework

Agriculture is primary source of occupation in rural areas. This sector has been contributing to Gross Domestic Product. Majority people in the rural area have low income and people are below poverty line. Rural economy is substantially diversified within agriculture and agriculture is varied from food grains cultivation to the commercial crops. It also includes allied activities like poultry and dairy, and even beyond agriculture to non-farm manufacture, services and construction sectors, rural finance need is even beyond agricultural credit.

There is a need for investment in the rural areas for the following:

- Poverty alleviation – as most of the people are poor who live in the rural areas
- Infrastructure - both physical i.e. market yards, roads, canals, etc and social infrastructure includes schools, hospitals, vocational institutes etc.
- Growth in the agricultural and non-farm activity
- Diversification of rural economy i.e. from agricultural activities to processing, construction, manufacturing, trade, construction, services, transport, etc.

Rural Financial Services

- Saving services
- Credits for long term and short-term uses,
- Insurance for Life, Assets, livestock, health and crops
- Remittance services
- Provident funds and pension
- Mutual fund and secure investment,
- Public goods and infrastructure finance

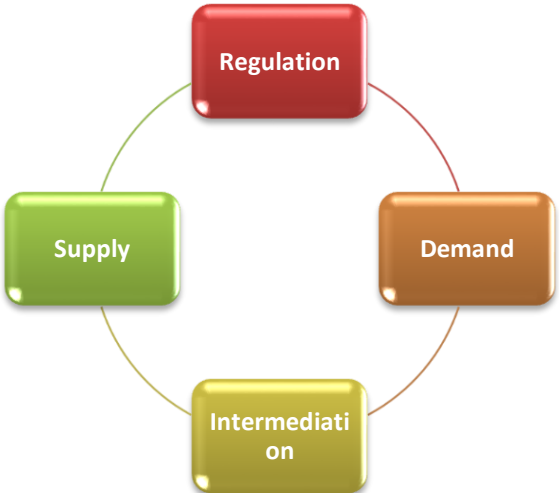

Figure 1.8 Components of the Rural Financial System (RFS)

Source : Mahajan, V. & Bharti R. (1996)

Supply Component

It is necessity for defining RFS for including both formal and also informal sector. The supply components include, among others:

- The million of rural household, farm and firm that generate saving, giving loans among each other, mutually insuring each other
- Traders that include input suppliers like fertilizer dealer, yarn merchant etc and output buyers like grain merchant, handloom cloth wholesaler etc with many among whom people from rural areas keep depositing at harvest time and who have been providing loans for non-farm or crop production. They have been providing insurance through rolling over loan or extending cash advance at timing of contingency
- moneylender and pawnbroker are mainly provider of cash loan at time of needs

Demand Component

This component comprises primarily million of household, farm and firm in the rural India. Approximately, there is non-farm or farm firm for every household in rural areas in India. All such households, firms and farms require financial services. From point of view of Rural Financial System sustainability, having need for credits, saving and insurance service is not sufficient. There is a requirement that users could to pay complete cost for such services. During past few years, lot of subsidies extended to financial service sector through many different government schemes. This included loan at subsidized interest rate, subsidies on principal and also in certain cases even loan waiver. These benefits have great impact borrower's mind and also spoiled repayment culture. Some insurance schemes in rural areas are highly subsidized in particular crop insurance. It was difficult for introducing sustainable schemes that could have covered more producers.

Intermediation Component

This component comprise of intermediaries who receive money from household, farm and firm, in form of saving or time deposit, insurance premium, provident fund, pension contributions. They use fund which is collected for extending loans to farms, firms, rural household, to urban borrower including industry and trade or investment in corporate and government securities.

Intermediaries in Financial Sector include

- Rural branch of commercial bank and Regional Rural Bank (RRB) that accept deposits and also extend loan.
- Co-operative Bank in village, district and town level that accept deposits and also extend loan, though major part of funds lent are from National Bank for Agriculture & Rural Development (NABARD)
- Post Office that provide savings and insurance service and National Small Saving Organization, which sell deposit instrument like Kisan Vikas Patra (KVP)
- Few NBFCs are also allowed to accept deposit by RBI. Within NBFC, there are some special categories which are called Residuary NBFCs or Residuary Non-Banking Companies (RNBCs) that have been allowed towards raising unlimited deposit amount and approx 80 percent is invested in government deposit and bank deposit. People belonging to rural area wanted saving services which they could pay in form of low inflation rate of interest on deposit and higher transaction cost, apart from risk related to losing the deposits altogether when savings is with many private companies.
- General and Life Insurance Corporation, that have been doing business in the rural areas

Regulation Component

Regulation is spread among various authorities :

- Banking Division in Ministry of Finance, Government of India (GoI)
- RBI through its Rural Planning and Credit Department (RPCD) and Department of Banking Operations and Development (DBOD) for the regulation of commercial bank and Department of Non-Banking Supervision (DNBS) for NBFCs
- NABARD, that inspects RRB and Cooperative Bank
- State Registrar of Cooperatives that have jurisdiction over thrift cooperatives and credit and also over Primary Agricultural Cooperatives Credit Societies (PACCS)
- State department for enforcing Moneylenders' Act, Chit Funds Act and some more Acts that prohibit deposits taking by thousand of various "finance companies".

Regulators have a primary concern on savings side that money of people in rural areas should not be taken away by fly-by-night operators. The main aim of regulators is to save smaller borrowers specifically from money lenders, which was translated to increase rural branches network of cooperative, bank, and extending loan at lower break-even level rate of interest. In Insurance, this meant asset insurance and extending crop at premium below breakeven. This resulted in poor quality in services in many cases after forcing the service provider to extend outreach through various means.

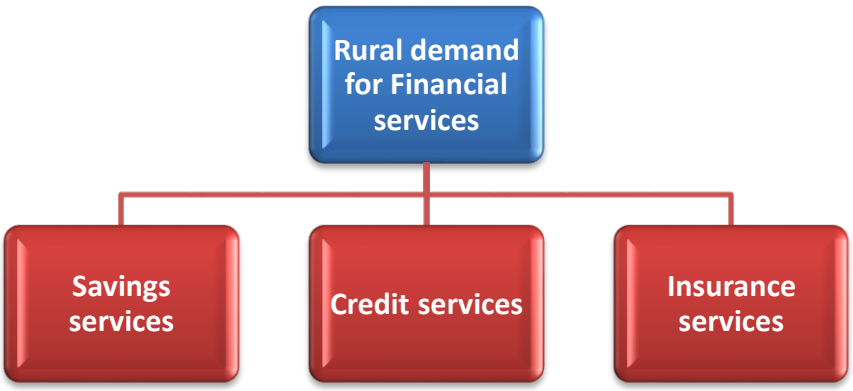

Figure 1.9 Rural Demands for Financial Services

Rural Demand for Savings Services

Demand for saving services is more than for credit. Rural people especially women, look forward to save smaller amount as possible by them to save. People of rural areas deter from using formal channel for saving as the cash flow is irregular and there is unavailability of amount for saving at a point of time. People prefer saving money for different reasons to face contingencies like calamities, illness, death in family etc. People prefer to have money in the form of equity, margin for taking loans and also as liquid asset. Rural people are more concerned with safety of saving instead of focusing on interest rates.

Rural Demand for Credit

There are basically three segment of rural credit demand. In the terms of assets and income, the people who are at the bottom are the landless, who are engaged in the agricultural work based on seasonal basis and also manual laborer who are dealing in mining, forestry, construction, transport and household industries. This segment require fund for consumption during months when labour work is not available for them and for various contingency like illness etc. They require credit for acquisition of small productive asset like livestock through which they will be generating additional income. Poverty alleviation will be met through catering credit needs of this segment of people. Another segment is the marginal, small farmers, rural artisan, weaver and also those who are self-employed in urban informal sectors like vendors, workers and hawkers in the household rural enterprise. This segment needs funds for meeting working capital needs, a smaller part of this fund could also function for meeting the needs for consumption. In the rural area, one main use for producing crops is requirement of funds for working capital. This segment need term credit to acquire productive assets additionally like irrigation pump sets, borewell and also livestock in farmer's case, equipments and work sheds as is the case of non-farm workers. This segment comprise poor people but not poorest. Poverty alleviation will partly be met through credit to this segment and will also contribute towards diversification of goals and growth of economy partly. Third segment comprise of medium and small farmers who are dealing with commercial crops like wheat, surplus paddy, groundnut, cotton and other who are engaged in poultry, fishery, dairy etc. Among the non-farm activity, this segment include people in slums and villages, engaged in manufacturing or processing activities, running provision store, repair workshop, tea shop, and many other service enterprise. They are not very poor mostly but they require formal credit.

Rural Demand for Insurance Services

Demand for the insurance service which is not well expressed but it is important. There are certain needs of Insurance based on adverse events which have been faced during last 10 years in rural household. Percentage of household as per survey, there are certain adverse events like heavy rain/ flood, drought and pest attacks. The ratio of earning member's death is less in rural household. The main need for Insurance among rural areas is related to Life cover, livestock, asset and crop Insurance.

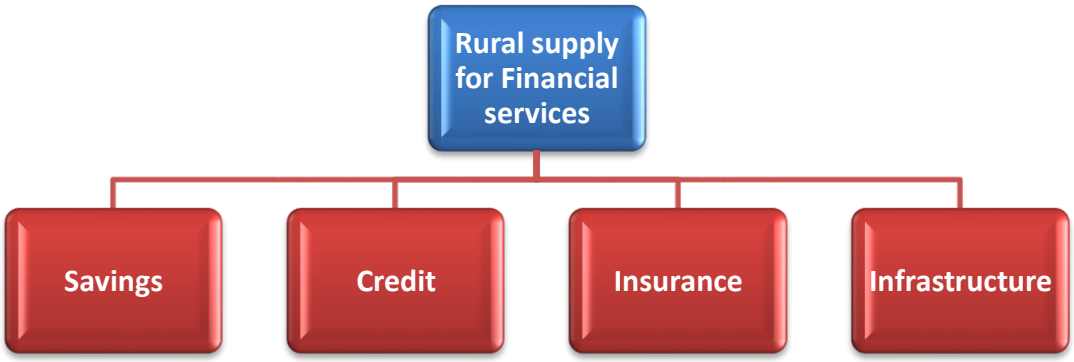

Figure 1.10 Supplies of Rural Financial Services

Rural Supply for Credit

Data from RBI indicate informal source provides significant part of total credit need of rural population. Magnitude of dependence of rural people on informal source of credit could be seen from finding of successive All India Debt and Investment Surveys (AIDIS). Study shows that share of non-institutional agency which is the informal sector in outstanding cash due of rural households have reduced during past few years. Formal Institutions like Cooperatives and Banks are providing credit to rural households, though agricultural and professional money lenders are also engaged in providing credit. The amount of Institutional credit has increased among rural households. The households belonging to lower asset group were dependent more on Non-Institutional credit agency for credit requirement. There are many people who are still dependent on informal source like commission agents, friends, relatives and money lenders for their credit needs. Banks have engaged themselves in providing finance to small borrower, but the manner through which it is being provided is not satisfactory. The main reason for not availing loans from the formal source is that the people belonging to the rural areas find procedure to be difficult, staff unfriendly and also find that the transaction cost is high. The loans which are being extended to the borrowers is subsidized but still its ultimate cost is high for the borrowers due to certain reasons like high out-of-pocket cost, payment to middlemen, business and wage loss during time being spent while getting loan approved. These issues result in lower repayment rate that leads to vicious cycle of non-repayment and non-availability.

Supply of Savings Services

In case of saving services, Banks are providing access to large numbers of small depositor though the rural people prefer to avail small and more frequent recurring deposits. These people are hence turning towards various other means like Bishis, chits and other companies who help in saving mobilization. The Informal agencies provide collection of money on daily or weekly or fortnightly or monthly basis and this service is available from doorstep of the depositor. The transaction cost is high for people who are investing funds in Banks or Post office, since the average transaction size of saving is small and also due to the distance of Post Office or Bank from villages.

Supply of Insurance Services

Supply of insurance service to poor has increased and there exists many low premium schemes which covers accident, death, natural calamity and also loss from asset due to theft, fire etc. The usage of insurance is limited in rural areas as the awareness is low among poor people. Livestock and Crop insurance are expensive and hence their reach is negligible among poor. LIC has been offering individual and group life insurance policy. In case of individual policy, the loan is settled by insurance company in case of death of borrower. It is very important that the Insurance companies see the business opportunity in the rural areas instead of taking it has an obligation for priority sector.

Supply of Infrastructure Finance

Financing rural infrastructure was being neglected earlier till 1995, after this period Government of India introduced Rural Infrastructure Development Fund which is managed by NABARD. Various state Government departments like irrigation, agriculture and roads apply to NABARD for loans. Few commercial Banks also entered this market with scheme for Community Infrastructure but as such the loan amount is was very low as compared to demand.

Major Milestones in Evolution of Rural Finance in India

Since the pre-independence era, the Indian banking system has gone through many restructuring and modification for catering to broad social need and to provide access towards financial service for the unbanked and rural population. Following table shows the major milestones:

Table 1.1 Milestones in evolution of Rural Finance in India

Year	Events
1904	The first Cooperative Law of India was enacted by the British, which was amended in 1912.
1921	Establishment of Imperial Bank of India
1950	Establishment of Cooperative banks
1956	Nationalization of Imperial Bank of India and formation of State Bank of India (SBI).
1969	Nationalization of commercial banks and Introduction of Lead bank scheme
1975	Establishment of RRBs
1977	Introduction of 1:4 license policy by RBI
1980	Introduction of Priority Sector Banking
1982	Establishment of NABARD
1988	Establishment of Small Industries Development Bank of India (SIDBI)
1991	Narshimham committee report on financial sector reform and bank liberalization
1992	Launching of Self Help Groups Linkage Programme by NABARD
1998	Launching of Kisan Credit Cards (KCCs)
2000	Establishment of SIDBI foundation for micro credit
2001	Vyas expert committee on rural credit and establishment of PACCS
2007	Proposed bill on Microfinance Regulation introduced in parliament.
2008	Rangarajan Committee report instituted by NABARD
2011	Malegam Committee Report by Reserve Bank of India
2012	Microfinance Institutions (Development and Regulations) Bill by Finance Department, Government of India
2014	Establishment of Small Finance Banks and Payment banks

Source: Pattanayak, A. (2018)

To Do Activity

With a view to understand the role of NABARD in the development of the agricultural sector and its contribution in financial inclusion, visit website of NABARD i.e. www.nabard.org.

1.4. Financial Inclusion

The Indian Government and the RBI have been putting concerted efforts for promoting financial inclusion. Financial Inclusion has been considered as one of important national objective of our nation. Some major efforts that have been made during last few decades includes – Banks nationalization, building robust branches network of various scheduled commercial banks, RRBs and co-operatives, introducing mandated target for lending to priority sector, Self Help Groups formation, permitting appointment of Business Correspondents/ Business Facilitators (BCs/BFs) by banks for providing door step banking services delivery, opening of Basic Savings Bank Deposit (BSBD) accounts (zero balance), etc. The main objective of these initiatives is reaching large section of financially excluded population of India.

Definitions of Financial Inclusion

Financial inclusion can be defined as process of ensured access towards financial services and adequate and timely credit wherever needed by various vulnerable groups of population like low income group or weaker sections at affordable cost (given by Committee on Financial Inclusion under Chairman: Dr. C. Rangarajan).

Financial Inclusion refers to the universal access to wide range of financial services at reasonable cost. Financial Inclusion not only includes Banking, but also financial services like equity and insurance products (given by Committee on Financial Sector Reforms under Chairman: Dr.Raghuram G. Rajan).

The core of financial inclusion refers to delivery of financial service that includes - bank account for saving and transactional purpose, credit for production, personal or for any other purpose at low cost, financial advisory service, insurance facility including non-life and life etc.

Why Financial Inclusion?

Financial inclusion broaden resource base of financial system through development of savings culture among a larger segment of population in rural areas and also plays an important role towards economic development. Financial inclusion brings the lower income group within boundary of the formal banking segment; through financial inclusion the financial wealth is protected and also other resources in demanding circumstances. Financial inclusion mitigates exploitation of the vulnerable section from usurious money lender through facilitation of easy access towards formal credit.

Importance of Financial Inclusion

- Financial inclusion lead to economical growth through mobilization of saving into productive investment
- Helping in enhancing financial literacy among vulnerable and the weaker sections of society through financial advisory and decrease in dependence on expensive and unreliable finance.
- Financial Inclusion helps in promoting innovative and cost effective delivery of financial products through use of technology
- Helps poor in stabilizing income and also build up productive asset.
- The transactions history served people could be transformed into asset, which the customer can access to financial services also during the lean period as well
- Financial inclusion has been promoting competition and also helps in providing market based incentive delivery of sustainable financial access

Case study : Financial Inclusion in India - Gubbi (town in Karnataka)

Since the year 2005, concerted effort were being made by RBI and NABARD for extending financial inclusion in India, especially among weaker section of society, since they were excluded from the services being offered by the financial institutions. In the year 2003, study revealed that hardly 27 per cent of the total households have access credit from various institutional source like banks and other cooperative institutions. In the year 2012, around 40 per cent adult population had accounts in bank. In this study, which was based on farmers/ non-farmers in Gubbi (town in Karnataka) in the year 2013 and also early 2014, it was attempted to examine impact of the measures being taken by NABARD and RBI in account opening, loans availed from various formal institutions, transactions ease and other factors that hindered the financial inclusion in the rural areas. Results from the study revealed that credit from bank was improving, but money lenders still continued as a significant source of finance. Major factors which were hampering banking system in extending credit was less awareness among people about government initiative, distance from bank, and relationship of people being long term in nature with the money lenders. Bankers indicated that there was lack of financial literacy in the nation, BC model being useful was not much successful due to high attrition rate, technological issue in handset, especially connectivity were significant that were impede the expansion of accounts of banks.

Financial Inclusion Plans (FIPs) of Reserve Bank of India

RBI advised Banks to have a structured and planned approach towards Financial Inclusion to prepare Board-approved FIPs. These FIPs captured banks' achievements related to various parameters like number of outlets (BCs and branches), Basic Savings Bank Deposit Accounts (BSBDAs), KCCs, General Credit Card (GCC) and overdraft facilities and transactions in Information and Communication Technology – Business Correspondents (ICT-BC) accounts. The progress of Banks in relation with FIPs on various parameters has been mentioned in table below :

Table 1.2 Financial Inclusion Plan : A Progress Report

Particulars	End-March 2010	End- March 2018	End-March 2019*
1	2	3	4
Banking Outlets in Villages - Branches	33,378	50,805	52,489
Banking Outlets in Villages > 2000-BCs	8,390	100,802	130,687
Banking Outlets in Villages < 2000- BCs	25,784	414,515	410,442
Total Banking Outlets in Villages – BCs	34,174	515,317	541,129
Banking Outlets in Villages- Other Modes	142	3,425	3,537
Banking Outlets in Villages - Total	**67,694**	**569,547**	597,155
Urban locations covered through BCs$	447	142,959	447,170
BSBDA - Through branches (No. in Million)	**60**	**247**	255
BSBDA - Through branches (Amt. in ₹ Billion)	**44**	**731**	878
BSBDA - Through BCs (No. in Million)	13	289	319
BSBDA - Through BCs (Amt. in ₹ Billion)	11	391	532
BSBDA - Total (No. in Million)	73	536	574
BSBDA - Total (Amt. in ₹ Billion)	55	1,121	1,410
OD facility availed in BSBDAs (No. in million)	0.2	6	6
OD facility availed in BSBDAs (Amt. in ₹ Billion)	0.1	4	4
KCC - Total (No. in Million)	24	46	49
KCC - Total (Amt. in ₹ Billion)	1,240	6,096	6,680
GCC - Total (No. in Million)	1	12	12
GCC - Total (Amt. in ₹ Billion)	35	1,498	1,745
ICT-A/Cs-BC-Total transactions (Number in million)#	27	1,489	2,084
ICT-A/Cs-BC-Total Transaction (Amount in ₹ billion)#	7	4,292	5,884

*: Provisional.
$: Out of 447,170 outlets, It is reported that 388,868 outlets provide limited services like only remittances or sourcing of loans, *etc.*
#: Transactions during the financial year.

Source : RBI Annual Report 2018-19

RBI Policy Initiatives towards Financial Inclusion

RBI adopted bank-led model towards achievement of financial inclusion. It removed all the regulatory bottle neck so as to achieve greater level of financial inclusion. So as to achieve targeted goals, RBI created conducive regulations in the environment and also provided support to banks to accelerate financial inclusion effort. The following initiatives were taken by RBI :

- **Basic Saving Bank Deposit (BSBD)**
  RBI advised all the Banks for opening BSBD accounts having minimum facilities like no requirement of minimum balance, cash deposit and cash withdrawal at the Bank branch/ ATMs, credit/ receipt of money through various electronic modes, facility of ATM card.

- **Relaxed and simplified Know Your Customer (KYC) norms**
  For facilitating ease in opening bank account, especially small account having balances less than Rs. 50,000 and also aggregate credit in accounts less than Rs. one lakh in a year. Banks have been advised for not insisting on introduction requirement for opening bank account.

Also, instructions have been given to banks for considering Aadhar card for identity as well as address proof.

- **Simplified policy for Branch Authorization**
  For addressing the uneven spread of Bank branches, domestic Scheduled Commercial Banks (SCBs) have been permitted to open branches freely in Tier 2-6 centres having population lesser than 1 lakh under the general permission, subjected to reporting. In the North-Eastern States and Sikkim, the domestic SCBs could open branch without even taking RBI's permission.
- **Compulsory Requirement to open Branch in the un-banked villages**
  Banks have been directed towards allocation of at least 25% of branches to get opened during a year in the un-banked (in Tier 5 and Tier 6) rural centres.
- **Opening intermediately brick and mortar structures**
  RBI has advised Banks for opening immediate structures between present branch and BC location for managing cash effectively, BC operation's close supervision, redressal and documentation of customer's grievances. Such branch can be in form of lower cost structure in the form of brick and mortar consisting of the minimum infrastructure like core banking solutions terminal linked to passbook printer and safe for retention of cash for the operation of larger transactions of customers.

- **Submission of Financial Inclusion Plan (FIP) to be started from April 2010**
  The Private and Public sector banks were advised for submitting three year FIP which is approved by Board from April 2010 onwards. These policies should aim at keeping certain self-set target in relation with opening of rural brick and mortar branch, BCs employed, covering un-banked villages having population above 2000 and below 2000, BSBD account opened, issuance of KCC and others. These plans are being monitored by RBI on monthly basis.

- **FIPs to be disaggregated and percolated up to Branch level**
  Banks were advised to disaggregate their FIPs and percolation down to Branch level. With this there will be involvement of stakeholders in efforts towards financial inclusion.

- **Financial Literacy Centres (FLCs)**
  In June 2012, certain revised guidelines related to FLCs were advised. RBI advised that all FLCs and rural branches of SCBs should work on scaling up the efforts towards financial literacy through conducting outdoor camps for Financial Literacy at least once in a month, for facilitating financial inclusion through the provision of two essentials i.e. easy 'Financial Access' and 'Financial Literacy'.

Pradhan Mantri Jan-Dhan Yojana (PMJDY) – A National Mission for Financial Inclusion

Hon'ble Prime Minister, Shri Narendra Modi announced PMJDY on 15th August 2014, as a national mission for Financial Inclusion. The objective of PMJDY is to ensure access towards many financial services like the availability of a basic savings account, access towards need based credit, remittance facility, pension and insurance to excluded sections i.e. low income and weaker groups. It emphasized that every household in the country should have Bank account and have access to banking facilities. It was emphasized by Hon'ble Prime Minister that it is very important to include people who have been left out into mainstream of financial system. The PMJDY was launched on 28th August, 2014, throughout the nation simultaneously. It was launched in Delhi formally with parallel function at state level and at the district and the sub-district level. Camps were organized at branch level. The PMJDY lies at core of development philosophy i.e. "Sab Ka Sath Sab Ka Vikas". Every household having a bank account will be able to gain access towards bank and credit facilities. This will help the households from coming out of grip of money lenders, managing in keeping

themselves keep away from various financial crises that are caused due to emergent needs, and also be beneficial from a range of financial products.

Mission Mode Objectives (6 Pillars)

Execution of PMJDY Mission Mode, envisage provision related to affordable financial service to all citizens. It comprised of below mentioned six pillars:-

a. Universal access to banking facilities
b. Providing Basic Banking Accounts with overdraft facility and RuPay Debit card to all households:
c. Financial Literacy Programme:
d. Creation of Credit Guarantee Fund:
e. Micro Insurance
f. Unorganized sector Pension schemes

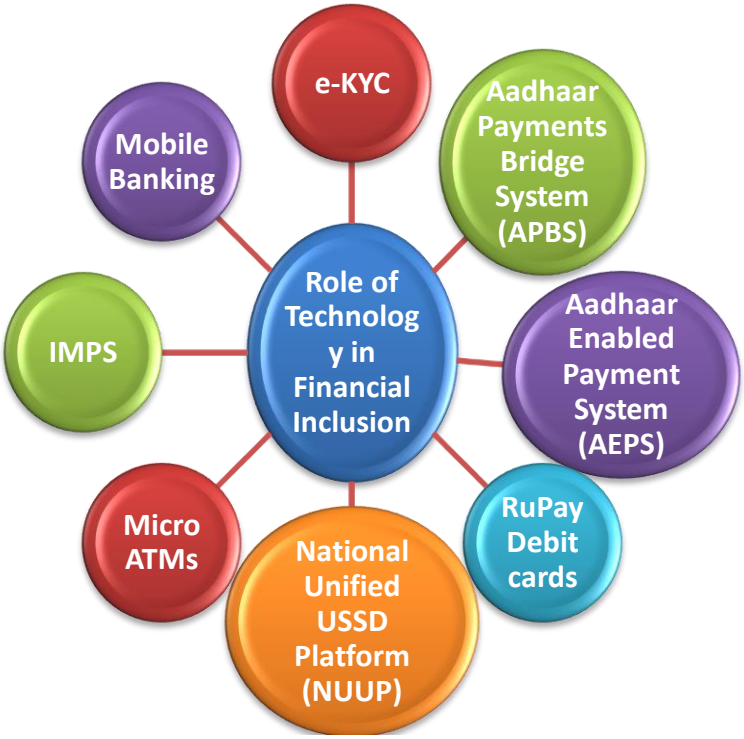

Figure 1.11 Role of Technology in Financial Inclusion

1. Financial Inclusion and technology are popular coinage in the banking parlance. The main hurdles in financial inclusion have been larger numbers and lower volumes which results in unaffordable costs. Leveraging technology is the only way for improving reach to remotest corner of country and reducing cost to affordable level.
2. Certain technological products like Immediate Payment Service (IMPS), Electronic Know Your Customer (e-KYC), mobile banking could actually help in making banking facilities available throughout the breadth and length of our country. These products could actually act as game changer as in terms of convenience, speed and cost of reaching.
3. Various organizations under RBI's guidance like National Payments Corporation of India (NPCI), Institute for Development & Research in Banking Technology (IDRBT) etc. have been contributing significantly in the introduction of new products based on technology.

4. RBI has been involved actively in harnessing technology for development of the Banking sector in India over last few years. One such major Banking technological development is adoption of Core Banking Solutions (CBS). CBS has enhanced customer convenience through anytime, anywhere banking. CBS adoption has led banking towards various technological products like Real Time Gross Settlement (RTGS), National Electronic Fund Transfer (NEFT), Automated Teller Machine (ATM), Internet Banking, mobile banking, etc.

Some of the Technological based products have made significant changes in the banking outreach to the masses are appended. Adopting CBS by Banks, including RRBs have taken branch to a multi-channel and branchless approach through the use of handheld device, mobile, card; micro-ATM and Kiosks could be used.
The current plan of PMJDY under the National Mission of Financial Inclusion has proposed usage of Technology for achieving goal in time bound way. Some major products which have come up due to technology upgradation are :

(i) Electronic Know Your Customer (e-KYC)
In 2013, RBI gave permission for using e-KYC as valid process through which KYC verification could be done under Prevention of Money Laundering (Maintenance of records) Rules, 2005. For reduction of identity fraud, forgery of documents and having paperless KYC verification, the Unique Identification Authority of India (UIDAI) launched e-KYC services. In order to reduce the risk of identity fraud, documentary forgery and have paperless KYC verification, UIDAI has launched its e-KYC services. In this process of e-KYC, under explicit consent from the customer and after obtaining his/ her biometric authentication, basic data is shared from UIDAI database which comprise of gender, age, photograph with the Authorized users like the Banks. This process is being considered as a valid process now for KYC. E-KYC has made opening of accounts of customers who are having Aadhaar card number easier.

(ii) Transaction through Mobile Banking
Revolution of mobile-phone is transforming the nation and this could turn in to banking revolution as in the terms of transaction and reach. Almost every common man is using mobile and this is a trend in even the small towns or villages. The use of mobile phone by all segments of population could be exploited for extension of financial services among the excluded population. There are various services of banking which could be processed through mobile like Immediate payment service, funds transfer, mini statement, balance enquiry, cheque book request, bill payment, demat account service, etc. There are certain transaction limits while using mobile banking.

(iii) Immediate Payment System (IMPS)
This service was launched on 22 November, 2010 by NPCI. It offers instant funds transfer through internet banking and mobile banking. There are four stakeholders who are involved in the transaction i.e. remitter (sender), beneficiary (receiver), banks and National Financial Switch – NPCI. For remitting funds through IMPS, sender should make use of mobile banking for sending money, mobile number of receiver should get registered with bank and money gets credited to the receiver's bank account instantly. The Remitter must register himself or herself for mobile banking and need to get Mobile Money Identifier (MMID) & also Mobile Banking PIN (MPIN) to initiate a transaction.

(iv) Micro-ATMs
Micro-ATM is a biometric authentication enabled device which is hand-held. For making ATMs viable in rural and semi-urban centres, lower cost Micro-ATMs have been deployed at many locations of Bank Mitra. This will help people to deposit instantly or help in withdrawing funds regardless to which the customer is associated with which bank Mitra or Business Correspondent. Customers will

be required to get their identity authenticated and put or withdraw money from bank accounts. This money would come from cash drawer of Business Correspondent or Bank Mitra. Micro-ATMs would offer online inter-operable lower cost payment platform for everyone in country.

(v) National Unified USSD Platform (NUUP)

For increasing the banking facilities reach among masses mobile banking has a lot of potential and is one such potent mode. Mobile phone has become household device for using Banking services in India. This service could be initiated through Short Message Service (SMS) which is unencrypted service or through an app for mobile banking. It is an interactive platform, a major problem which is a part of mobile banking is that there is a requirement of downloading and installing mobile banking app on mobile. There is a requirement of Java 2 Platform, Micro Edition (J2ME) handset and also a General Packet Radio Service (GPRS) connection on mobile for using mobile banking. Besides this, another alternative platform is available i.e. Unstructured Supplementary Service Data (USSD). Through USSD, mobile banking app could be installed on any mobile on Global System for Mobile Communications (GSM) network. Customers could avail the USSD solution irrespective of the make and the model of phone. There is no requirement of any such application to be downloaded on the customer's mobile phone and no need for any GPRS connectivity. USSD is also user friendly so people find it easy for communicating and it could educate customer as well.

(vi) RuPay Debit cards

RuPay is new scheme for card payment which was launched by NPCI, for offering open loop, domestic, multilateral system that is allowing all the Indian banks and the financial institutions in India for participating in the electronic payments. "RuPay", word itself has sense of nationality in it. "RuPay" is coinage of two terms Rupee and Payment. RuPay Cards are addressing need of the Indian consumer, merchant and bank. The benefits that RuPay debit cards have are flexibility of product platform, high level of strength and acceptance of RuPay brand.

The main features are as under:

- Lower affordability and cost
- Customized offering of products
- Indian consumer’s information is protected
- Providing electronic product option to the unexplored/ untapped segment of consumers

(vii) Aadhaar Enabled Payment System (AEPS)

AEPS is banking product that allows online inter-operable financial inclusion transactions at PoS (Micro-ATMs) or Kiosk Banking through Business Correspondents of any banks using Aadhaar authentication.

Following banking transactions are available that are Aadhaar enabled :

(i) Enquiry of balance
(ii) Withdrawal of cash
(iii) Cash Deposit
(iv) Aadhaar to Aadhaar Funds Transfer.

For undertaking the Aadhaar Enabled Payment System (AEPS) transaction by customers, two inputs are required i.e. Issuer Identification Number (IIN) (Identification of the Bank with which customer is associated) and the Aadhaar Number.

(viii) Aadhaar Payments Bridge System (APBS)

APBS enables payments transfer from the Government and other Government Institutions to an Aadhaar-enabled account of beneficiary at bank and post office. Every Department of Government or Institutions which sends Electronic Benefit Transfer (EBT) and Direct Benefit Transfer Scheme

(DBT)/Direct Benefit Transfer Scheme for LPG Beneficiaries (DBTL) payment to individual requires preparation of file that contains Aadhaar number and the amount and submission of the same to accredited bank. Accredited banks then process file through interoperable Aadhaar Payment's bridge and fund is credited to the account of beneficiary. Upon receipt of incoming fund, the customer will be notified by the beneficiary's bank through SMS or some other channel of communication which is established between customer and bank.

Case study : Branchless Banking through Business Correspondents

Corporation Bank took up an outreach programme model through technological use to provide the basic financial services to disadvantaged and poor people in rural areas. For accomplishing the task, Bank conducted survey in some villages for gathering information about structure and village size, household/ family detail like occupation, assets ownership and financial services usage. Automation of survey facilitated the generation of a Bank account named as Corp Pragathi Savings Bank (CPSB) account opening forms with photograph of user at site for even members of family who expressed the desire towards opening a bank account. The survey indicated that villagers were reluctant to approach Bank for opening of bank account or availing financial services as the bank branches were far away from their workplace or residence and hence there was requirement of time and money to even carryout even the normal banking activity. These people found banking procedure to be difficult and also were not sure about the approach of Bankers towards them when they approach Bank for remittance or withdrawal of small sum of money. For mitigating hardships being faced by villagers, Branchless Banking model was adopted by Corporation Bank in the month of August 2017. After evaluating different technologies that ranged from the simputers, palm-tops, hand-held storage device and other diverse communication channel, Banks opted for Branchless banking model which was based on business correspondents (BCs) and used small hand-held devices. This branchless banking model enabled Bank in reaching villagers at their doorsteps through savings and various loan products. Benefits of this model to customers includes saving of cost and time. People also found it to be comfortable to deal with BC since the people who were dealing with familiar face and also find it convenient to transact with business practically. Advantage for BC for Bank was an alternative income source. Bank benefitted as the unreached segment could be reached and mopped up rural saving at low transaction cost.

Reference: Kamath, R. (2007). Branchless Banking: Corp Bank's Answer for Financial Inclusion. *CAB Calling. Vol. 31* (3)July-September.

To Do Activity

Form groups of 2-3 students and visit any nearest Nationalized Bank branch and enquire about the growth in the number of accounts opened under the PMJDY scheme during last few years since 2014 and also enquire how many of them are still in operation?

1.5. Financial Products and Services

Financial inclusion focuses on the access or ownership to particular financial product and services like deposits, savings, credit, insurance and money transfer provided by mainstream financial services providers. In Indian context, financial inclusion have describe as provision of reasonable financial services i.e. access to payment and remittance facility, saving, loan and insurance service to the excluded by formal financial system. It is very important that financial system is deepened and widened in reach for acceleration of growth and equitable distribution. Major reasons of financial exclusion are lower extension of institutional credit among rural areas as it is perceived that extension of rural services will involve high operating cost, high risk, there is lack of rural

infrastructure and also geographical spread being vast in the country with many villages. Micro factors that are perceived to inhibit the credit flow among disadvantaged groups include factors like lack of awareness about financial product and service, procedure to obtain agricultural non-farm loan, human resource and lack of effective legislation to regulate money lending.

From demand perspective, lower income and saving level could lead to low demand for financial service, in particular the deposit facility. There is also a possibility that people have access towards financial services but do not wish to access them. Some people feel that financial services are not affordable, may not suit their needs and some fear that the Banks or Financial Institutions might decline providing financial services if these people request them. Sometimes credit facility is not provided to people residing in rural areas as there exists credit risk and this discourages the lenders to serve them.

Access to finance can be divided into four segments

i. Proportion of population which uses bank or other bank like institutions
ii. Population that uses services from the non-bank i.e. 'other formal' financial institution, but do not make use of bank services
iii. Population that uses services only from the informal financial services providers
iv. Population which transacts regularly through the formal financial instrument
v. Population that does not use financial services.

Financial Inclusion's operational definition based on access to financial product or service, underscores the role that is played by financial Institutions or service provider which are involved in process. The anatomy of many financial product or service and Institutional structure is presented in chart below.

Figure 1.12 Supply side of financial products and services

Supply Side of Financial Products and Services

- **Schedule Commercial Banks**
  The largest group in Banking, they play a very important role in financial inclusion among the urban and rural poor and also among the unbanked segment through deployment of BCs and technology.
- **Regional Rural Banks (RRBs)**
  RRBs were established in the month of September 1975, with objective to ensure there is sufficient Institutional credit for agricultural and other rural sector. RRBs play a very important role in financial inclusion.
- **Urban Cooperative Banks (UCBs)**
  They are community Banks that offer services which are usually not provided by commercial banks.
- **Self Help groups**
  In the year 1992, Government started SHG-bank linkage programme, in which NGOs and Bank interact with poor, especially women in forming small and homogeneous groups for borrowing.
- **Post offices**
  Banks also make use of Post offices for extension of financial products in commercially unbanked and unviable areas.

Other players which play an important role in financial inclusion include NBFIs especially micro finance companies, insurance and other enablers like Non-Governmental Organizations (NGOs).

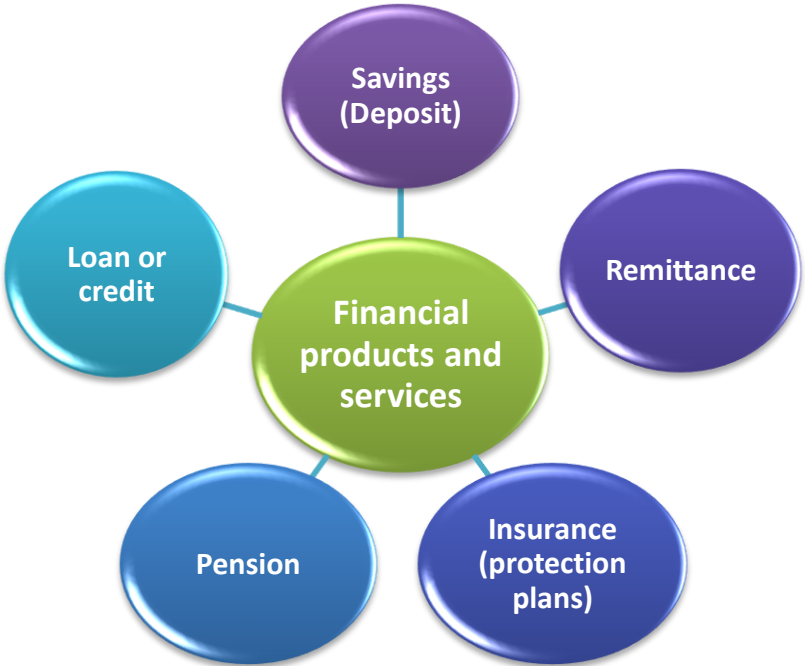

Figure 1.13 Financial products and services

Financial products and services for rural market

- Savings (deposit)
- Loan or credit
- Pension
- Insurance (protection plans)
- Remittance

- **Savings (Deposit)**

Apart from supply side factor, the factors on the demand side have significant bearing on extent related to financial inclusion. A high part of the population being below poverty line has resulted in low demand for the financial services as poor may not sufficient savings for placing in savings banks. Lower income lead to lower demand of financial products in particular savings account. Likewise, at lower level of development, the investment activity could be low and this could lead to lower demand for bank's credit and from other formal financial Institution. However, as there is decline in the poverty level and various households move in to higher income bracket, their propensity towards savings increases that leads to a higher demand for financial service for saving and investment. In India, saving deposit account is provided by post offices and banks.

For increasing the penetration of banking service, PMJDY was launched by the Prime Minister on 28th Aug. 2014. The aim of the government was ensuring that every household has at least one bank account. Within fortnight from its launch, scheme enters into Guinness Book of records as it opened a record number of accounts in banks. Till Mid of August 2017, 29.48 crores accounts were opened out of this number 17.61 crores accounts were in semi-urban/rural and remaining 11.87 crores accounts were in the urban areas. This scheme also provided the benefit of getting RuPay debit card having an inbuilt insurance cover of Rs. 1 lakh. An overdraft of Rs. 5000/- was also granted to every customer who satisfactorily operated the account for six months.

- **Loan or Credit**

There are some specific needs for credit among many segments of the rural society. There are certain activities like housing, micro enterprises, consumption needs and agricultural operation for which there is requirement for credit. People are facing difficulties while accessing the formal sources for availing credit facility. Poor individuals and the small/ micro enterprises rely on internal sources or personal saving for investment in health, education, housing and other entrepreneurial activity for making use of growth opportunities. The number of accounts of credit has increased in rural and urban areas. There has been growth in retail and consumer finance. Banks and Financial institutions should design tailor-made credit products for the weaker and poor sections of rural areas taking into account their repayment capacity and requirements. Lack in suitable products/ services leave rural poor with the only option of transacting with informal sector which accepts small amount, provides doorstep services and make funds available for various purposes that could be productive or non – productive like consumption need, festival, marriage, medical or emergency and also ensure ease in operations.

Case study : Financial Inclusion: Novel Method of Financing

The Aryavart Gramin Bank embarked a novel scheme of financial inclusion in some remote villages and the hamlets of Uttar Pradesh where supply of electricity was either not available or when available it was erratic. The people residing in villages were actually dependent on kerosene lamp for lighting need and even they used to buy kerosene from black market, and this was affecting the income of people. Bank embarked this novel idea through solar energy lighting to villages and identified solar company named as Tata BP Solar to provide 'Solar Home Lighting System' for homes in villages. Company and dealers got ready for sacrificing their margin as bank agreed to finance this system on large scale. The cost of system was Rs.13,000 and it consisted of a kit which was ready-to-use and contained a solar panel of 35 watt, battery with lower maintenance, two luminaries and Magnetically Controlled Reactor (MCR) charge controllers. This system could light two Compact Fluorescent Lamps (CFLs) which were of 14 watt for more than 7 hours and also could support a mobile charger, a table fan and one television. Bank extended a finance of Rs.10,000 with a margin money of Rs.3,000 which was to be given by beneficiary as a contribution. The repayment had to be made in 60 EMI of approx Rs.222 monthly. This amount was lesser than amount that villagers were spending on kerosene. Bank identified literate youth in village as the business facilitators and they were provided with training for maintaining the system of the company. Bank paid an honorarium amount of Rs.10,000 annually to business facilitators who used to maintain 100 such system. More than 1,300 household in the Unnao District and also about 500 household in the Barabanki District have been provided with the Solar Home Lighting System by Bank as at the end of December 2007.

Reference : Reserve Bank of India (2008). *Report on Currency & Finance: Financial Inclusion*. Retrieved from *https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/86734*

Flow of Credit to Agriculture

The target of Agricultural credit is fixed every year by the Indian Government.

Table 1.3 Targets and Achievements for Agricultural Credit

(₹ Billion)

Year	Commercial Bank		Co-operative Banks		RRBs		Total	
	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement
1	2	3	4	5	6	7	8	9
2017-18	7,040	8,711	1,560	1,503	1,400	1,412	10,000	11,626
2018-19*	7,920	9,496	1,650	1,539	1,430	1,513	11,000	12,548

*: Provisional.

Source : RBI Annual Report 2018-19

During the year 2018-19, the target which was set by Government was Rs. 11,000 billion for the agricultural credit. As on 31st March, 2019, the commercial banks could achieve 119.9 per cent of the target, cooperative banks achieved 93.26 percent and RRBs achieved 105.78 per cent.

Co-operative Credit

Rural credit co-operative in India envisage as mechanism to pool resources of people having small means and to provide them with the access towards various financial services. The short-term rural co-operative credit structure (STCCS) provides short-term credit and various other financial services that are particularly relevant from view point of financial inclusion.

Micro-Finance

In recent period, micro-finance have emerged as important mode which is semi-formal in nature for credit delivery, specifically to people who have been excluded from formal financial system. In India, the two models of micro finance are SHG-Bank Linkage and MFI. Of the two model, SHG-Bank linkage have made rapid stride since inception in early 1990s. The Commercial Bank, Co-operative Bank and RRBs have been actively engaged in programme.

Case Study : Regulation of MFIs in Andhra Pradesh

An example related to regulation of Micro Financial Institutions (MFIs) in Andhra Pradesh in the year 2010, where state government enact law for regulation of MFIs (that was already under the regulation of RBI). In this process, one largest loan default got triggered, in that 65 lakh borrowers did not make repayment to MFIs and their outstanding loan was Rs 7200 crores. This was caused huge set back first to MFIs and also to banks (as Banks were main source which provided funds to MFI) and thereafter to poor themselves. Later, as per study by Sane and Thomas (2015), this resulted in stoppage of microfinance in Andhra Pradesh, per capita monthly expenditure of poor reduced by 19%, out of which, two main items were children's education (expenditure reduced by 43%) and expenses on food (reduced by 17%). In the year 2016, the moneylenders remained main source of credit in Andhra Pradesh.

Postal Savings and Remittance

In India, apart from banking system, post offices provide services for maintaining deposit and remittance. The number of post offices is more and it has larger presence in the remote areas. Post offices in India have been offering a variety of small saving schemes and providing various other banking and financial service. Small saving schemes include deposit of different maturities and Public Provident fund. There are certain financial services which are being offered like remittance, money order, postal life insurance and mutual funds. Post offices have been catering to banking need of

lower income groups. There are certain other products that are being offered by Post office i.e. Savings deposit, Public Provident fund, Monthly income deposit, Cumulative time deposit, time deposit, recurring deposit and senior citizen deposits.

For achieving financial inclusion, there is a need to cover the unbanked by a channel which could provide financial services, and among these financial services remittance and payment play a critical role. The number accounts in banks in which mobile number has been seeded is low. Customer can adopt mobile banking through a simple process which is required for mobile banking registration. Huge section of population have been added in formal banking system under PMJDY, banks could provide these account holders with mobile banking with ease and now mobile banking application can be installed on mobiles which are non-smart. Financial transactions that are simple in nature could be performed through non-smart phone also. There is need for transaction and saving accounts for underserved in population.

Also remittances have both macro-economic benefits for the region receiving them as well as micro-economic benefits to the recipients. Higher transaction costs of making remittances diminish these benefits. Therefore, the primary objective of setting up of payments banks will be to further financial inclusion by providing (i) small savings accounts and (ii) payments / remittance services to migrant labour workforce, low income households, small businesses, other unorganized sector entities and other users, by enabling high volume-low value transactions in deposits and payments / remittance services in a secured technology-driven environment.

- **Insurance Services**

Apart from saving and loan product, there is a need of insurance products among the poor people. Health related expenses also at times exceeds far off from income levels among many households and this leads to situation of debt among these households. Insurance companies have designed health products having lower cost to cater to the needs of insurance among the rural poor. There is also a need of providing relief to farmers through weather insurance so that they can face the loss which could be caused due to deficient or excess rainfall. A larger segment of population does not have access to the formal insurance service. Micro insurance service is being provided in rural areas. The Insurance Regulatory and Development Authority(IRDA) have been encouraging the insurance services for the low-income household. In the year 2002, IRDA has established the rural and social sector target for the insurance companies. All the insurers who have entered the business after start of IRDA Act, 1999 are required to comply with obligations toward social and rural sector in phased manner. In India, insurance penetration was relatively high as compared to several other emerging market economies but significantly lower as compared to the advanced economies.

So as to provide a system of social security to all the citizens, especially to poor and also under-privileged people, government launched the Pradhan Mantri Suraksha BimaYojna (PMSBY) and the Pradhan Mantri Jeevan Jyoti BimaYojna (PMJJBY). The former scheme covers persons within age of 18 – 70 years and Rs. 2 lacs of risk coverage are being provided at just Rs. 12 as affordable premium per annum. As on 12th April, 2017, approx 10 crores people were enrolled under the PMSBY scheme. The latter scheme covers persons within age of 18 - 50 years to those who have an account with bank. As on 12th April 2017, 3.10 crores people were enrolled under PMJJBY.

- **Pension services**

Pension is also very important as at an elder age it becomes very difficult to arrange for funds to meet the regular expenses for leading a normal life. A person who has spent a lot of time in setting up of business or even working in the agricultural fields, it becomes very difficult to maintain a proper living standard are the age of 60 years. And the case remains same in the rural and urban areas, at such an age it becomes difficult for any person to arrange for funds, so it is beneficial if

people save money and plan for their retirement in advance.

A scheme named as Atal Pension Yojna was launched in 2015 which is open for all holders of bank account aged from 18 to 40 years and could choose different contributions based on pension amount. In this scheme, the subscriber is guaranteed a monthly pension and after his death, spouse can get the amount of pension, and after the death of subscriber and his wife, the pension corpus which gets accumulated till 60 years of age is returned back to nominee of the subscriber. Central Government contributes 50% of contribution that is subjected to maximum amount of Rs. 1000 per annum. As on 31st March 2017, total subscribers who were enrolled were 46.80 lakh having a total pension of Rs. 1713.214 crores.

Example : Atal Pension Yojana (APY)

Till 31st December, 2015 total of 112.82 lakh member / subscriber, inclusive of APY, have been enrolled under New Pension Scheme (NPS). Assets under management (AUM), that includes return on corpus under NPS, have witnessed the increase of 33 per cent from Rs.80,855 crores as on 31st March 2015 to Rs. 1,07,802 crores as on 31st December 2015. APY had total of around 18 lakh subscribers and corpus of Rs. 262 crores as on 31st December 2015. As on 31st December 2015, 351 banks were registered as an APY service provider that includes PVBs, PSBs, FBs, RRBs, District commercial banks, Urban Commercial Bank (UCB), SCBs and the Postal Department.

To Do Activity

List down any three products or services being provided to people in rural areas by any one of the following :

- Insurance companies
- Commercial Banks
- Co-operative Banks
- NBFIs
- MFIs
- Post office
- RRBs

Model Questions

- What do you understand by Financial services? Explain the nature of rural financial services.
- Discuss the problems being faced while supplying Agricultural Finance.
- What should Banks and financial Institutions do for improving access to financial services for poor residing in the rural areas?
- Discuss the role of Financial Intermediation in economic development.
- Explain the structure of Indian Financial system.
- Evaluate the components that form a part of the Rural Financial System.
- Discuss the RBI policy initiatives towards Financial Inclusion.
- What role does technology play in Financial Inclusion?
- Explain any two of the following financial products / services being provided to rural market
    - Savings Account
    - Credit
    - Pension
    - Insurance
- Discuss the Pradhan Mantri Jan Dhan Yojana introduced by RBI for rural people.

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Chapter 2 – Financial System and Rural Finance in India

Introduction

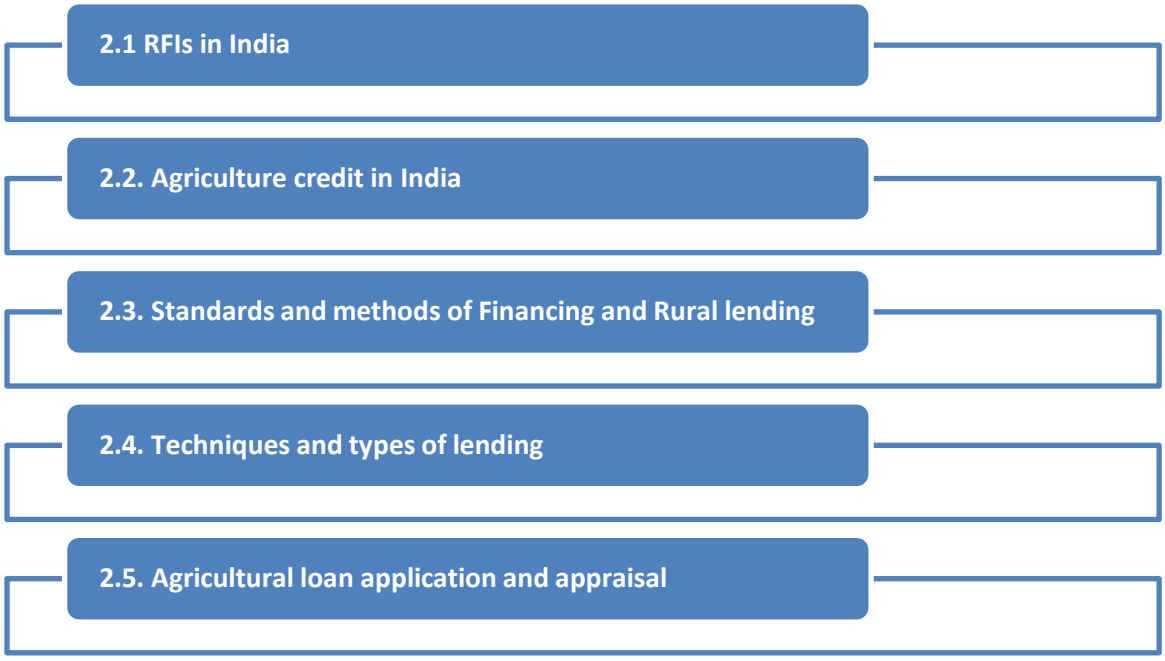
Rural economy forms a major part of our nation and it is very important that there should be focus on the growth of rural economy as this will lead to growth of the economy as a whole. The people in the rural areas have different demands for products of industrial and services sector since there is variation in income. There should be lesser focus on the cost of providing rural credit, rather funds availability and fund's cost might be considered as the target variables. Rural credit is a very important part of development of the economy. Being a key sector of Indian economy, RBI historically allocated priority to delivery of agricultural credit. The RBI Act, 1934 envisage a developmental role for Reserve Bank in agricultural credit with the responsibility particularly towards financing for seasonal operation and crops marketing. The Rural Banking Enquiry Committee (Thakurdas Committee, 1950) stressed importance, for having an efficient agricultural finance system, of sound co-operative credit structure which is capable of developing closer relations with Bank. A survey was conducted by RBI and it indicated that there was an existence of insignificance of co-operatives while providing rural credit. For ensuring success on the co-operative credit institution and enabling them for becoming self-supporting, there was a requirement of 'deliberate and positive' measure instead of 'small administrative, functional or other changes' were actually required. The tendency of the State in past has been to 'over administer and under finance' co-operative movement, but Report pointed out that there is an existence of need for integrated system rural credit and co-operation. The RBI Report envisage key role for RBI i.e. coordination of proposed network of co-operative institutions and for the Agricultural Credit Department to oversee their functioning. The RBI occupies a 'strategic position' in co-operative credit sector, while the other principal participants play a major role in the rural co-operation, *viz.,* co-operative economic activity and training of the co-operative personnel.

Agriculture contributes towards GDP and employment; hence it plays an important role in Indian economy. Agricultural credit has been playing an essential role in development of the farm sector and facilitates the adoption of new technology. Agricultural credit is being provided at reasonable cost, but this could not guarantee higher productivity or even the use of adequate revenue among the farmers, since success is dependent on other supporting factor which includes agricultural input's availability, remunerative and service market for products. Agricultural credit policy which has been designed and implemented in India is mainly driven by supply through the interest subvention scheme, targeted ground level credit and directed lending through regulatory prescription under the Priority Sector Lending guideline. Such policies alongside other policy intervention at Government level and RBI have yielded creditable results in Agricultural credit field. The agricultural sector has been facing challenges like regional disparity, lack in formation of capital, farmer's dependence on marginal and small farmer, tenant farmer, land-less laborer and share croppers on the non-institutional credit source at a significantly high rate, non-realization of fair price for produce from agriculture which causes farmers' distress and also farm loan waiver impact the credit culture and weakens the state finances.

Objectives of the Chapter

- To understand Rural credit system in India
- To provide an insight into the trend, structure and issues of Agriculture credit in India
- To understand standards and methods of financing and rural lending
- To provide an insight techniques of lending and understand principles of lending
- To understand loan application and appraisal process of Agricultural loan

Chapter Structure



2.1 RFIs in India

Rural Credit

Growth of rural economy drives growth of economy as a whole. There is variation in income in the rural areas and this causes variation in demand for product of industrial and services sector. The cost of providing rural credit can be avoided as funds availability and fund's cost might be considered as the target variables. Rural credit is a very important part of development of the economy. Being a key sector of Indian economy, RBI historically allocated priority to delivery of agricultural credit. The RBI Act, 1934 envisage a developmental role for Reserve Bank in sphere of the agricultural credit with the responsibility particularly towards financing for seasonal operation and crops marketing. The Rural Banking Enquiry Committee (Thakurdas Committee, 1950) stressed importance, for having an efficient agricultural finance system, of sound co-operative credit structure which is capable of developing closer relations with Bank. As per a survey conducted by RBI, it was found that there existed insignificance of co-operatives while providing rural credit. There was a requirement of 'deliberate and positive' measure instead of 'small administrative, functional or other changes' were actually required for ensuring success on the co-operative credit institution and enabling them for becoming self-supporting. The tendency of the State in past has been to 'over administer and under finance' co-operative movement, but Report pointed out that there is an existence of need for integrated system rural credit and co-operation. The RBI Report envisage key role for RBI i.e. coordination of proposed network of co-operative institutions and for the Agricultural Credit Department to oversee their functioning. The RBI occupies a 'strategic position' in co-operative credit sector, while the other principal participants play a major role in the rural co-operation, *viz.,* co-operative economic activity and training of the co-operative personnel.

The RBI's initiatives toward flow of funds to rural sector till creation of NABARD in 1982 boosted base of supply of rural credit and consequently also helped positively in the dynamics of income of rural sector.

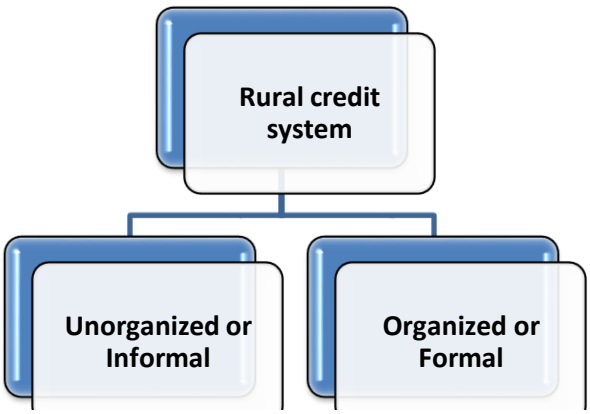


Figure 2.1 Segments of Rural credit system

The rural credit system of India is divided into two segments: the Unorganized or Informal segment i.e. money lenders, input suppliers and traders and the Organized or Formal segment i.e. Commercial Banks, Regional Rural Banks, Cooperative banks and NBFCs. There has been a requirement to strengthen the formal credit institution because there was a requirement of modern input in the rural credit segment and because of the unfair money lending practice which could not have been countered effectively.

RBI and NABARD have been promoting the Institutional credit in the rural areas, though the role being played by the informal finance is significant. Idea of promoting micro financing and Self-Help Group (SHG) is indirect admission of necessity in informal finance. There is a need that the role of formal as well as informal credit market needs is understood and also the linkage between them, as this will create the future of banking in rural areas.

a) Unorganized or Informal segment

Informal finance market is legal but is not unrecorded officially is comprised of the unregulated financial activity i.e., activities which are outside orbit of the officially regulated financial intermediary. Informal financial transactions could include the lending and borrowing among relatives and friends as occasional and this is not a part of informal market.

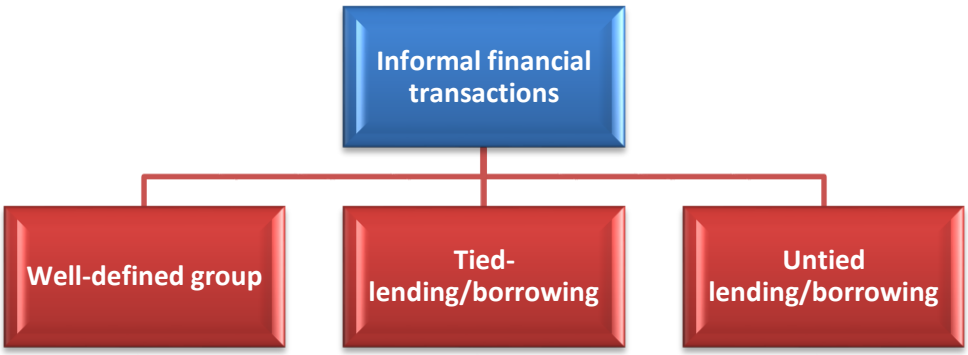


Figure 2.2 Informal financial transactions

The informal financial transactions could be broadly divided into three categories: well-defined group, tied-lending/borrowing and untied lending/borrowing activities. There are slight variations in each category.

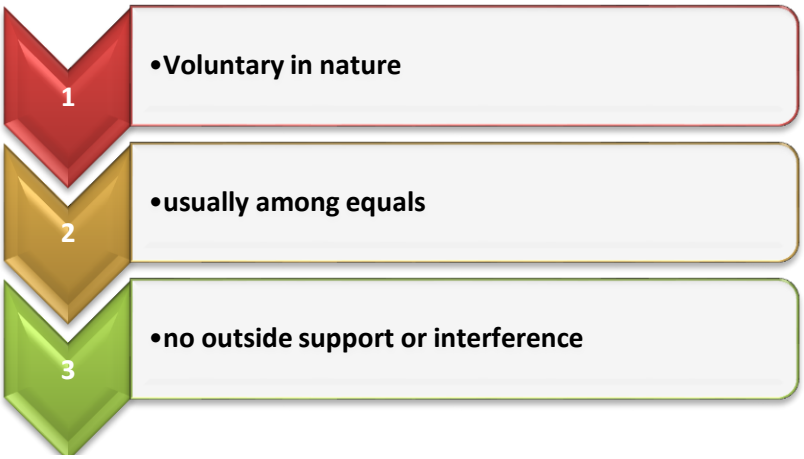


Figure 2.3 Characteristics of Informal groups

Members have a special bond between then which is based on caste, status, religion, neighborhood, etc. Such arrangements which are a part of the well-defined group, though they are important, should not as be included in the informal financial market. There has been a lot of efforts in providing bridge between the formal financial market and such well-defined group in form of initiatives toward 'micro-finance'. These initiatives do not comprise of marketization of well-defined group's activities. Thus, Informal financial markets include the Institutions who are outside orbit of the officially regulated. The informal debt transaction could involve tied and untied. At policy level, general approach towards informal market has not been positive as the informal debt markets has been equated with either money lender or landlord. Transactions in the rural credit segment are expensive due to high interest rates. It finances unproductive expenditures as consumption needs have to be financed. Sometimes, unequal and even exploitative arrangement exists between landlord and tenant or the agricultural laborer. The informal segment is not desirable as they are not regulated. Many poor people do not have access to Institutional credit. The arrangement for credit in the informal debt market is flexible and it also possesses some inbuilt risk sharing arrangement. Such arrangement for credit provides smoothening of production and consumption requirement. Transaction costs related to term of certainty, procedural requirements, number of trips, timeliness etc. are negligible even though there could be hidden costs related to tied lending.

Organized or Formal segment

Formal segment caters to borrowings having lesser risk as compared to the informal segment and they serve a purpose. The formal segment provides various benefits due to which it has been popular and attractive i.e. high reserve ratio, directed credit, branch licensing, ceiling in interest rate etc. Perhaps, one way of reconciling the conflicting views on usefulness of informal credit is to recognize some emerging realities of both formal and informal markets.

Sources of Rural Credit in the Formal Segment in India

It is very important to provide sufficient credit to people in the rural areas. They require credit for production and consumption needs. It is very important as if they will be provided credit; even they could contribute towards growth of the economy. The following could be considered as the major source credit in rural areas

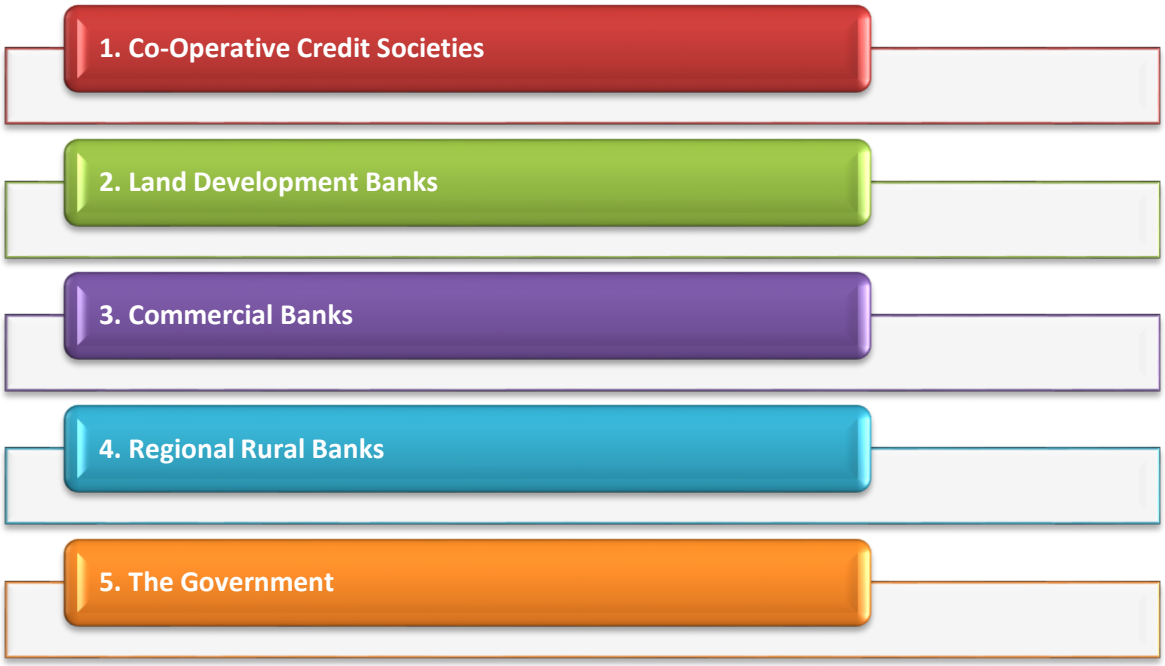


Figure 2.4 Major source of rural credit in the formal segment

1. Co-operative Credit Societies

They are regarded as the cheapest as well as an important source of credit in rural areas. When co-operatives were firstly setup it was a notion that they will meet needs of entire credit among the numerous medium and small farmers. It was planned that the money lenders would recede in background. This did not happen really and till 1950-51, they actually played an important role in rural credit area. Co-operative societies have made a steady progress and also succeeded in some extent in promotion of thriftiness and also self-help to farmers. Increasing reliance has been placed by Government on the co-operatives as most important institutions to meet credit need of farmers. Due to assistance and encouragement being provided by Government also by NABARD, a notable progress has been made by the co-operatives in certain States i.e. Andhra Pradesh, Tamil Nadu, Punjab, Himachal Pradesh and Karnataka. Since the co-operatives were not able to meet entire credit need of farmers, money lenders still continue to dominate rural financial market. Maximum benefit is being derived by large farmers from co-operative societies. Small farmers were not able to meet their credit need through the co-operative Institutions.

2. Land Development Banks

Land development bank which was formerly known as the Land mortgage bank have been providing long-term loan to farmer against their land mortgage at lower interest rate over period of 15-20 years. The farmers find borrowings from these banks attractive in case costly land improvement programmes like deepening or digging of wells etc has to be undertaken, or when additional land has to be acquired through an outright purchase or when previous debts need to be repaid.There have been progress in such Banks during last few years, but contribution has been insignificant still. These Banks have not yet reached the root of credit problem in rural areas. Many farmers are not even aware about that these Banks exist and how useful can these banks be for them. These banks are increasing in number and these banks are setup by State Government. The rich farmers have been taking benefit from these banks as they have larger land holdings. Marginal and small farmers could not benefit much from these Banks.

3. Commercial Banks

Before nationalization of the top 14 commercial banks in the month of June 1969, these banks had urban bias. These banks were accepting deposits from people in urban areas and providing loans to industry and trade. The industries in rural areas and agriculture were being neglected. Agriculture was being considered as risky venture and the private commercial bank turned far away from the rural areas.

Factors Obstructing the Flow of Bank Credit to Agriculture

There are certain factors which have been creating obstruction in the credit flow. The farmers are unable to fulfill certain terms and conditions and hence it becomes difficult for them to avail loan facility from the formal Institutions. The informal segment remains the main source of finance for the people of rural areas.

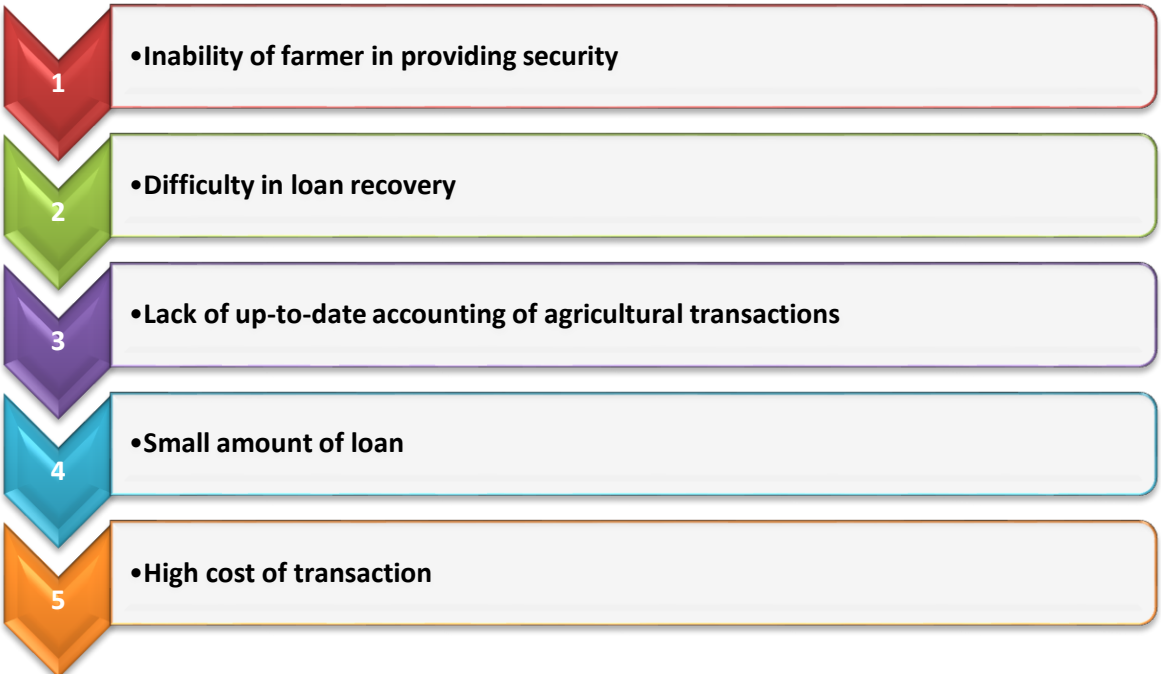


Figure 2.5 Factors obstructing the flow of bank credit to agriculture

The farmers are unable to provide security while availing loan from the formal institutions. Security plays a very important role and this somehow reduces the risk that exists in the loan. Loan recovery becomes difficult as generally people who residing in the rural areas do not provide a security and sometimes due risk prevailing in the agricultural sector, there is always a risk regarding the output and sometimes because of seasonal fluctuations the output varies and this results in difficulty in loan recovery. The farmers do not maintain proper record of financial transactions and this result in improper information available with the farmers which they could provide to the financial institutions. The loan amount is also low which is availed by farmers and they consider the cost of transaction to be high.

4. Regional Rural Banks (RRBs)

In the year 1975, Government setup network of RRBs for looking into special needs of marginal and small farmers, rural artisans, poor in rural areas and landless workers. Unique feature of 196 RRBs which were operating since the month of September 1990, they cater exclusively to weaker section of rural community through around 14,800 branches which are spread throughout India. Almost all tribal districts were covered. However, credit amount which was disbursed by the RRBs was smaller as compared to loan issued by the other institutional agency.

Consolidation of RRBs on government agenda

RRBs have been revamped and this plan includes their consolidation for better operational efficiency in line with government's bigger rural focus. This plan that finance ministry is actually drawing up also envisage RRBs in adopting a differentiated banking strategy, like targeting on specific sector for strong regional connection. Some RRBs would be merged with their own sponsoring banks. There are 56 operational RRBs and roadmap is about bringing them down to 38 or even below. Banks have been directed for exploring possibilities to buy out stake of the other sponsoring banks in RRBs, in case such deals will provide strength to their presence and also hold financial viability. At present, central government hold half stake in the RRBs. Sponsor banks own 35% and rest 15% is owned by state governments. Indian government has amalgamated 21 RRBs till now. This have been carried out within the states where RRBs are operating with a view towards enabling them to minimize their overhead expense, optimize technological use, enhancing capital base and the operation area and also increased exposure. NABARD periodically reviews financial performance of RRBs through empowered committee (EC) meetings which are held at the state level. Indian government in budget of 2019-20 allocated .236 crores towards the capitalization of the RRBs.

Source : Economic times (2019, July 24). Consolidation of regional rural banks on government agenda. New Delhi. Retrieved from https://economictimes.indiatimes.com/industry/banking/finance/banking

5. The Government

Government has provided long term and short-term loan to farmers during emergency situations like famine or floods. These loans are known as Taccavi loans and are offered at concessional interest rate i.e. 6% and repayment mode is very convenient. It could be repaid in the form of several installments when land tax is paid. Such loans could not assume significance during last few years. There are certain factors which resulted in unsatisfactory state of loans from the government i.e. delay in sanctioning and disbursement of loans, time required for visiting government offices more frequently, itching palms of officials who are engaged in sanctioning of loans.

Structure of Rural Financial Institutions (RFIs)

In India, rural credit needs are met through an elaborate structure of RFIs. NABARD act as apex institution and as principal refinancing agency for RFIs. RBI as principal monetary authority in the country, have retained powers of directing and regulating the agricultural credit, though most developmental functions in the area of rural credit have been give up to NABARD.

SCBs, Cooperative banks and the RRBs are three principal rural financial agencies. There are many state-sponsored institutes and non-governmental organization which have been established for the development of special section of population or some particular regions also provide credit to rural population in India.

Cooperative banks have been catering to short-term and long-term credit requirement in the rural and the semi-urban areas. Short-term credit structure is three-tier structure, with state-level cooperative banks, or SCBs at apex, district-level credit cooperative banks, or DCCBs constitute middle tier and many primary societies at village-level. Every higher tier relies largely on lower tier for dispersal of credit and to some extent also on mobilization of deposit. State and District-level cooperative institutions have been operating through their branch to a limited extent. The Long-term credit also is also tiered structure. In includes state-level cooperative agricultural and rural development banks. Some such banks operate in small states which operate through their branch directly. The others especially that are located in larger states have been operating through intermediary level called primary cooperative agricultural rural development banks. The semi-urban

and rural branches of commercial banks have been controlled at regional level by their regional offices, and these offices are further coordinated at zonal level by their zonal offices, having headquarters of these banks responsible for the overall supervision and control. Commercial banks have sponsored, in collaboration with central and the state government, local district level banks known as RRBs. Progressively a larger share of agricultural credit on ground-level is accounted for by the commercial banks. Remarkable feature of RFIs is the comprehensive coverage that they have in different segment of the rural society, which includes marginal and small farmers. Many households among disadvantaged section of the rural society have now been covered by the RFIs with organizations of the self-help group of poor artisans and farmers with their coordination with banking institutions.

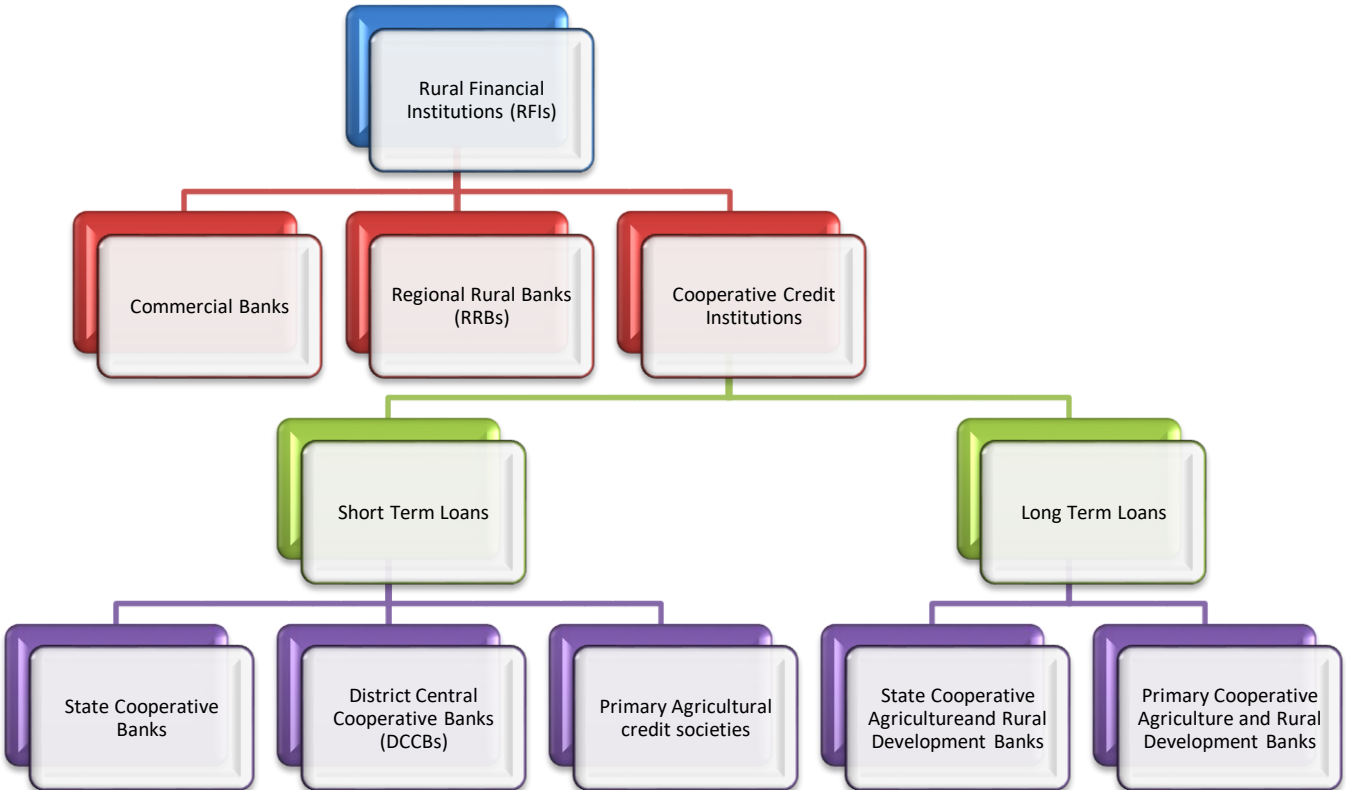


Figure 2.6 Structure of Rural Financial Institutions (RFIs)

Principles of Loaning for Development

The aim of lending to the rural people is building capacity, empowering the farming community and in particular marginal and small farmers in rural areas. Main objectives of programme initially were propagation of following five principles:

- Credit must be used accordingly with the suitable methods of Technology & Science
- Terms & conditions related to credit (techno-economic parameters) must be respected fully
- Work must be carried out with desired skills for realizing the optimum increase in income and productivity
- A part of additional income created through credit must be saved
- Loan installments must be repaid regularly and in time to facilitate credit recycling for the maintenance of a proper flow of credit.

To Do Activity

Form groups of 5-6 members and perform a role play based on the rural credit system in India. Let half the class work on formal and half class on informal way of providing credit to rural areas.

2.2. Agriculture Credit in India

Agriculture plays an important role in Indian economy as it contributes towards GDP and employment. Agricultural credit play essential role in development of the farm sector and facilitates the adoption of new technology. The credit amount even at most reasonable cost cannot actually guarantee high productivity or even adequate revenue among farmers, since success is dependent on other supporting factor which includes agricultural input's availability, remunerative and service market for products. Agricultural credit policy which is designed and also implemented in our country India are mainly driven by supply through the interest subvention scheme, targeted ground level credit and directed lending through regulatory prescription under the Priority Sector Lending guideline. Such policies alongside other policy intervention at Government level and RBI have yielded creditable results in Agricultural credit field. However, the agricultural sector has been facing challenges like regional disparity, lack in formation of capital, farmer's dependence on marginal and small farmer, tenant farmer, land-less laborer and share croppers on the non-institutional credit source at a significantly high rate, non-realization of fair price for produce from agriculture which causes farmers' distress and also farm loan waiver impact the credit culture and weakens the state finances.

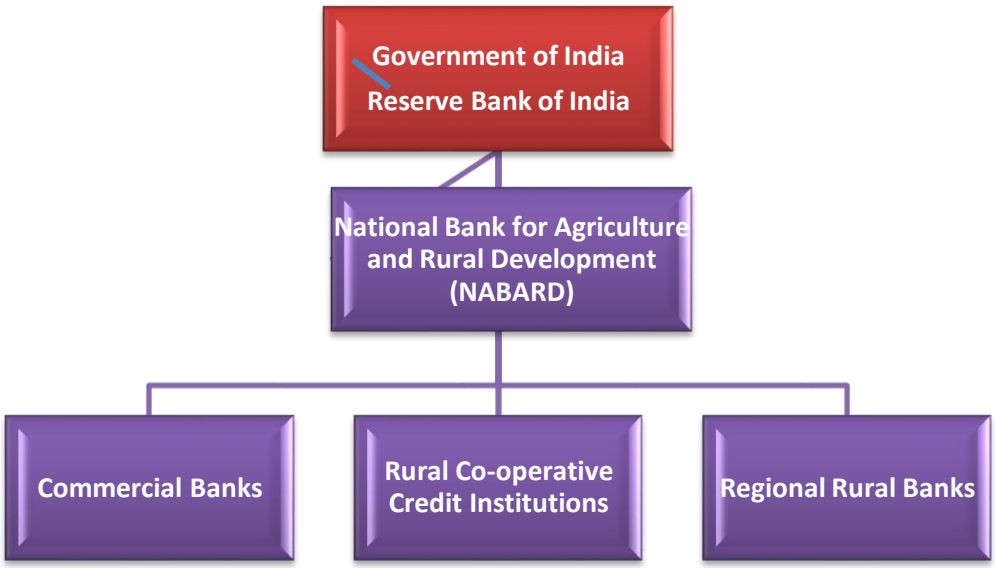


Figure 2.7 Structure of Agriculture credit in India

Evolution of Agricultural credit in India and Policy Milestones

Agricultural credit Institutional framework was shaped by overarching demands of nation. Evolution of the agricultural credit policy and milestones could be categorized into three distinct phases :

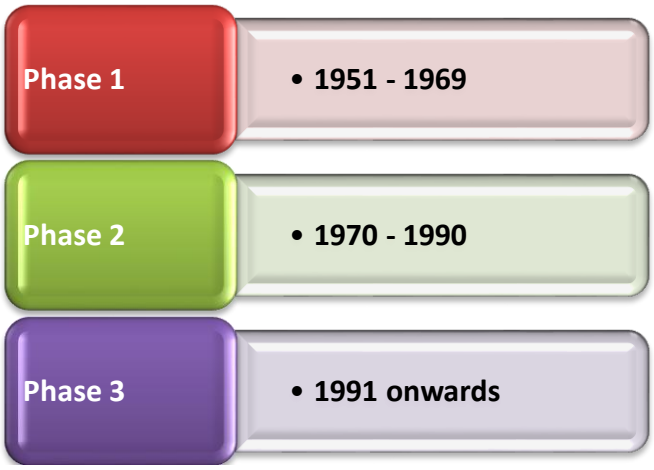


Figure 2.8 Evolution of Agricultural credit policy and milestones

Phase 1 (1951 – 1969)

(i) Indian Government initiated first five-year plan in the year 1951 with thrust on development of primary sector. National Credit Council emphasized in meeting which was held in the month of July 1968 that the commercial banks should also focus on priority sector's financing, *viz.*, small scale industry and agriculture, also other sectors that are deemed as the 'national priority'.

(ii) In the year 1969, first phase of Bank's nationalization took place, there were 6955 branches of public sector banks and average population per branch office was 64,000. For boosting, development of rural areas, RBI then prescribed a ratio of 1:3 for opening branches in the urban and semi urban/ rural centres.

Phase 2 (1970-1990)

(i) Channel for the institutional credit towards agriculture during first two decade of independence was cooperative sector. With nationalization of the commercial banks in the year 1969, 1970s decade marked entry of the commercial banks into agricultural credit. This period also saw introduction of Lead Bank Scheme and also regulatory prescription of the Priority Sector Lending – these were two such landmark development policies which not only have been surviving till date but also served as fuel for channeling the agricultural credit and the rural development.

(ii) The RRB Act, 1976 enacted for providing sufficient credit and banking facility for the agricultural sector and other rural sector.

(iii) The NABARD came into existence in the year 1982, with enactment of the NABARD Act 1981, for promotion of rural development and agriculture.

(iv) In the year 1992, NABARD introduced SHG model for further including the excluded segment of population financially.

(v) In the year 1989, the RBI introduced the Service Area Approach (SAA) and the Annual Credit Plan (ACP) system as a tool to reach out to rural areas.

Phase 3 (1991 onwards)

(i) Economic reforms of 1990s started with implementation of first Narasimham Committee Report, 1991 which emphasized on operational efficiency and financial soundness of financial sector including RFIs. RBI gradually deregulated interest rate regime for aid improvement in Bank's operational efficiency.

(ii) In the year 1990, first farm loan waiver was announced nationwide and cost to national exchequer was around Rs. 100 billion.

(iii) In 1995, pursuant to Union Budget announcement, Government of India (GoI) established

Rural Infrastructure Development Fund (RIDF) with NABARD. RIDF was meant mainly for funding of the rural infrastructure projects which were supposed to deepen credit absorption capacity in state through granting of loans to the state government and state-owned corporation. Scheduled commercial banks contribute towards fund's corpus to extent of their shortfall while achieving target of priority sector lending.

(iv) During 1992-93, NABARD started pilot project on the SHG-Bank Linkage programme – which was partnership model that involved Banks, NGOs and SHGs. In initial years, scheme progressed in a slow manner but later picked gradually.

(v) In 1998, Kisan Credit Card (KCC) was introduced as financial product for providing hassle free credit among farmers.

(vi) The Union Government introduced Ground Level Credit (GLC) policy in the year 2003-04. In this policy, GoI announced GLC target for agriculture and other allied sector in Union budget every year which the banks were required to achieve during financial year.

(vii) In 2004-05, another policy initiative was introduced which was to double volume of agriculture credit over a three year period and expand reach of formal finance.

(viii) In the year 2006, there were many developments. Pursuant to announcement of budget for 2006-07, Union Government introduce interest subvention scheme (ISS) for shorter term crop loan for enabling farmers for availing the farm credit at a reduced interest rates. The Business Facilitators (BFs) and Business Correspondents (BCs) were rolled out for first time by RBI to further cause financial inclusion. NABARD introduced Joint Liability Group (JLG) model, which was an extension of earlier SHG model to reach out to share-croppers and tenant farmers with access to credit.

(ix) Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS), 2008 was announced by Union Government which involved waiving the institutional debt for the smaller farmers and one-time settlement opportunity through 25 % rebate to the other farmers.

(x) In 2009-10, Indian Government introduced Prompt Repayment Incentive (PRI) of 3 per cent under ISS for bringing down effective interest rate to 4 per cent to farmers who repaid their loans before or on due date for inculcating repayment habits.

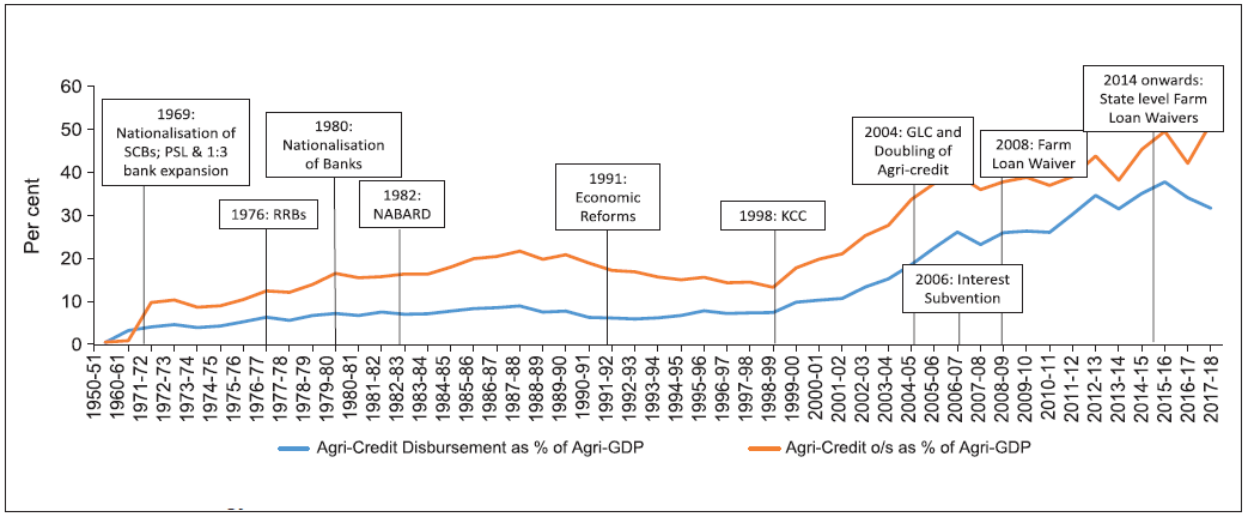
(xi) In the month of July 2012, Priority Sector Lending (PSL) guidelines were revised by RBI for widening eligible activities. Again in the month of April 2015, guidelines were revamped based on Internal Working Group (IWG) recommendations. Salient features of revamped PSL guidelines related to the agricultural sector are:

a) Distinction between the direct and the indirect agricultural credit was dispensed with.
b) Sub-target of 8 per cent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever was higher, was prescribed for marginal and small farmers.
c) Focus shifted from 'credit in agriculture' to 'credit for agriculture'.

Trend in Agricultural Credit

For understanding impact of the policy milestones which have been discussed above related to agricultural credit and performance related to agricultural GDP. Computation of ratio of Agricultural credit to the agricultural GDP was done by taking into account agricultural credit that was outstanding as well as the disbursed amount. Accordingly to this calculation, a two line graph was plotted in following chart:

Graph 2.1 Direct Agricultural credit as percentage of Agricultural GDP (at current prices)



Source : Report of the Internal Working Group to Review Agricultural Credit, September 2019.

Ratio of the Agri-Credit outstanding to Agri-GDP moved from 0.6 in 1950-51 to 9.81 per cent in the year 1971-72. This ratio showed upward trend post 1972, up to 1987-88 which increased to 21.76 per cent. Impressive achievement of the agricultural credit against the agricultural GDP during the 1950s-1980s is based on Bank's nationalization and RRBs introduction that expanded reach of the formal credit. There was a reverse trend in ratio which started from 1990-91 onwards and fell to 13.34 per cent in the year 1998-99 in India. Post 1999 this ratio increased sharply and reach up to 39.55 per cent in the year 2006-07, that indicates KCC's introduction as big booster for the agricultural credit and also brought about sea change in improvement of credit reach to farming community. Many of other policy initiative started in the year 2004-05 which played important role. In the later years, despite fluctuating trend, it increased to 49.63 percent in the year 2015-16 and 51.56 percent in the year 2017-18. This chart revealed that trend of both agricultural credit outstanding and disbursement as a percentage of agricultural GDP are similar except during certain period where there was divergence between two of them. The reason could be the announcement of loan waiver that impacted negatively on repayment behavior of borrowers and made banks averse towards fresh lending.

Status of Agricultural Credit

Agriculture sector is important component of Indian economy since it provides the livelihood to larger section of population. According to 2011 Census, out of total workers (481.7 million), there are cultivators (118.7 million) and agricultural laborers (144.3 million) that means approx. 55 per cent of total workers were employed in the agriculture sector and other allied sector. However, percent share of the workers engaged in the agriculture sector have been declining. As per the Labor Bureau Report 2015-16, only 46.1 per cent of working population were employed in the agriculture sector and other allied sectors.

As per the Agriculture Census 2015-16, total number of the operational holdings in country was 146 million and the total operated area was 157.14 million hectares in 2015-16. The marginal and small holdings taken together constituted 86.21 per cent, while their share in operated area stood at 47.34 per cent in 2015-16. Average size of the land holding in 2015-16 was 1.08 hectare. Agriculture played significant role in development of Indian economy. However, contribution of agriculture towards GDP has gone down from 52 percent to 30 percent in 1950s and 1990s respectively, which went below 20 percent from 2010 onwards. In 2018-19, share of Agriculture & other Allied GVA in the overall GVA at 2011-12 prices was 14.4 percent 3 and at current prices was 16.14 per cent 4.
Indian agriculture and other allied sector broadly covers four activities i.e. livestock, forestry, crop,

and fisheries. For stimulating productivity of such activities, GoI has given policy thrust that led to various agricultural revolutions with time *viz.*, the green revolution - cereal production (late 1960s to early 1980s) which succeeded by white revolution - milk production (starting 1970s), Gene revolution - cotton production (early 2000) and Blue revolution - fisheries production and productivity (1973-2002). This resulted in making agriculture sector not only self-sufficient but to emerge as net exporter of several agricultural commodities like marine products, rice, cotton *etc.*

Such phenomenal achievement was made possible through policy interventions by GoI and RBI related to Agricultural credit. Realizing importance of the institutional credit in nurturing growth and the development of agriculture sector, All India Rural Credit Survey Committee (AIRCSC, 1951-54) laid foundation of institutional framework for establishing sound system for credit delivery to finance agriculture and other allied activities. Till end of 1960s, the cooperative structures have assumed responsibility to provide production credit to farmers. With objective to impose social control, the commercial banks were nationalized in 1969 and 1980. Further, in the year 1976, RRBs were setup as an alternative agency for providing rural credit.

The National Credit Council, in a meeting held in the month of July 1968, emphasized that the commercial banks should increase involvement in financing the priority sectors *viz., small scale industries and* agriculture. Description of priority sector was later formalized in the year 1972 based on report which was submitted by Informal Study Group about Statistics related to the advances to Priority Sector constituted by RBI in May 1971. Impact of institutional framework has largely leveraged formal credit to agriculture sector. From Rs. 37.71 billion in 1981 (approx. 16 per cent of agricultural GDP in 1980-81), SCBs' outstanding advance to agriculture and other allied activities have grown to Rs. 13694.56 billion in the year 2017-18 which form approx. 16 per cent of the total bank credit, *i.e.* Rs. 86254.25 billion and approximately 51 per cent of Agriculture & other Allied Gross Value Added (GVA) at current price.

Sectoral Deployment of Bank Credit - November 2019

Data on the sectoral deployment about bank credit which was collected from selected 39 SCBs, which accounts for around 90 percent of total non-food credit deployed by the SCBs for November 2019.

Highlights of sectoral deployment of the bank credit is mentioned below:

On year-on-year basis, growth of non-food bank credit decelerated to 7.2 percent in the month of November 2019 from 13.8 percent in November 2018. Credit to agriculture and allied activity slowed to 6.5 percent in November 2019 from 7.7 percent in November 2018.Credit growth to theindustry decelerated to 2.4 percent in November 2019 from 4.0 percent in November 2018. Within the industry, credit growth to 'textiles', 'food processing','chemicals & chemical products', 'gems & jewelry', 'construction' and 'infrastructure' decelerated or contracted. The credit growth to 'cement & cement products' and 'plastic, rubber & their product' accelerated. The credit growth to services sector decelerated to 4.8 percent in November 2019 from 28.1 percent in November 2018. Personal loan grew at marginally lower rate of 16.4 percent in November 2019 as compared with 17.2 percent in November 2018.

Source : Sectoral Deployment of Bank Credit - November 2019 (RBI – Dec. 31, 2019) https://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx

Issues in Agricultural Credit

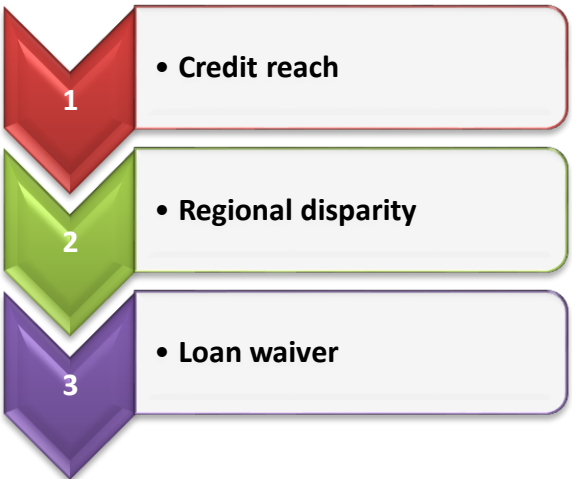


Figure 2.9 Primary issues in Agricultural credit

(i) Credit Reach – In absence of proper records and legal framework related to agricultural activity, share choppers/ tenant farmers/ landless labour/ oral lessees face difficulties in the access towards institutional credit. As per annual return of Priority sector lending (2015-16), only 41 per cent of marginal and small farmers could be covered by private and public sector banks. Besides such problems in credit accessibility, credit share of allied activities i.e., forestry, fisheries and livestock was sub-optimal as compared to contribution from agricultural output.

(ii) Regional Disparity in the Agricultural Credit – Some states are getting higher share, as high as 10 per cent of total agricultural credit as compared to the other states who got just 0.5 per cent. In some states, *viz.*, West Bengal, Bihar, Jharkhand, Chhattisgarh *etc.*, the bank credit was not in proportion to their share in the agricultural output.

(iii) Loan Waiver – The announcement of loan waiver by the state government affected credit culture of the country as many borrowers withheld repayment as they anticipated loan waiver. This had an adverse affect on credit history of the borrowers and future prospect of availing a fresh loan for agricultural purpose. This resulted in deterioration of the credit culture which was evident from high level of the Gross NPA of 8.44 per cent on March 31, 2019 in agriculture sector.

Complementary Issues of Agricultural Credit:

- **Product strategy**: Diversified product and services should be designed to cater to varied needs of transactions of smaller ticket size without any compromise on flexibility, convenience and continuous availability.

- **Processes**: Proper process needs to be designed which could help in reaching the underserved segment and providing hassle-free doorstep services to customers without jeopardizing the financial viability.

- **Partnerships**: It is necessary to understand the constraints which are being faced by underserved or the excluded segments while accessing the financial services from various service providers.

- **Protection**: The rural people need to be protected from the providers of credit, hence there is a requirement of mechanisms and measures which could protect from misuse or abuse from the service providers.

- **Profitability**: Business strategy and the delivery model should be geared up for providing acceptable and affordable services to rural clientele while also ensuring that the service providers of rural finance function profitably on sustained basis.

- **Productivity**: Productivity of the financial services that are being provided in rural areas should be increased. Strategies need to synergize the other resources with finance for ensuring optimal use and more productivity of the financial services being provided.

- **People**: There is a need that frontline staff of financial services providers is well-equipped for meeting needs of driving financial inclusion process in terms of skill, attitude and knowledge. It is very important for the staff to identify the potential customers and also offer them comprehensive and timely advice, for this the staff should have comprehension, capacity and commitment.

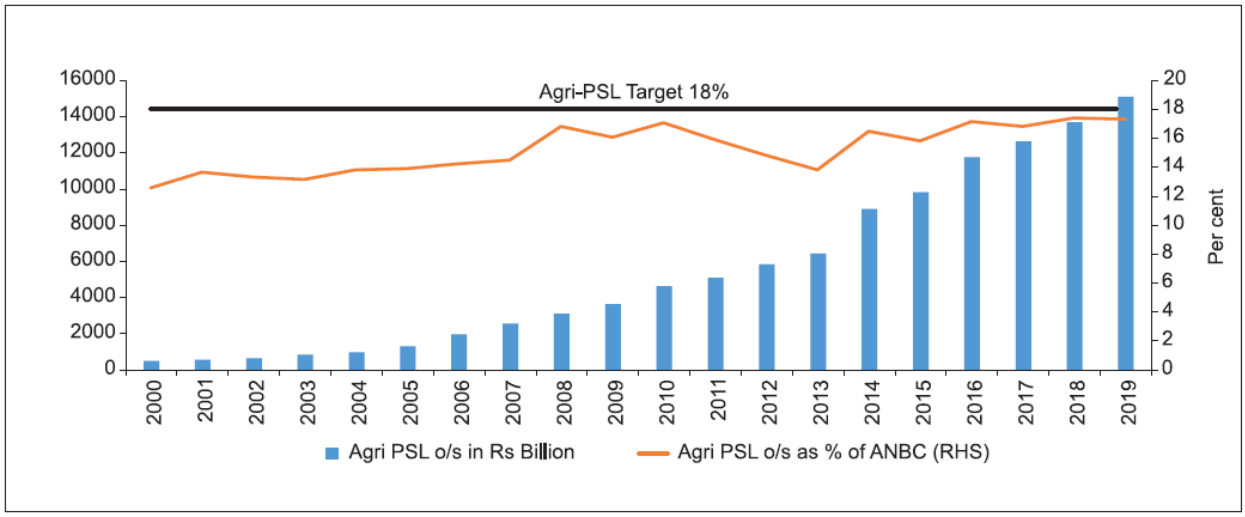
Figure 2.10 Complementary issues of Agricultural credit

Agricultural Credit under Priority Sector Lending (PSL)

Priority Sector Lending is major policy initiative/ intervention through which credit could be directed among sectors which have national priority. Objective of PSL have been to ensure weaker and vulnerable sections of society get access towards credit and there exists adequate credit flow towards employment intensive sectors like Micro, Small and Medium Enterprises (MSME) and agriculture. Presently, all the Scheduled Commercial Bank require to meet target of 40 percent of their Adjusted Net Bank Credit (ANBC) or the credit equivalent of Off Balance Sheet Exposure, whichever is high for Priority Sector Lending. There is a requirement for the SFBs and RRBs for meeting target of 75 percent towards Priority Sector Lending. Besides overall target of PSL, banks have a target of achieving 18 percent and sub-target of 8 percent of ANBC for the marginal and small

farmers. Under revised guidelines related to PSL of 2015, direct/ indirect agriculture credit has been dispensing with. Eligible activity includes farm credit, ancillary activities and agricultural infrastructure. As per new guidelines, approach of agriculture under the priority sector is focusing on 'credit for agriculture' instead of 'credit in agriculture' for giving impetus to finance of the supply value chain in agricultural sector. Trend of the agricultural credit, total Priority Sector Lending and the achievement related to the prescribed target is shown in following chart :

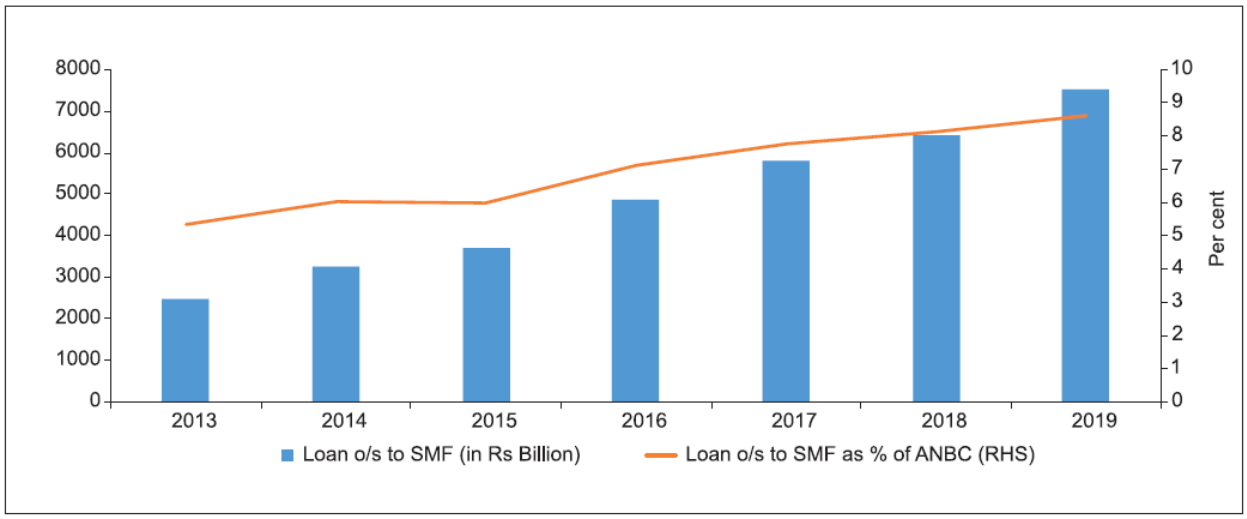
Graph 2.2 Year-wise Agri-Priority Sector Lending credit o/s (SCBs excluding RRBs) and achievements against Agri-PSL target



Source : Report of the Internal Working Group to Review Agricultural Credit, September 2019.

Though at aggregate level bank have achieved overall PSL target of 40 percent, but they have not been able to achieve the target of agriculture of 18 percent at the system-wide level. Public sector bank had achieved 18.12 percent and private sector bank have achieved 16.30 percent in 2018 - 19.

Graph 2.3 Year-wise SMF credit o/s (SCBs excluding RRBs) and achievement against PSL sub-target for SMF



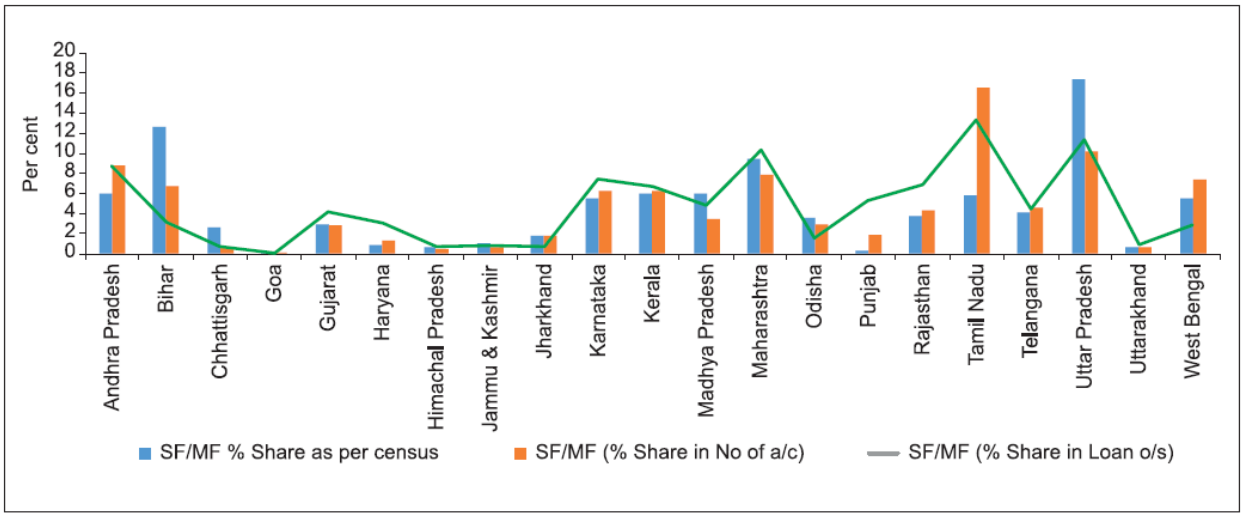
Source : Report of the Internal Working Group to Review Agricultural Credit, September 2019.

At aggregate level, bank have achieved sub-target of marginal and small farmers under the PSL. Though it reflects satisfactory performance as in terms of target achievement by banks, a larger portion of the Small and marginal farmers have not been covered by the SCBs. As per the PSL

Returns 2015-16, number of account under marginal and small category are 5,13,88,257 and total number of marginal and small farmers as per Agriculture census, 2015-16 was 12,56,35,000. There have been many initiatives with the aim of financial inclusion still only 40.90 percent of marginal and small farmers could only be covered by the SCBs. There is requirement to increase SMF coverage by banks since they constitute 86.21 percent of the total operated holding and have 47.34 percent share in operated area.

The chart below shows the state-wise comparative position of the percentage share in the population, number of accounts of loan and also the amount which is outstanding regarding marginal and small farmers.

Graph 2.4 State-wise percentage share of population of SMF, number of loan accounts and loan outstanding



Source : Agriculture Census 2015-16 and RBI

Analysis show that presence of larger number of marginal and small farmers in state have not translated into the proportionate number of accounts of loan, highlighting extent of the financial exclusion among the marginal and small farmers. Also, pattern of percent share in number of accounts of loan in state does not match with percent share in the outstanding amount particularly in states of Odisha, West Bengal and Bihar. Tamil Nadu have come out as the outlier, which has 6 percent share in total numbers of marginal and small farmers even though it is leading state as in terms of the share in the total number of the loan accounts i.e. 17 percent and highest share amount outstanding i.e. 13 per cent. Andhra Pradesh has higher share in number of account as compared to share in the numbers of SMF across country. Further, in the states like Jharkhand, Bihar, West Bengal and Odisha, the percent share in the loan outstanding that is not in proportion to their share in percent in number of accounts of loan. This in way might be indicator that loan amount per account for the marginal and small farmers in the state was lower than the other states.

Lead Bank Scheme

Genesis of Lead Bank Scheme (LBS) could be traced to Study Group which was headed by Prof. D. R. Gadgil on Organizational Framework for Implementation of social objectives that submitted report in the month of October, 1969. This Study Group drew the attention to a fact that the presence of commercial banks was not adequate in the rural areas and lacked required orientation towards rural areas. This Study Group recommended adoption of 'Area Approach' for evolving programmes and plans for development of adequate credit and banking structure in rural areas. A Banker's Committee on Branch Expansion Programme of public sector bank appointed by RBI under Chairmanship of Shri F. K. F. Nariman i.e. Nariman Committee that endorsed idea of 'Area Approach' in report of November 1969, they recommended that for enabling Public Sector Bank for discharging

their social responsibility, every bank should concentrate on a certain districts where it will act as 'Lead Bank'.

Pursuant to recommendations mentioned above, Lead Bank Scheme was introduced by RBI in the month of December 1969. This scheme aimed to coordinate banks activity and other developmental agency for achieving objective to enhance flow of the bank finance to priority sector and various other sectors and for promoting banks' role in overall development of rural sector. For coordination of activities in district, assignment is given to a particular bank to function as a 'Lead Bank' for the district. It is expected from a Lead Bank to perform the role of leadership for coordinating efforts of credit institutions and Government. Taking into consideration several changes which took place in financial sector, scheme of Lead Bank was reviewed by High Level Committee which was headed by Smt. Usha Thorat, Deputy Governor of RBI in 2009. There were many discussions with various stakeholders and the Committee and it was noted that scheme was useful while achieving the original objectives of deposit mobilization, improving branch expansion and priority sector lending in semi urban and rural areas.

Envisaging a greater role for the private sector bank, the Lead Banks were given advise for ensuring that the private sector bank are closely involved in implementation of Lead Banks Scheme. The private sector bank should get involved more actively through leverage on Information Technology through their expertise in the strategic planning.

Service Area Approach (SAA)

This approach was introduced in the month of April 1989 for orderly and planned development of semi-urban and rural areas was applicable among all the scheduled commercial bank including RRBs. Under the SAA, each branch of bank in semi-urban or rural area was nominated for serving an area comprising of 15 - 25 villages and branch was responsible to meet needs of credit of its area of service. Primary objective of SAA was increasing productive lending, building effective linkage between production, banks credit, income level increase and productivity. SAA scheme have been reviewed from time to time and changes have been made appropriately in scheme for making it much more effective. The SAA scheme was reviewed in the month of December 2004 and decision was taken to dispense with restrictive provision of scheme while positive features of SAA were retained like credit planning and monitoring of credit. Under SAA allocation of the villages in semi-urban and rural bank branches were made which were not applicable for lending except under the Government Sponsored Schemes. Hence, while RRBs and commercial banks were free for lending in any semi-urban and rural area, borrowers have a choice to approach any Bank branch for credit requirements.

To Do Activity

Write about any two complementary issues of agricultural credit in India from the following :

- Product strategy
- Processes
- Partnerships
- Protection
- Profitability
- Productivity
- People

2.3. Standards and Methods of Financing and Rural Lending

Methods of Rural lending and Farm Lending

India is growing at a fast pace. The market of lending has wavered during past many years, though there is strong hope that the there will be improvement in the lending market in the coming years. Banks have witnessed overall provisioning reduction against the deteriorating asset and increase in the credit growth. This industry seems to still be recovering from overnight demonetization of Rs. 500 and Rs. 1000 note from circulation on 8th Nov. 2016 and implementation of Goods and Services Tax (GST). There have been many controversies of high-profile which have affected public and private sector banks and this have raised eyebrows regarding overall conviction in this industry. Strict measures from regulator and enforcement agency could help in clearing blemishes on this industry. The rate of inflation has been lower even than expected and also stable over past years which has allowed regulators to reduce interest rates periodically. There are many Institutions who have been engaged in lending activities in India.

Institutions Engaged in Lending Activities

Secured lending is regulated activity in India. There are various types of Institutions that are entitled for engaging in the lending activities. These Institutions include :

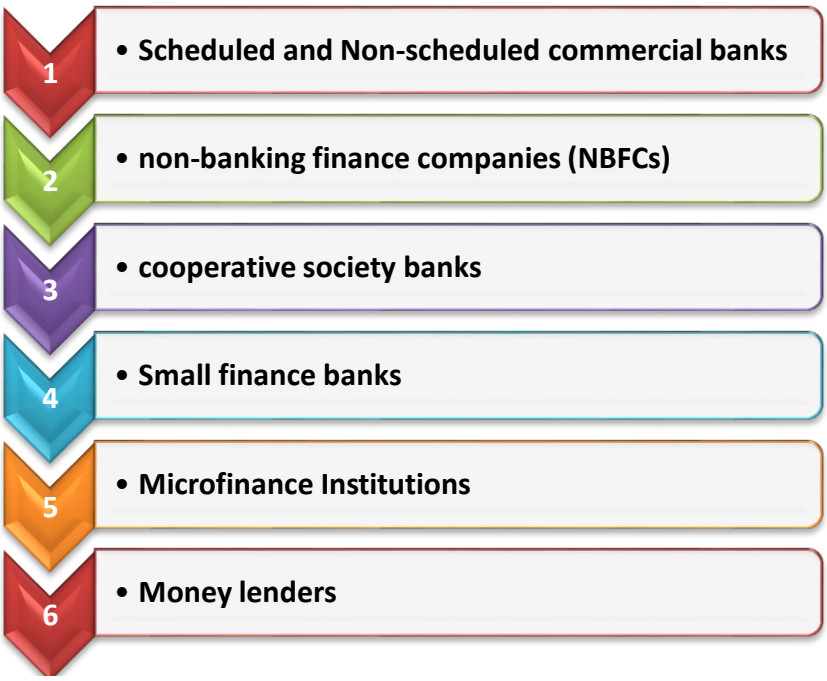


Figure 2.11 Institutions engaged in lending activities

- **Scheduled and Non-Scheduled Commercial Banks**

The semi-urban and rural branches of commercial banks have been controlled at regional level by their regional offices, and these offices are further coordinated at zonal level by their zonal offices, having headquarters of these banks responsible for the overall supervision and control. Commercial banks have sponsored, in collaboration with central and the state government, local district level banks known as RRBs. Progressively a larger share of agricultural credit on ground-level is accounted for by the commercial banks.

- **Non-Banking Finance Companies (NBFCs)**

NBFCs play a very important role in promotion of inclusive growth in country through catering of diverse needs of customers who have been bank excluded. NBFCs have been taking the lead role while providing innovative financial service to MSMEs which are suitable for the businesses. NBFCs are the financial intermediaries, some of which are also engaged in accepting deposits, credit delivery and have been playing important role to channelize scarce financial resource for capital formation. They supplement role of banking sector to meet increasing financial need of corporate sector, credit delivery to small borrowers and unorganized sector.

- **Cooperative Society Banks**

Cooperative banks have been catering to short-term and long-term credit requirement in the rural and the semi-urban areas. Short-term credit structure is three-tier structure, with state-level cooperative banks, or SCBs at apex, district-level credit cooperative banks, or DCCBs constitute middle tier and many primary societies at village-level. Every higher tier relies largely on lower tier for dispersal of credit and to some extent also on mobilization of deposit. State and District-level cooperative institutions have been operating through their branch to a limited extent. The Long-term credit also is also tiered structure. In includes state-level cooperative agricultural and rural development banks. Some such banks operate in small states which operate through their branch directly. The others especially that are located in larger states have been operating through intermediary level called primary cooperative agricultural rural development banks.

- **Small Finance Banks**

The main reason behind formation of these banks was for expansion of financial services' access in the semi-urban and rural areas. Such banks function on a small scale and the products and services are similar to the ones which are being offered by commercial banks. It offers the basic banking service; accept deposit and lending to the underserved section of customers, which includes marginal and small farmers, small business unit, small and micro industry and even entity in unorganized sector. Small finance bank offers targeted deposits and lending product to the lower income group. Product's proposition is focused on customer's profile of the target customers.

- **Microfinance Institutions**

These institutions have been working promptly in sector of rural credit and have been providing people access conveniently towards credit and other financial services. The main focus of these Institutions focus has been on poor families and mostly such families have been accessing credit without collateral. The loan taken could be for production and consumption activities and for small business. Such small loans have been helping out people in raising the level of income and even living standards. Microfinance Institutions have been helping rural people for availing and creating the economic growth opportunity. The level of rural people have been changing rural people's level and re-energizing poor community, particularly most suppressed, neglected and oppressed community of rural society. The people to whom finance was being extended were marginal and small families, women, artisans, share croppers and agricultural laborers. People also sometimes avail micro-insurance for sudden expenses related to illness or asset loss. The interest rate which is charged by microfinance institutions are revealed to people and hence they are receiving overwhelming demand among people and MFIs are functioning as a vehicle for reaching the poor.

- **Money lenders**

Many people in the rural area have been dependent on loans from money lenders.

They are classified into two categories:

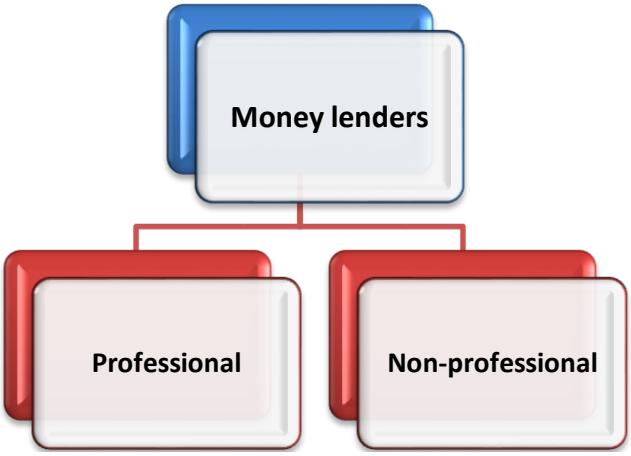


Figure 2.12 Classification of money lenders

Professional money lenders have been working as money lending as their primary business. Non-professional money lenders are engaged in money lending as a side business and it is not their main profession. These people could be merchants, agriculturists, landlords, rich widows, teachers, traders, pensioners, advocates or some other person having surplus money. Both the types of money lenders have been operating in urban and rural areas. In this division, there is some kind of flexibility as urban merchant can lend to farmers whose produce is being bought by him. Importance of money lenders is enormous in the rural India as the institutional finance agencies are not adequate like cooperative banks and commercial banks. Money lenders have been providing credit for short-term financial requirement of farmer, marginal farmers, landless agricultural worker, traders, petty shopkeepers and rural artisans. and petty shopkeepers and traders. Loans are also given for consumption need, for religious and social and religious and productive purpose like cattle, seeds, fertilizers etc.

Methods of Lending

Lending in rural areas is done through different forms.

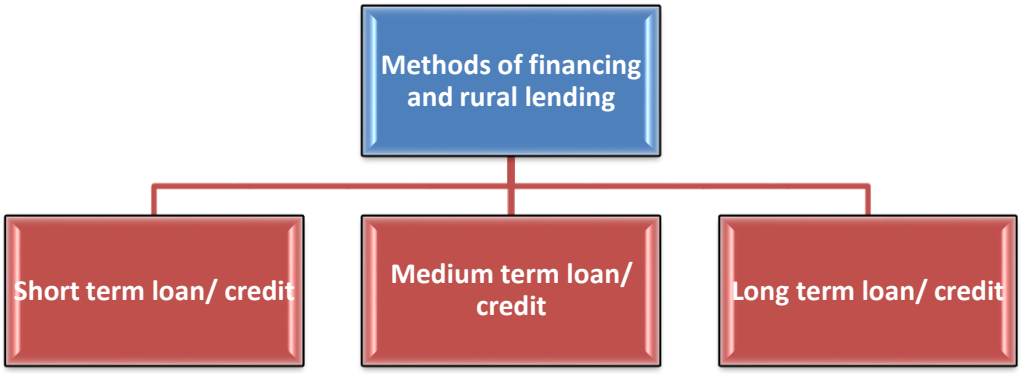


Figure 2.13 Methods of financing and rural lending

- **Short Term Loan/Credit**
  This type of rural credit is taken for holding shorter capital requirement. The loan duration could be up to one year. In this credit type, the principal and interest has to be repaid on a particular given date within a period of one year. This type of loan is expensive but worthy, particularly for those who are staring small company or start-up. These loans are provided for purchasing seeds, pesticides, feed on fodder livestock, fertilizers, agricultural produce marketing, and wage payment of hired labor. These loans are also classified as per the use and the way they are being applied like fungicides, herbicides, insecticides and other type of pesticides.

- **Medium-Term Loan/Credit**
  These loans have repayment duration of 2-5 years. This term loan is a good option for the small firms which have been looking for traditional ways of credit having a particular anticipated amount and repayment duration. The amount of loan amount that an individual would receive might differ on the basis of credit rating, cash flow and some other factors. Such loan is provided to meet expenses on improvement of land, wells digging, purchase of machinery or farm animals and other such expenses. This loan is generally provided by the cooperative societies, commercial banks, relatives of farmers and money-lenders.

- **Long Term Loan/Credit**
  These types of loans have repayment duration of 5-20 years. Long term finance plays a very important role in any form of business for creating permanent assets which will provide return over period of time. Long term loans in Agriculture sector are required for investment for long term which comprise of fencing, sinking well, land leveling, permanent repair on land, acquiring heavy machine like tractor, etc. All long-term investments requires large amount of investment. Although there is a potential among farmers that they could earn profits in future, the private farmers are not having own money for making such costlier investments as they have either little savings or no savings. Such loans are provided by Primary Cooperative Agricultural and Rural Development Banks (PCARDBS).

Agricultural Credit based on Purpose

The needs of farmers for agricultural credit could be classified based on purpose:

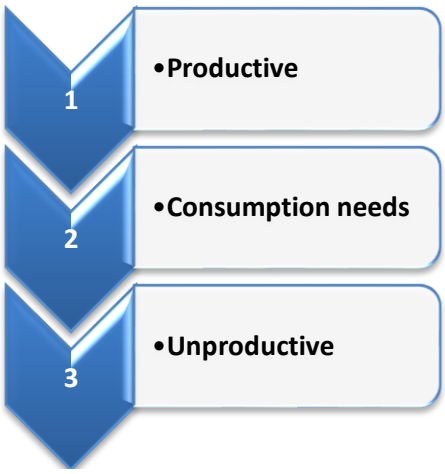


Figure 2.14 Agricultural credit based on purpose

(i) Productive Loans

These loans are required to fulfill various credit requirements that directly affect the agricultural productivity. Farmers require such loans for purchasing seeds, fertilizer, manure, agricultural implement, livestock, repair and digging of well and tube well, wage payment, effecting permanent improvement on land, agricultural produce's marketing, etc. The repayment of such loans is not difficult in general as the production process creates withdrawal for repayment.

(ii) Consumption needs

Farmers often requires loan for consuming as well. The Institutional credit agency do not provide loans for the purpose of consumption. Farmers also stretch hands to money lenders for consumption.

(iii) Unproductive Loans

These loans are required for the unproductive purpose like litigation, marriage, social ceremony like birth or death of family member, any religious function, festival etc. Institutions do not lend for such purpose so the farmers take loan from the Mahajans.

Standards of Financing

There are certain standards related to finance and these standards should be followed by Banks and various financial institutions.

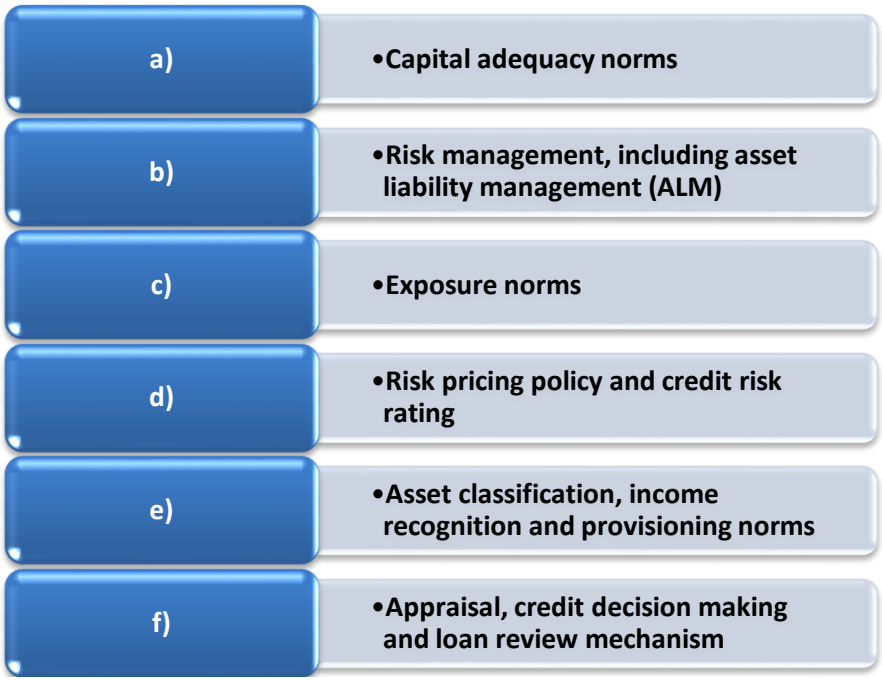


Figure 2.15 Standards of financing

a) Capital Adequacy Norms

There is a requirement for Banks for maintaining minimum Pillar 1 Capital to Risk weighted Assets Ratio (CRAR) of 9% on on-going basis (other than conservation of capital buffer and counter cyclical capital buffer). The RBI will take into account the relevant risk factors and the internal capital adequacy assessment of every bank for ensuring that capital held by bank is proportionate with overall profile of bank's risk. This will include among the others, effectiveness of bank's system of risk management in identification, assessment / measurement, monitoring and management of the various risks including the interest rate risk in banking book, the liquidity risk, the concentration risk

and the residual risk. Accordingly, RBI will take into consideration and prescribe higher level of minimum capital ratio for every bank under Pillar 2 framework based on their respective profile of risk and their risk management system. Further, in terms of Pillar 2 requirement of framework of New Capital Adequacy, banks are expected that they will operate at level which is above minimum requirement.

b) Risk Management, including Asset Liability Management (ALM)

There are many risks that affect the credit decisions. Major risks are market risk, operational risk and credit risk.

Market risk can is defined by RBI as possibility of loss to bank, which is caused by changes in the market variables that are :

I. Liquidity risk
II. Interest rate risk
III. Foreign Exchange risk
IV. Commodity price risk
V. Equity price risk

The Asset and Liability Management Committee (ALMC) functions the top highest operational unit for a bank. Banks also face some other risk which is known as Operational risk. This risk arises from technical or human error or acts related to commission and omission like break down or ineffectiveness in internal control and the internal audit system. This risk could lead to losses through frauds, error or failure in the performance in timely manner. The operational risk includes legal risks but it excludes reputation and strategic risk.

Credit risk can be defined as possibility of loss which is associated with diminution in credit quality of the counter parties or borrowers. Such risks include:

a) Principle and interest amount not paid
b) Funds are not forthcoming from the clients upon invocation of Letter of credit or Guarantee
c) Payment or series of payment that is due from counter parties might not be coming in the case of treasury operations
d) Securities/ Funds settlement might not get affected in trading of securities
e) Availability and free transfer related to funds from foreign exchange might be either ceased or restrictions might be imposed by sovereign.

c) Exposure Norms

From the month of April 2002, exposure ceiling as declared by RBI is 15% of capital funds as in case of single borrower and 40% in case of group borrowings. Borrower's exposure that belong to a group could exceed exposure norms of 40% of capital funds of banks additionally by 10% total up to 50%, provided additional exposure is on the account of credit extension to the infrastructure projects.

d) Risk pricing policy and credit risk rating

Impact of the exercise of credit appraisal, which is undertaken by the banks at time when fresh credit is being sanctioned or during credit extension should be felt in credit risk rating and risk pricing policy of bank.

e) Asset classification, income recognition and provisioning norms

The advances portfolio of banks is classified into four categories.

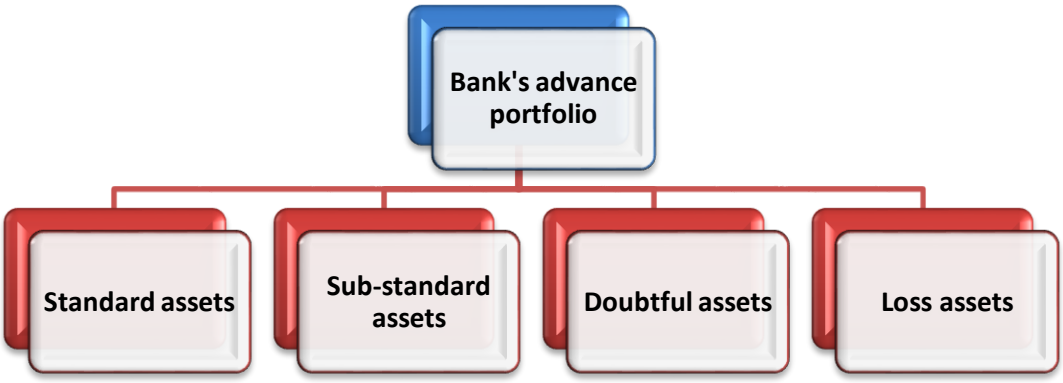


Figure 2.16 Bank's advance portfolio

- **Standard assets**
  These assets are the ones that do not disclose any problem and that does not carry risk more than normal risk. Standard assets are those assets in which the bank has been receiving principal and interest regularly from customer.

- **Sub-standard assets**
  With effect from 31st March 2005, Sub-standard assets are the ones which have remained an NPA for period lesser than or equal to 12 months.

- **Doubtful assets**
  With effect from 31st March 2005, assets will be classified as doubtful asset if it remains in sub-standard category for period of 12 months.

- **Loss assets**
  Loss assets are the ones wherein the bank or internal or external auditors or RBI inspection have identified loss but amount has not been written off wholly.

Proportion of the standard assets in the total advances of Scheduled Commercial Banks increased in the year 2018-19, because of improved performance of the Public Sector Banks. This corresponding improvement in the sub-standard and the doubtful assets has partly reversed with an increase in loss account as shown in table 2.1.

Income recognition policy is objective and is based on recovery record. The income from NPA is not recognized on accrual basis, but it is booked as the income only when it is received actually. Hence, banks should not charge and take it to income account, interest on NPA.

Table 2.1 Classification of Loan Assets – Bank Group wise

Classification of Loan Assets - Bank Group-wise									
									(Amount in ₹ crore)
Bank Group	End-March	Standard Assets		Sub-Standard Assets		Doubtful Assets		Loss Assets	
		Amount	Per cent*	Amount	Per cent*	Amount	Per cent*	Amount	Per cent*
PSBs#	2018	46,02,125	84.5	2,05,340	3.8	5,93,615	10.9	46,521	0.9
	2019	50,86,874	87.8	1,37,377	2.4	5,06,492	8.7	66,239	1.1
PVBs^	2018	24,50,552	96.0	27,203	1.1	69,978	2.7	5,243	0.2
	2019	31,03,581	95.2	42,440	1.3	1,04,696	3.2	9,576	0.3
FBs	2018	3,49,475	96.2	3,831	1.1	8,364	2.3	1,635	0.5
	2019	3,94,699	97.0	3,163	0.8	7,985	2.0	1,034	0.3
All SCBs**	2018	74,02,152	88.1	2,36,374	2.8	6,71,957	8.0	53,398	0.6
	2019	85,85,154	90.2	1,82,980	1.9	6,19,173	6.5	76,849	0.8

Notes: 1. Constituent items may not add up to the total due to rounding off.
2. *: As per cent to gross advances.
3. #: Includes IDBI Bank Ltd for 2018.
4. ^: Includes IDBI Bank Ltd for 2019.
5. **: Excludes SFBs.

PSBs – Public Sector Banks, PVBs – Private Sector Banks, FBs – Finance Banks, SCBs – Scheduled Commercial Banks

Source : Off-site returns (domestic operations), RBI

The norms for provision are different for various types of assets.

f) Appraisal, Credit Decision Making and Loan Review Mechanism

Credit appraisal is done by banks before sanctioning of loan. Credit position should be reviewed periodically with concerned borrower and the remedial measures are recorded and implemented without any loss of time. The notices for review and renewal of loan account are to be sent to borrower in advance. Though the renewals for advance for working capital, based on present practice done annually for all those accounts which are showing sign of initial sickness and deteriorating credit risk, short quarterly reviews should be conducted. Loan accounts should be monitored closely having high or deteriorating credit risk by the branches and also controlling office or head office would ensure overall risks exposure of bank can be controlled.

To Do Activity

Visit a branch and website of any of the following financial Institution which is engaged in lending activities and present the findings about the procedure for loan before the class in a group of 5-6 students.

- Scheduled and Non-scheduled commercial banks
- Non-banking finance companies (NBFCs)
- Cooperative society banks
- Small finance banks
- Microfinance Institutions

2.4. Techniques and Types of Lending

Techniques of Lending

There are various techniques of lending money to rural people. There is a variety of options that exists for consumers. There are some lenders which could be said to be the general purpose lender like Banks, credit union and finance companies. P2P lending is digital option to put together borrowers and lenders. Credit card could work short term loan and margin account to buy securities.

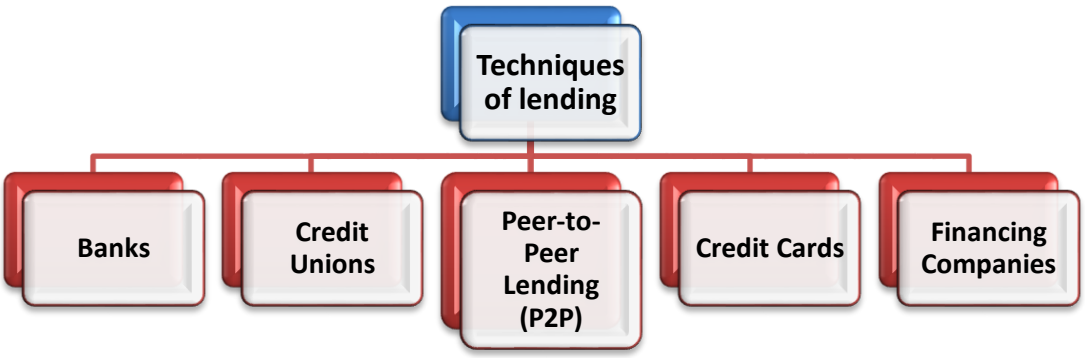


Figure 2.17 Techniques of lending

a) Banks

Banks have been offering many products like mortgage loan, personal loan, construction loan and other such loan products which depend upon the needs of customers. Banks accept deposits and then provide loans to consumers at a higher interest rate. The Banks earn profit from this spread of interest. Banks acts as a traditional fund's source for car or house purchase or for refinance of a loan that exists at a favorable rate. Some people prefer to take a loan from the Bank from where they have been transacting since sometime. People find it easy as they have relationship and account in a particular bank. A person whom people already know could help in the paper work and also answer questions. Some people don't prefer to avail loan from Banks as they feel that the bank fees is high and even feel that even the cost of loan application or even servicing fee is high. Banks sometimes resell loan to any other bank or any financing company and this could result in some extra fee and procedures.

b) Credit Unions

Credit union is cooperative institution which is controlled by the members i.e. people who are using its services. Such groups usually include a particular group's members, or of community or organization and they provide loans to those people who are a part of that group. They work as non-profit enterprise that helps in enabling them in lending money at a more favorable rate or on a more generous term as compared to commercial financial institution. The transaction or lending application fee might be cheaper. The loans that are being provided by credit unions are in the form of plain vanilla loan and they do have a variety of loan product as being offered by bigger banks.

c) Peer-to-Peer Lending (P2P)

P2P also known as crowd lending or social lending is a financing method which enables the individuals for borrowing and lending money without use of any financial institution as intermediary. It removes middleman from process, it involves more effort, risk and time than the use of brick-and-mortar lenders.

With P2P lending, borrower receives finance from the individual investor those who are interested in lending their money at an agreed rate of interest. People who are becoming a part of P2P lending link through an online peer to peer platform which is online. Borrowers display profiles on websites so that the investors assess them for determining whether they want to take a risk in extending loan to that particular person. The borrower may receive full amount that he needs or only a part of it. In case, the borrower does not get whole amount of loan from one person then the remaining portion of loan could be funded by some other investor or more investors in the peer lending market place. There is a possibility that each loan could have many sources and in this monthly repayment will be

made to each individual source. It is helpful for those who do not get loans from standard financial intermediary.

d) Credit Cards

Credit cards also act as a good source of loan, but it is necessary that they are used cautiously and should be aware about the costs involved with them. They do not act as a source of long term finance. This could be helpful for those who require funds quickly and have intention to repay borrowed amount in short period. If individual need borrowing smaller amount for shorter period, credit card could be a good option. As such, it does not involve any kind of application fee and a person who pays entire balance at month end, credit card could be a source of loan at 0% rate of interest. In case, the balance is not paid at the end of month, the rate of interest being charged on the amount and rate of interest is generally more than 20 % annually. The companies of credit card usually lend smaller amount of money to individuals. People cannot avail loan through credit card for long term and even those who need funds for making exceptionally a large purchase. Borrowing money through credit card could help in reduction of chances to get loans or any additional credit from lending institutions.

e) Financing Companies

The Financing companies make loans for those who are planning to purchase some items. While there are some lenders who provide loans for longer-terms, mostly finance companies are specialized in providing fund for small purchases like car or major appliance. Finance companies offer a competitive rate and overall fee could be low as compared to bank and other lending institution. Also, approval process is quicker than other financial institutions and Banks. The loans being provided by financing companies are limited and the customer service level and additional services are not available through finance companies.

Loan Appraisal

Loan Appraisal is process through which lender appraises economic viability, bankability credit worthiness and technical feasibility of prospective borrower. This process of customer lies in assessment whether customer is accountable for repayment of loan amount during stipulated time or not. Banks have their methodology for determining whether borrower is credit worthy or not. The determination of credit worthiness depends upon the norms and standard which are set by banks. It is crucial step during sanctioning of loan hence; borrower is required to carefully plan his need of finance. The banks need to ensure that they apply proper procedure for credit appraisal as they could end up in taking more risk in case proper terms and conditions are not followed. Every bank and financial institutions have their own unique subjective, objective, financial, non financial technique for evaluating credit worthiness of borrower.

Loan appraisal is based on two important factors i.e. willingness and ability for repaying the loan. For ensuring these two factors the officials of banks and financial institutions check the following :

- Past history of credit
- Income source whether into business or salaried
- Understanding customer through interaction and observing body language
- Assessment of customer's financials
- Bank checks the conflict of interest

Loan Appraisal and Terms/Conditions

a. Lenders must ensure that the credit application is properly assessed by borrowers. There should not be any use of margin and security provision as alternate for the due diligence on credit worthiness of borrower.

b. The credit limit should be conveyed to borrower by the lender with term and conditions and keep borrower's acceptance about these term and conditions that are given with his/her full knowledge on records.
c. Term and conditions along with other caveats which are governing the credit facility given by the banks and financial institution arrive at after the negotiation done by the lending institutions and the borrowers should be condensed in written form and also duly certified by authorized official. Copy of loan agreement with copy each of all the enclosures which are quoted in loan agreement must be furnished before the borrower. Banks should regularly furnish copy of loan agreement with copy of all enclosures which are quoted in loan agreement to borrower(s) at sanctioning time or the time of disbursement of loan.
d. Loan agreement should stipulate clearly the credit facilities which are solely at lender's discretion. These might include the approval or the disallowance of various facilities like drawing beyond sanctioned limit, honoring cheques which are issued for purpose besides the ones which have been specifically agreed upon in credit sanction and also disallowing the drawing on borrowable account of its classification as non-performing asset or on account of non-compliance with sanction terms. It should have been stated specifically that lender not has an obligation towards meeting of further requirements of borrowers based on growth in the business etc. without any proper reviewing of credit limit.

Components of Loan Appraisal Process

While assessment is being done of customers, the following information should be found by the Banks :

- Applicant's income
- Applicant's age
- Educational qualification
- Profession
- Experience
- Additional source of income
- Record of any past loan
- Family history
- Business or employer
- Security of the tenure
- History of tax
- Applicant's assets and their pattern of financing
- Recurring liabilities
- Present and future liability
- Investment (if any)

From the above criteria's, the key information criteria is to know about the income of the applicant or applicants, so that credit worthiness of applicant could be assessed. The norms differ among various Banks and financial institutions. Every bank or institution has certain norms which are assessed and Bankers or the staff of the institutions evaluates the eligibility of the customers within which they fit as per the eligibility criteria. Based on certain parameters, the maximum loan amount for a customer which could be sanctioned as a loan is calculated. Broadly the tools which are used by all banks for determining the eligibility remains same for all Banks.

Banks should satisfy themselves, on the basis of credit appraisal, regarding the technical feasibility, financial viability and bankability of individual projects and/or loan proposals i.e. the standard of such appraisal should be the same, as is done in the case of a loan proposal seeking sanction of term finance/loan.

The conditions could be combined as three parameters mentioned below:

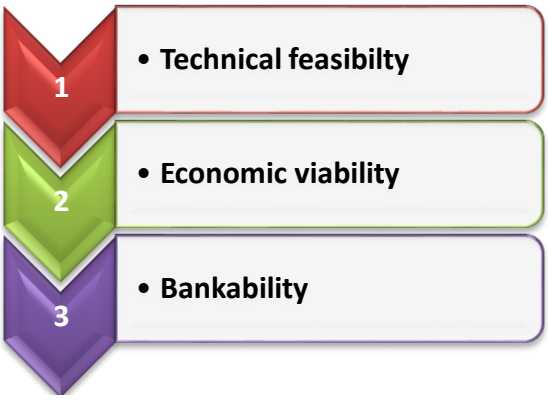


Figure 2.18 Parameters of credit appraisal

a) Technical Feasibility

It is related to the evaluation of market value of asset and field investigation. The Banker or the staff from the financial institution needs to check whether the applicant is eligible of getting loan from their Bank or Institution.

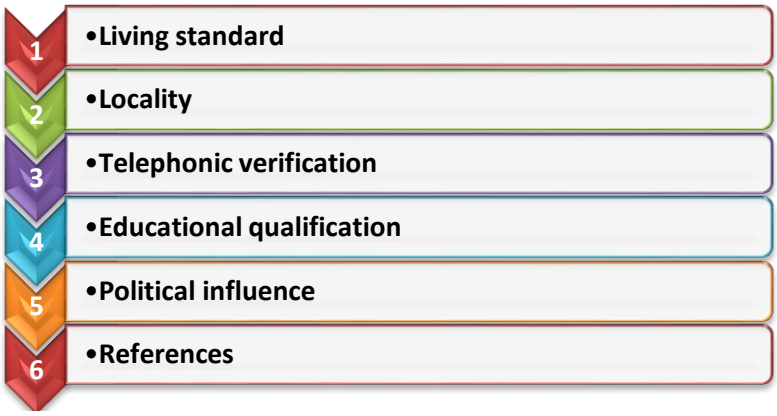


Figure 2.19 Technical feasibility

It is very important to understand the standard of living of the applicant as it should be decent and some tangibles should be available as this will assure the Banker of providing loan to the applicant. The locality in which the applicant resides also plays an important role, as the area where the applicant resides should not be a controversial area or have some undesirable elements. There should be telephonic conversation as it ensures that applicant resides there and it establishes the identity of person from contact view point. The educational qualification has to be checked. It has to be checked whether there is any kind of political influence on the applicant or not. The residential identity needs to be established from contact point of human and their loans should be cross checked.

Economic Viability

The following ratios helps in evaluating the Loan appraisal eligibility :

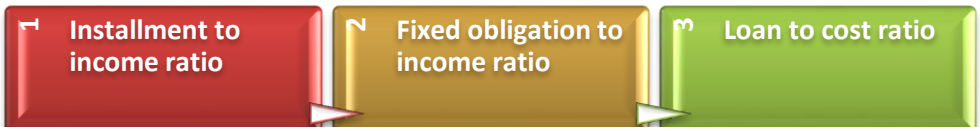


Figure 2.20 Economic viability

1) **Installment to Income Ratio** – This ratio indicates the percentage of installment to income of the customer.

> Example : Installment to income ratio of Ms. Smita is 33.33%, and her gross total income is Rs. 30000 per month, then based on this ratio, Ms. Smita will be eligible for loan having maximum installment of Rs. 10000 per month.

2) **Fixed Obligation to Income Ratio** – In this ratio, the Banker takes into consideration all other loans which have been availed by customer and the amount is still due including the current loan which would be sanctioned by the Bank or financial institution.

> Example : Mr. Amit has monthly income of Rs. 30000 and has following current loans :
>
> - Car loan having EMI of Rs. 4000 per month
> - Consumer Durable (television) loan Equated Monthly Installment (EMI) of Rs. 1000 per month
>
> Mr. Amit has applied for a home loan and EMI of the proposed home loan is Rs. 10000 per month. The ratio is Rs. 15000 to Rs. 30000 i.e. 50% of monthly income. The Bank where Mr. Amit has applied for loan considers 40% as standard ratio as criteria, then maximum amount of total installments will be 40% of Rs. 30000 (monthly income), that equals to Rs. 12000. This indicates that since Mr. Amit is already paying EMI of Rs. 5000 (Car Loan – Rs. 4000 + Consumer Durable (television) – Rs. 1000), so he is eligible for a Home loan in which EMI can be upto Rs. 7000 only (Rs. 12000 – Rs. 5000 = Rs. 7000).

Figure 2.21 Bankability parameters

Bank statement of 6 months has to be furnished by the borrower so that average balance is checked to find out whether balance is sufficient for paying installment or not. Income tax return for last two years is taken for enquiring the primary income source. Credit interview is taken for checking customer's general attitude and needs of customer. Customer's profile is checked to understand whether the income source is secured or not like salaried people have security of income. Banks accepts asset as collateral or pledge so that loan amount could be recovered from this asset. The title of the asset should be made clear as the asset should be in name of the applicant or any blood relative of the applicant. The CIBIL score of the applicant needs to be checked to evaluate any kind of credit history of applicant.

Cardinal Principles of Rural Lending

Lending Business is actually not without any inherent risk, especially when lending banks depends largely on borrowed funds.

Figure 2.22 Cardinal Principles of rural lending

a) Safety – When banker lend certain money to a person, they have to ensure that advance is safer and money which is being lent with be received back. The Banker acts as custodian of public fund and lent money that has been entrusted by depositor under banks care and it has to be repaid as per deposit's tenure. Loan repayment depends upon certain characteristics of the borrower's.

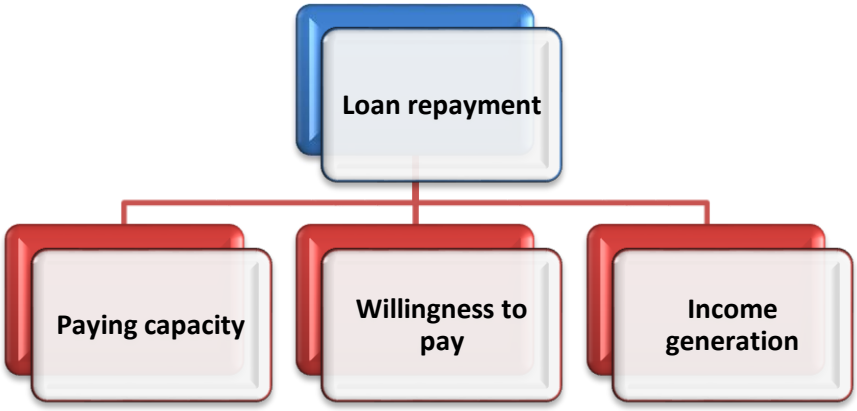


Figure 2.23 Loan repayment

b) Liquidity – The money which has been lent should not be locked in for a long time. Money should be returned as per repayment schedule. The banks have asset and liability management through which they could manage fund's liquidity which is being received from the depositors and this amount could be lent further.

c) Profitability – Bank is commercial in nature and the motto of banks is earning profit so that adequate dividend could be paid to stakeholders. Margin of interest should be kept as 3 to 4 percent between rates of borrowing and lending is required so that the administrative expenses are met. A banker should look at the overall profit instead of keeping a profit margin for every product that is being offered by banks separately.

d) Purpose – Loan cannot be granted for any kind of speculative and undesirable purpose. Earnings in these business activities is high, still bank loans cannot be given for such business.

e) Diversification of risks – The loan is not given to a few business undertakings, business houses, cities, regions or industries. The advances should be diversified among many customers.

f) Security – Security which is offered against loans could consist of many different items. These items could be land or plot, shop, flat, building, insurance policy, ornaments, debentures, bonds, shares etc. There is a possibility that loan is based only on personal security. Banker should realize that this is only cushion for falling back in case of need. Security as well as adequacy only should not form sole consideration for judgment of loan suitability.

Principles of farm lending

Role of financial institutions has increased because of technological changes in agricultural front which is necessary for evolving principles of farm finance. These are expected for bringing not only commercial gain to banker but even social benefits. Principles which have been evolved by institutional financial agency and are expected to have a universal validity. These principles of farm lending can be explained below :

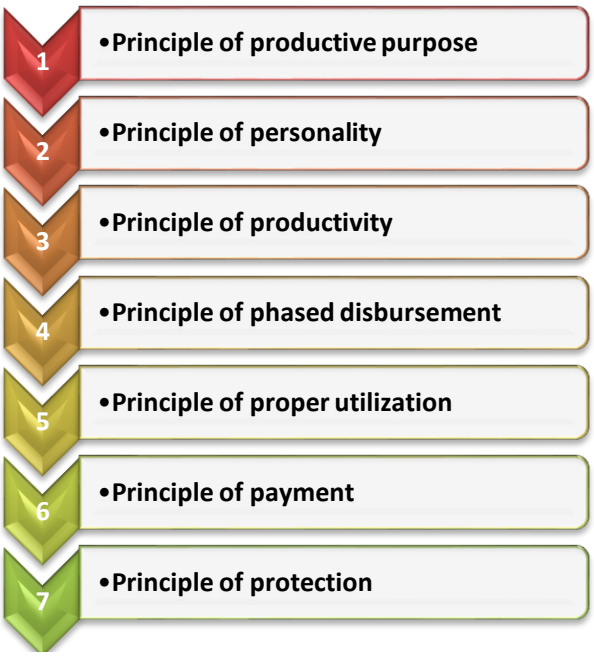


Figure 2.24 Principles of farm lending

1. Principle of Productive Purpose

This principle which is being given to the farmer should be given for some productive purpose i.e. it should be able to generate some additional income. Credit needs of the farmers vary as per the owned capital level that is available with farmer. There is capital requirement which is visible on all type of farms, but on small and marginal farms they are more pronounced. Farmers of small as well as tiny holding also need funds for consumption, so that amount given as crop loan could be used for productive purpose and not for consumption. Such farmers take loans for consumption also separately. Many institutional financial agencies do not understand that these farmers need funds for consumption also. Principle of productive purpose conveys that crop loan of marginal and small farmers need to be supported with the income generating asset which is acquired through the term loans. Additional income which is generated from productive assets adds to income obtained from farming as well as increase crops productivity from crop loan taken by marginal and small farmers. Examples that are relevant are loan for dairy animal like goat and sheep, poultry bird, installation of pump set on the group action, etc.

2. Principle of Personality

Over years lending experience, bankers identified a very important factor related to credit transactions i.e. trust worthiness of borrower. When farmer fails repayment of loan due to crop failure which is caused by the natural calamities, farmer is not considered as a willful defaulter, though large farmer who have availed loan amount fails repayment of loan will be considered as a willful defaulter. The character of big farmer will be considered as dishonesty. Safety of loan not depends upon the security being offered but it depends upon personality of borrower as it needs to be estimated whether the borrower will willfully return back the loan amount or not. Moreover progress and growth of lending institution have dependence over this influencing factor which is personality. Hence, personality of borrower and growth of financial institutions are correlated positively.

3. Principle of Productivity

This principle states that credit is not only meant to increase production from a particular enterprise but should also result in increasing productivity of other factors that are employed in that particular enterprise.

For example, usage of the High Yielding Varieties (HYVs) of crops as well as superior breed of animals increases the productivity of enterprises and also could increase productivity of the other complementary factor that are employed in respective production activity.

This principle emphasized on making resources more productive by selecting most appropriate enterprise.

4. Principle of Phased Disbursement

This principle implies that loan amount should be distributed in a phased manner, so that funds could be used in a productive way and banker can be sure about proper end usage of borrowed funds. Ex: loan for wells digging is a phased loan disbursement amount that fits for taking perennial crop cultivation and also investment activities for overcoming funds diversion for other unproductive purposes. But there is one disadvantage i.e. this will make higher cost of credit. The rate of interest is higher for the term loan as compared to crop loans.

5. Principle of Proper Utilization

This principle implies that borrowed funds will be utilized for the purpose with which loan has been taken. It depends upon situation which prevails in rural areas i.e. resources like pesticides, seeds, fertilizers etc., are adulteration free, whether the infrastructural facilities i.e. transportation,

marketing, storage etc. are available. Suitable conditions should be available for investment then only funds could be properly utilized.

6. Principle of Payment

Principle of payment deals with fixing of the repayment loans schedules advanced by institutional financial agency. For the investment credit which is advanced to tractors, irrigation structures etc annual repayments have to be fixed over few years which are based on incremental return which is supposed for obtaining after deduction of consumption need of farmers. As referred to crop loans, loan has to be repaid in the form of lump sum as farmers will realize output from agriculture only once. Grace period which is 2-3 months is allowed after crop harvest for enabling farmers for realizing a reasonable price for the produce from agriculture. Otherwise farmer will be resorting to distressed sales. When crop cultivation fails because of unfavorable weather condition, repayment will not be insisted immediately. Under these conditions repayment period extends besides assisting farmer with a fresh loan for enabling him in carrying on farm business.

7. Principle of Protection

Due to unforeseen natural calamity that strikes farming very often, the institutional financial agency could not keep themselves away from extension of loans among farmers. Therefore, while giving loan, the agencies also take some safety measures like

- Insurance
- Linking finance with marketing
- Providing finance for producing warehouse receipt
- Taking surety: Banks advances loans either through hypothecation or assets mortgage
- Credit guarantee: When the bank fails while recovering of loans advanced among weaker sections, loan is reimbursed by Deposit Insurance Credit Guarantee Corporation of India (DICGC) to lending agency borrower's behalf.

Homestead Loans

A housing policy should help in creating housing stocks which is not only affordable but even adequate. Homestead land for landless farmer need to provide through initiative as well as housing policies should facilitate adequate fund flow for supporting poor and marginalized section in rural areas. Our country has committed for fulfilling sustainable development goal and also housing is such a component. For planned development of rural habitat with livelihood infrastructure and civic amenities, separate policy for housing is desirable. The construction cost and the availability of materials of building that are disaster resistant and environment friendly should get approved through proper mechanism. Policy should be helping in identification of role being played by stakeholders like Panchayati Raj institution, public sector, private sector and cooperatives. Government has demarcated role of the various institution for providing shelter in rural areas in sustainable and holistic manner.

Types of Homestead Loans

The Homestead Loan Program provides residents with mortgage assistance to purchase the following:

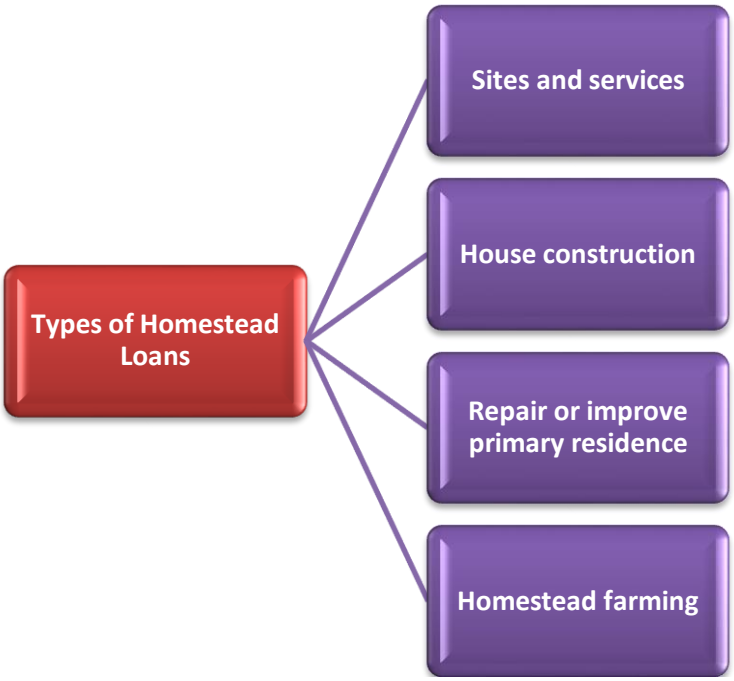


Figure 2.25 Types of Homestead loans

a) Sites and Services

Providing the landless household with homestead plot fulfills government's land reforms and objectives of rural Housing. Government of India and the state government have adopted two-pronged approach for fulfilling rural housing need of poor. Under this approach, government provides sites with basic infrastructure facility like roads, drinking water, community toilets, drainage etc for the new layouts. The housing construction component has been largely targeted at those households that have already obtained house sites.

b) House Construction

The component of construction is largely targeted on those households which have already obtained with the house sites.

c) Repair or Improve Primary Residence

Homestead loans could also be taken for improvement and repairs of primary residence.

d) Homestead Farming

Need based credit is provided to the farmers for meeting the working capital requirement of farms. Such loans help to enable increase productivity and also to sustain productivity, sustaining income of these farms. Also encourages the maximum utilization of the available family labor and creating integrated business enterprises at the micro level.

To Do Activity

Explain any one principle of rural lending and one principle of farm lending in detail with example.

2.5. Agricultural Loan Application and Appraisal

Loan Application

(a) The loan application form with respect to all the loan categories irrespective of loan amount sought by borrower should be comprehensive. For bringing transparency and fairness, banks have been advised to transparently disclose to borrower all the information about charges/ fees charges payable to process loan application, fees amount refundable in case loan amount does not get sanctioned or disbursed, pre-payment charges and options (if any), penalty for delay in repayments(if any), conversion charge for loan switching between fixed and floating rate, existence of interest resetting clause, any other matter that affects borrower's interest. This information must be displayed in bank's website for various loan product categories. There are some banks which charge some additional charge besides processing fee and the borrower is not informed about the same in advance. This practice by banks is an unfair practice. Banks and FIs should disclose all the information related to charges and fee for processing is consistently disclosed in loan application form. Further, banks and FIs must share 'all-in-cost' to customers for enabling him to make comparison of rates and charges with the other source of finance. Banks should ensure that such charges and fees are non-discriminatory.

(b) There should be acknowledgement to be given to the borrowers on submission of loan applications by the Banks and FIs.

(c) Timeline for Credit Decision - Banks need to carry out the necessary due diligence before they arrive at a credit decision, adequate and timely availability of credit is pre-requisite for the successful accomplishment of larger projects. Banks are given advice to clearly delineate procedure for the disposal of proposal of loans, with the appropriate timeline and a suitable mechanism for monitoring and reviewing application that are pending beyond specified period. The due diligence requirement should not be compromised. Banks may make suitable disclosure on timelines to convey credit decision through websites, product literature, notice-boards etc.

(d) Banks and financial institutions must verify loan application within reasonable time period. In case any additional detail or document is required, the borrowers should be intimated immediately.

(e) For all loan categories, irrespective of the threshold limit that includes application for credit card, it should be conveyed in writing by the lenders, main reason or reasons which as per the opinion of bank after the due consideration that have resulted in loan application rejection within a stipulated time.

Credit Appraisal and Loan Application Procedure for Farm Loan

The bank which is financing is vested with full powers for either accepting or rejecting loan application submitted by a farmer. There is a process for appraisal of farm credit proposal or also said to be the procedure and formality to be followed while loans processing. The process is mentioned in Figure 2.26.

1. Interview with Farmer

Banker has scope for assessing credit characteristic like integrity, honesty, frankness, repayment capacity, progressive thinking, indebtedness etc while interviewing a farmer who has applied for loan. During interview, banker explain term and condition under which loan will be sanctioned. Interview helps banker in understanding genuine credit need of the farmer. Interview is not only a formality, rather it facilitates banker for detailed study of the farmer and assessment of the actual credit requirement.

2. Submission of Loan Application by Farmer

Banker provides application for loan to farmer after he or she is satisfied with farmer's credentials. Farmer needs to fill detail like farm location, loan purpose, scheme's cost, requirement of credit, financial statements, farm budget etc. There are certain items which are a part of loan application that are asked from the farmers :

a) Land ownership or title deed
b) Adangal i.e. a statement that shows cropping pattern which is adopted by farmer
c) Map of farm
d) No-Objection certificate from Co-operatives
e) Non-encumbrance certificate obtained from the Sub-Registrar of the land assurances
f) Affidavit from borrower regarding the status of mortgage which will be confirmed by the farmer that land has not been mortgaged anywhere else. This affidavit needs to be appended with loan application.
g) Passport size photo of the farmer needs to affix on loan application.

Figure 2.26 Processing procedure of Farm loan application

3. Scrutiny of Record

The certificates which indicate land ownership and extent of land need to be verified by bank officials with the village's karnam or the village's revenue official.

4. Visit to Farmer's Field before Sanctioning Loan

After verification of records at the village level, field officer of bank pay visit to farm for verification of particulars that are given by farmer. Pre-sanction visit by the bank official is expected to help them to identify guarantor and farmer, for locating land boundaries as per map, assessing farmer's managerial capacity in farming and other allied enterprise and farmer's attitude needs to be assessed towards the latest technology. Detail on economics about crops and livestock enterprise, economic feasibility of the proposed project and the position of farmer's loan with non- institutional source have to be ascertained during pre -sanction visit. This visit before sanctioning of loan plays a very important role for verifying the trust-worthiness and credit-worthiness of farmer. While different loans are being appraised, different aspect are required to be verified. While loan is being

advanced for digging wells, location of the proposed well, ground water availability, rainfall, area that is too covered and the distance from nearby well etc, have to be verified in pre-sanction visit. For other loans in similar way relevant aspect is verified. All the aspects that includes in report are submitted to branch manager while taking final decision for sanctioning of loan amount.

5. Criteria for Loan Eligibility

Following aspects need to be taken into consideration while judgment of eligibility of farmer for obtaining loan :

- The farmer should have a good credit character and also financial integrity.
- His financial transaction with friend, neighbors and the financial institution should be proper
- The farmer must be receptive towards modern technology adoption and have a progressive outlook • He must have a firm commitment for implementing proposed plan
- Security which is provided by farmer toward loans must not have any kind of litigation and encumbrance and litigation.

6. Sanction of Loan

Decision has to be made by the Branch manager regarding sanctioning of loan. Careful examination of all aspects that are presented in pre-sanction inspection of farm as per the report that is submitted by field officer needs to be carried out. Before loan sanction, branch manager consider technical feasibility, bankability and economic viability of the proposed projects which includes repaying capacity, ability of bearing risk and sureties which are offered by borrower. If loan amount is beyond sanctioning powers of the branch manager, the case is forwarded to the regional manager or the head office of the bank, incorporating branch manager's recommendation. Office examines proposed project and takes the final decision and then communicate the decision to branch manager further for action.

7. Submission of Requisite Documents

After sanctioning of loan, following document need to be obtained by bank from farmer :

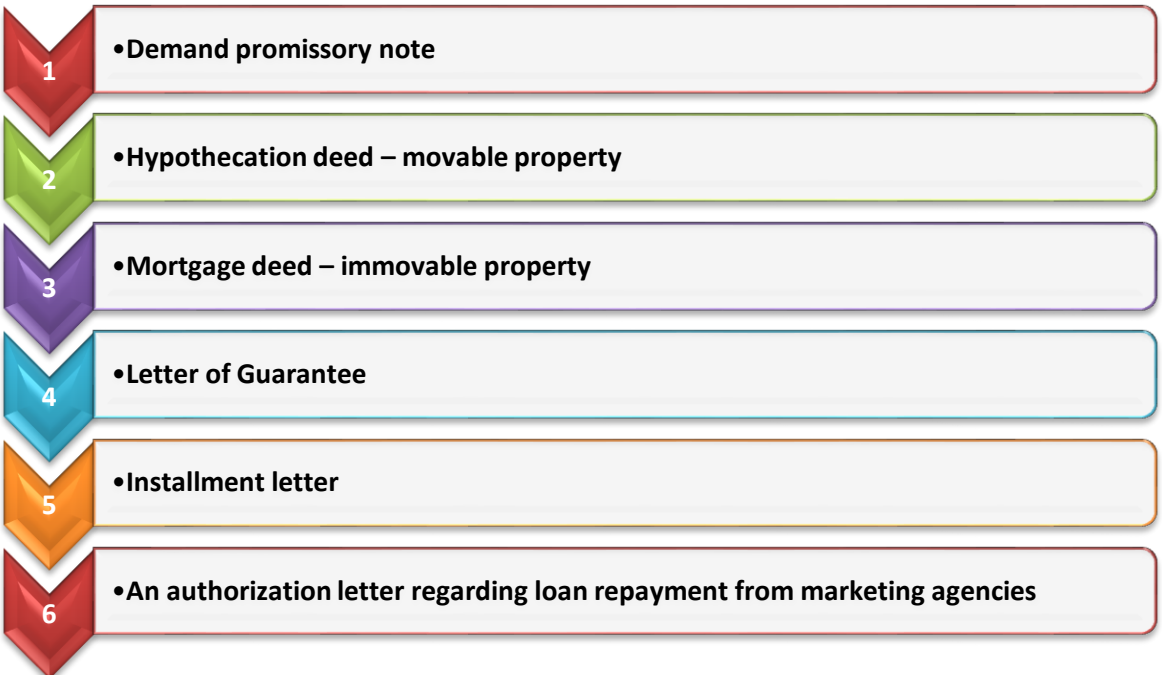


Figure 2.27 Documents for availing loan from Bank

Title deed is required to be examined by bank's legal officer (s). A simple mortgage is followed in case of the ancestral property or properties and the equitable mortgage with respect of a property which is self acquired property.

8. Loan Disbursement

Immediately after submission of the requisite documents, loan amount gets credited to borrower's account by the bank or financial institution. The loan amount which is sanctioned is disbursed in phased manner, only after it is ensured that loan has been used properly by farmer. On the basis of income flow of proposed project, repayment plan which is realistic in nature has to be prepared and then given to farmer.

9. Post-Credit Follow-Up Measures

For ascertaining proper use of loan sanctioned, Branch manager or the field officer has to visit farmer's field. Besides this, farmer could get technical advice in case it is required from field officer for implementation of proposed project. Such visit is helpful in developing closer rapport between farmers and banker. This visit is more informal in nature other than formal. Such visits help in assessment of any requirement of the supplementary credit for completing the scheme.

10. Loan Recovery

Bank reminds farmer in advance regarding due date of the loan repayment. Certain appropriate measures like special drives, village meetings, organizing recovery camp etc needs to be organized by the banks for recovering loans in time. If there is default, reasons need to be ascertained to find whether the farmer is a willful defaulter or not. In case, the farmer is non-willful defaulter, further he is helped through further extension of financial assistance for the increase in farm's production. In case of a willful defaulter, bank official initiate some stringent measure for recovering loans through the court of law. In certain cases banks can make tie-up arrangement i.e. loan recovery is linked with marketing. If there are some justifiable cases, then re-phasing of the repayment plan is also allowed.

Project Report for Bank Loan:

1. **Basic Information**

- **Nature of the Business**
  Trading, Manufacturing, Professional, Service
- **Constitution of the Business:** The constitution of business could be in any form.

Figure 2.28 Constitution of the business

- **Existence of Business**
  Whether business is in existence already or is it new. Depending upon above parameters, the project report can vary. In case there is an existing business, projections could be prepared based on past data and for new business information is available and hence projections have to be done after collection of relevant information from the prospective entrepreneur. These projections can be done through financial statement of a similar business which has been operating in that particular area. As is the case of the new units, projections have to be supported by proper data and presumptions based on which projection is made.

1) **Requirement:** Requirement of any business are of two types : Capital Cost and Working capital.

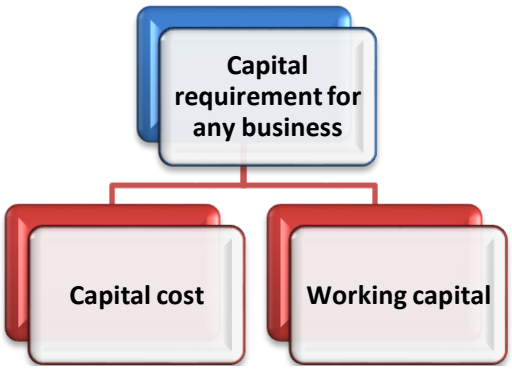


Figure 2.29 Capital requirement for any business

Capital cost include creating additional Fixed Asset i.e. Machinery, Building, Vehicle, Furniture, etc. Working Capital is requirement of funds for the efficient running of any business. Generally for the capital cost, a Bank sanctions Term Loan, in which payment has to be made in installments. The requirement of working capital is fulfilled through Overdraft or cash credit provided by Banks. The facility of Cash Credit or Overdraft or Bill discounting is sanctioned for one year period which is subjected to renewal every year which depends upon the past performance. Banks provide loan based on Non-Fund Limit for Bank Guarantee and Letter of Credit in which limit is fixed and these have to be considered as a Contingent Liability in the books of Banks.

2) **Project Cost**
   The next step is arriving at Project cost. Cost of project in existing business denotes the **"**Additional Cost**"** which is required for business expansion, for example purchasing additional Machinery, Building construction etc. Total cost estimate is required in case of a new business.

Table 2.2 Total Cost estimate format

Description	**Estimated Cost**
Plot purchase	
Building Construction	
Plant and Machinery	
Equipments	
Furniture and Fixtures	
Electrical Installation	
Preliminary Expense in a new business	

Total cost from the above table represents Project Cost.

3) **Source of Funds**

For incurring of expenditure for the above mentioned items, funds have to be raised through different sources.

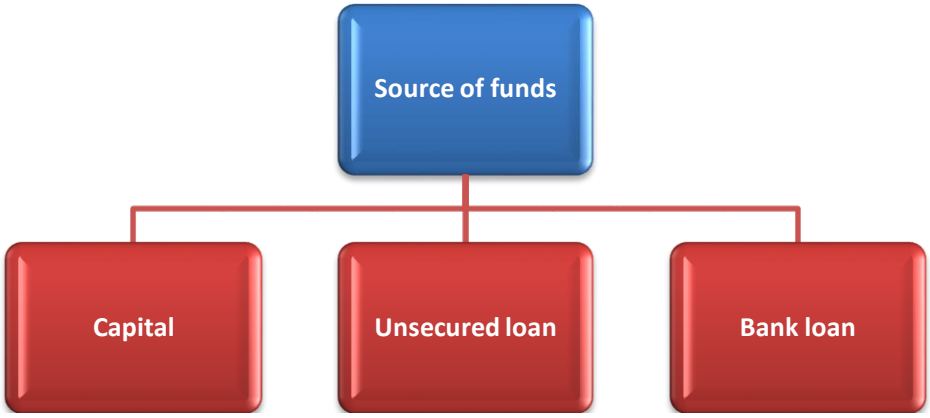


Figure 2.30 Source of funds

The funds could be raised through own funds i.e. capital. Secondly could be raised through Unsecured loans, these loans could through Company's Directors or relatives and friends of partner or proprietor and thirdly through Bank loan which indicates the loan amount which the partner or proprietor applies for getting from the Bank. The Banks generally give a loan of 75 percent maximum which is calculated on the basis of the actual cost which is required and the remaining amount is contributed by applicant through any of the first two methods mentioned above. The amount which is contributed by the applicant should have more of capital than unsecured loan. The Working capital requirements are dependent on Current Asset and the Current Liability of business, the business cycle and other factors.

4) **Requirement of other documents and information**

- Xerox copy of all required permissions / license / registration for e.g. A Company / A Partnership Firm / A Trust registration i.e. business identity, Registration under the Shops & Establishments Act, Small Scale Industries registration or any other type of registration depending upon various applicable rules as applied in respective states. Separate licenses are required like license from food department for eatable items, for pollution related from Pollution Control Board etc.
- Approved Map and permission for construction in case the project report based on building construction or shed.
- GST registration and Permanent Account Number (PAN) card
- Quotations for items being preferred by the applicant for purchase preferably from actual dealer (s) from whom the items will be purchased.
- Income tax return of person (s) / business for the last 3 years.
- Bank statement from the existing banker, along with the detail of the repayment schedule if there is any existing loans
- Details about the Collateral Security which is proposed for being offered with the approximate value.
- List of the prospective arrangements and customers for selling.
- List of the prospective seller from whom the raw materials or items would be purchased.

- Information regarding raw material availability or items which are proposed for dealing with Govt. restriction if any in particular for the case of imported materials.
- Report on Market study and the strategy for being adopted to achieve the projected levels in particular for a new business.
- Asset / Liability statement of the persons who will be executing documents.
- List of assets that are available or purchased already with the invoice copies
- Infrastructure availability i.e. Labour, Electricity, transportation, Water with the details about requirements and source.
- Average period required for getting raw material on credit and the minimum economical purchase quantity, average period for realizing the sale proceeds.
- Manufacturing process in detail (for manufacturing industry) and the time taken for completing one cycle of production.
- Minimum period for which raw material stock and stock of finished goods have to be kept

6. **Detailed Project Report**

It is divided into two parts i.e. a brief write-up and financial data, this part is called as Credit Monitoring Arrangement (CMA) report in which, past and the projected financial business performance is compiled in defined format with all required financial metric and ratio for helping the Bankers and even the Financial Analysts for ascertaining financial health about a business.

First part of Detailed Project Report (DPR)

In first part i.e. CMA, the following points are required :

- Business entity is defined which includes the constitution, business activity, Proprietor's or Partner's name(s), names of the Directors, the Trustees and even their designations should be mentioned along with their role in business, location or Address of registered office, the working place and the outlets where business activities would be carried out along with the name of the contact person and their contact numbers.
- Experience, qualification and the capability of owners and also other related people with their relation with business.
- Nature of the activity and its marketability.
- Availability of the Infrastructure like water, labour, raw material, transportation, electricity and the present status.
- Information in detail regarding various registrations, permission, license along with the present status and the expected time related to completion of the incomplete items.
- Manufacturing process to be defined for manufacturing units.
- Time which is required for completing project and start of commercial production or income generation.
- List of the existing Debtors and Creditors that are in existing business/ prospective client / consumer in for a new business.
- Business Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis
- Arrangements of marketing
- Project cost in detail and the existing asset with the finance sources
- Current Banking arrangement with detail of Account maintained.
- Details about any other service which unit could avail from Bank for example Staff account for salary, personal loan for the staff guaranteed by unit etc.
- Financial requirements from the Bank along with purpose.
- The security which is proposed for offering for loan applied along with the full detail and the approximate value.
- Repayment which is proposed by applicant based on CMA data along with the proposed period of moratorium.

- Any other information which is relevant which might be included and this depends upon business at the appropriate place in the report.
- Request for the facility wise sanctioning of loan..
- List needs to be attached of documents which are submitted along with proposal.

Second Part of Detailed Project Report (DPR)

In the CMA data there are various parts. In the existing units, data must be for the current year (which is estimated) and the past 3 years (which is audited) and the projections for the next 5 to 7 year *covering proposed repaying period of the Term loan.* CMA data is critical analysis of the current & the projected financial statement of loan applicant by banker. CMA data is systematic working capital management analysis of borrower and the objective of the statement for ensuring usage of the short term and the long term funds have been into use for given purpose. CMA data contains the following seven statements:

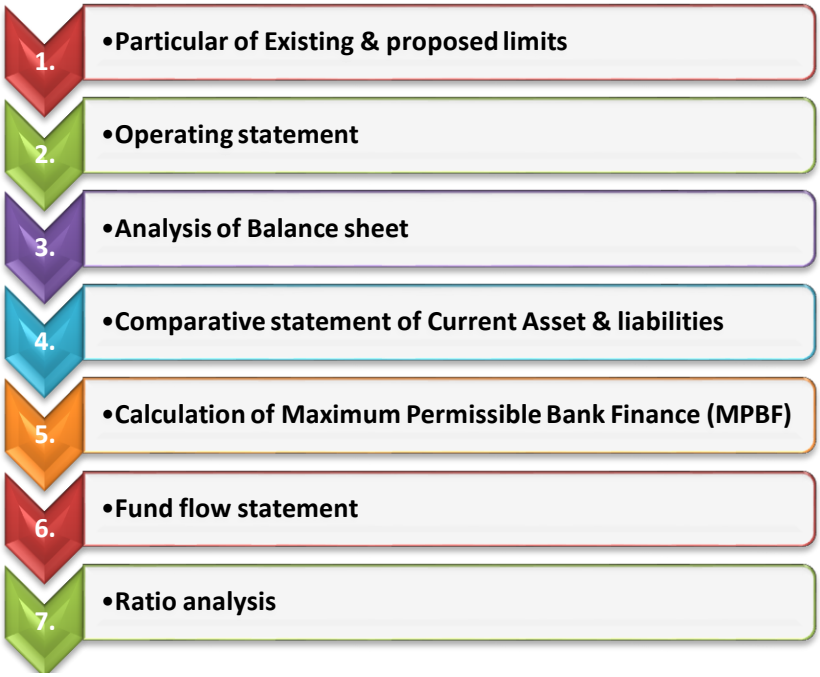


Figure 2.31 Content of CMA data

1. Particulars of Current and the Proposed Limits

This statement contains present fund and non-fund based limits of credit of borrower and their limit of usage and its history. Along with the present fund's limit which is proposed or the limit for which borrower has applied has to be mentioned in the statement.

2. Operating Statement

This statement which is provided by borrower indicates borrower's business plan of borrower that give Current Sales, Indirect and indirect expense, Profit after and before tax with sales projections, expense as well as profit position for 3 to 5 year based on borrower's working capital request. The statement is scientific analysis of the current & the projected financial as well as profit generation capacity of borrower.

3. Balance Sheet Analysis

This analysis is for the current & the projected financial years. The statement gives detailed analysis about Current and non-current asset, fixed asset, position of cash and bank, current and non-current liability of borrower. This statement also indicates the position of net worth of borrower for

projected years. This analysis gives complete financial position of borrower and also cash generating capacities during projected years.

4. Comparative Statement of the Current Assets & Liabilities

This statement indicates the movement of current assets and liability movement of borrower. Basically this decides actual cycle of working capital for projected period and borrower's capacity for meeting working capital requirement.

5. Calculation of Maximum Permissible Bank Finance (MPBF)

This statement helps in calculating borrower's working capital gap. Only MPBF limit is cash credit component of borrower that is known as Drawing power (DP) Limit. This statement helps in deciding borrowing limit of the borrower from bank.

6. Fund Flow Statement

The analysis of this statement is for the current & the projected period. This statement analyzes the borrower's funds position as could be referred to in analysis of working capital given in the MPBF calculation and the projected balance sheet. The basic objective of the statement captures fund's movement of borrower during given period.

7. Ratio Analysis

This statement indicates key ratios to banker on the basis of CMA data that is prepared and then submitted to bank for financing. The basic key ratios have been mentioned below though there are many such ratios.

1	•Gross profit ratio
2	•Net profit ratio
3	•Current ratio
4	•DP limit
5	•MPBF
6	•Net worth
7	•Ratio of net worth with Liabilities
8	•quick ratio
9	•Stock turnover
10	•Asset turnover
11	•Fixed asset turnover
12	•Current asset turnover
13	•Working capital turnover
14	•Debt Equity ratio

Figure 2.32 Ratio Analysis : A part of CMA report

To Do Activity

Explain loan appraisal process and documents required for applying for loan by any of the following person : (create your own example about salary/income, years of service, education, etc.)

- A School teacher
- A Lawyer
- A Politician
- An Army official
- An Entrepreneur
- A Businessman
- A Central Govt. employee
- A Private sector employee

Model Questions

- Discuss the segments of rural credit system with examples.
- Explain the structure of rural financial Institutions in India.
- Discuss the trend and status of agriculture credit in our country.
- Explain the issues of agriculture credit in India.
- Which are the institutions engaged in lending activities in the rural areas ?
- Discuss various standards of financing
- What are the techniques and principles of lending?
- Discuss the loan appraisal process.
- What is a Detailed Project report and explain its documentation.

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Chapter 3 – Financing of Short Term Agri-Credit

Introduction

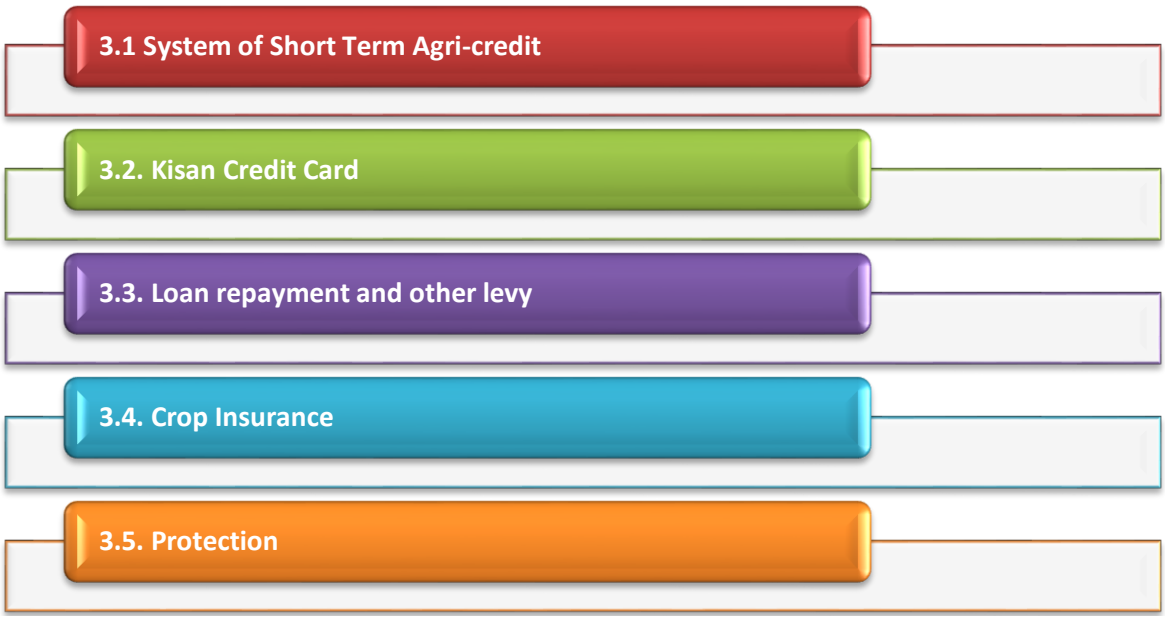
Agricultural sector has witnessed many transformations. There have been many changes which could distinguish modern agriculture from traditional cultivation. Government and other financial institutions have been providing support to the people in rural areas to enable them to adopt the latest techniques as this would lead to improvement in their agricultural productivity. This type of rural credit is taken for holding shorter capital requirement. The loan duration could be up to one year. The loans which are being are short term in nature hence their paying term is of one year. There is short term loan requirement by people who are starting small company or start-up. It involves significant investment which is persistent nature as it involves use of high yielding variety of seeds, fertilizers, insecticides as well as costly agricultural equipment. In this situation, arrangement has to be made for credit which is actually required beyond simple credit provision and it must be allied operationally with various services and productivity. The benefits of modern techniques, infrastructural arrangements, advantage of the institutional credit, etc., should be available to various classes of farmer. On supply side also there should be proper arrangement to assess requirement of funds based on actual cost and also raise resources. The lending system which provides credit to farmers is production oriented and has evolved and conceived as most appropriate instrument for distribution of credit for production on mass level.

There are certain activities which are allied to agriculture, like inland fishery, dairy animals etc. The farmers also require funds for Investment credit for agriculture and the allied activities like pump set, sprayer, dairy animal etc. Advice has been given to State Government for launching intensive branch and village level campaign for providing Kisan Credit Card (KCC) to all farmers who are eligible and also willing in time bound manner. KCCs have been converted into a Smart Card cum Debit Card for facilitating operation through the ATMs. The KCC scheme was introduced in the year 1998 for issuing KCC to the farmers based on their holdings for uniform adoption by banks, so the farmers could use them for readily purchasing the agricultural inputs like fertilizers, pesticides, seeds etc. and drawing cash required for production. This scheme was extended further for investment credit requirement among farmers viz. allied and also non-farm activities in year 2004. Later, many changes were introduced in this scheme.

Objectives of the Chapter

- To understand the system of Short Term Agri-credit
- To understand the need, objectives and delivery channels of Kisan Credit Card (KCC)
- To provide a deeper insight into loan repayment and levy
- To understand about Insurance, Pension and remittance
- To evaluate various methods of Protection and also the challenges being faced by this industry

Chapter Structure



3.1 System of Short Term Agri - Credit

Modern agriculture can be distinguished from the traditional cultivation as there are many changes that have come over. Due to changes, requirement for funds has also increased for adopting the latest inputs in agriculture. Credit is provided to people in rural areas for handling shorter capital requirement. The loan duration could be up to one year. In this credit type, the principal and interest has to be repaid on a particular given date within a period of one year. This type of loan is expensive but worthy, particularly for those who are starting small company or start-up. It involves significant investment which is persistent nature as it involves use of high yielding variety of seeds, fertilizers, insecticides as well as costly agricultural equipment. In this situation, arrangement has to be made for credit which is actually required beyond simple credit provision and it must be allied operationally with various services and productivity.

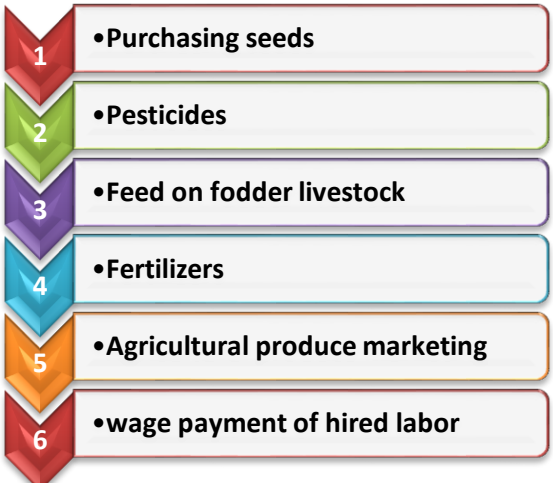


Figure 3.1 Examples of purpose of availing Short Term Agri-credit

These loans are also classified as per the use and the way they are being applied like fungicides, herbicides, insecticides and other type of pesticides.

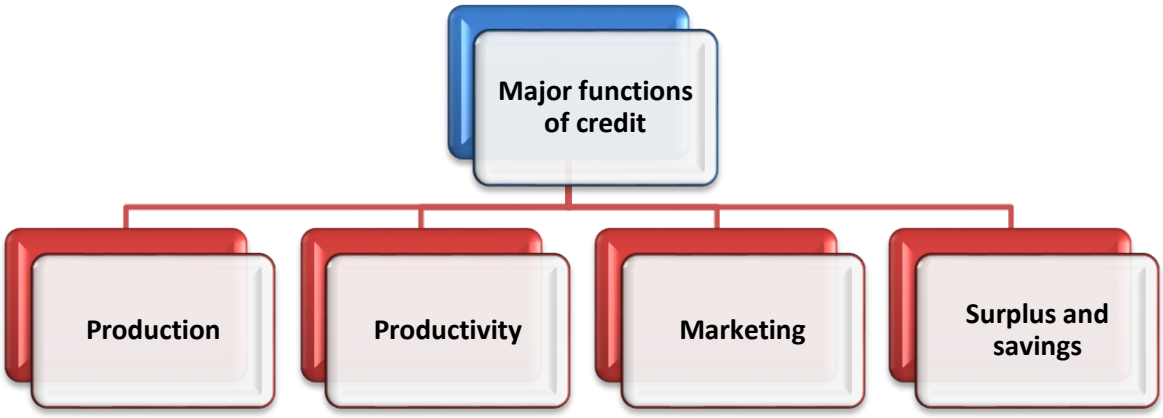


Figure 3.2 Major functions of credit

Funds are required for agricultural production and increasing productivity. Agricultural production and productivity could be improved through the use of latest techniques, equipments, fertilizers and proper research based approach so that resources could be utilized in a proper way. Marketing of agricultural products is very important as this is the way through which the people who are working in the agricultural sector could earn more money. This money could help them in improving their living standards and also help them in future.

The benefits of modern techniques, infrastructural arrangements, advantage of the institutional credit, etc., should be available to various classes of farmer. On supply side also there should be proper arrangement to assess requirement of funds based on actual cost and also raise resources. For helping out the farmers, system of crop loan or lending system which is production oriented was evolve and conceive as most appropriate instrument for distributing credit for production on mass level.

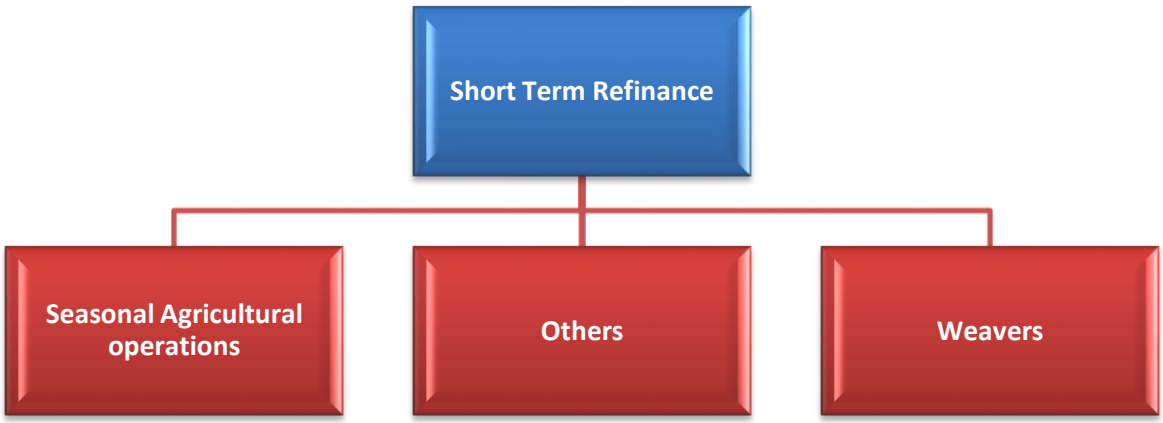


Figure 3.3 Short Term Refinance system

(i) Short Term (Seasonal Agricultural Operations)

Refinance is provided for the purpose of production at concessional interest rate to State Cooperative Banks (SCBs) and RRBs through sanction of credit limit. Each withdrawal against sanctioned limit of credit is repayable within a period of 12 months.

(ii) Short Term (Others)

The Short term (Others) limit would be provided for different purposes like for Agriculture and Allied Activity, Crop's marketing, Fisheries Sector, Industrial Cooperative Societies (besides weavers),

Labour contract and Forest Labour Cooperative Society which also includes collection of minor forest produce. Short term credit is also given to rural artisan that includes weaver members of Primary Agricultural Cooperative Societies(PACS)/ Large Area Multi-Purpose Societies(LAMPS), distribution and stocking of chemical fertilizers and various other inputs of agricultural inputs on basis of bank wise Realistic Lending Programme (RLP) for the respective purpose. Limit is sanctioned to RRBs and SCBs.

(iii) ST (Weavers)

Support for refinance is available under the ST (Weavers) as follows:

1. Requirement for Working Capital of Primary/ Apex/ Regional Weavers Co-operative Society through the State Co-operative Banks/ DCCBs
2. Requirement of Working Capital of the Primary Weavers Co-operative Society through the Scheduled Commercial Banks
3. Requirement for Working Capital of State Handloom Development Corporation through the Scheduled Commercial Bank and the State Cooperative Bank
4. Requirement for Working Capital as well as marketing of the Individual Weavers, Handloom Weaver Groups, the Master Weavers, the Mutually aided Co-operative Society, Societies that are outside Co-operative fold and Producer Group Company through the Scheduled Commercial Banks & RRBs

Policy Initiatives by Government of India

There are certain initiatives which were taken up by the Indian government to increase credit flow and also removing indebtedness from the non-institutional source of lending

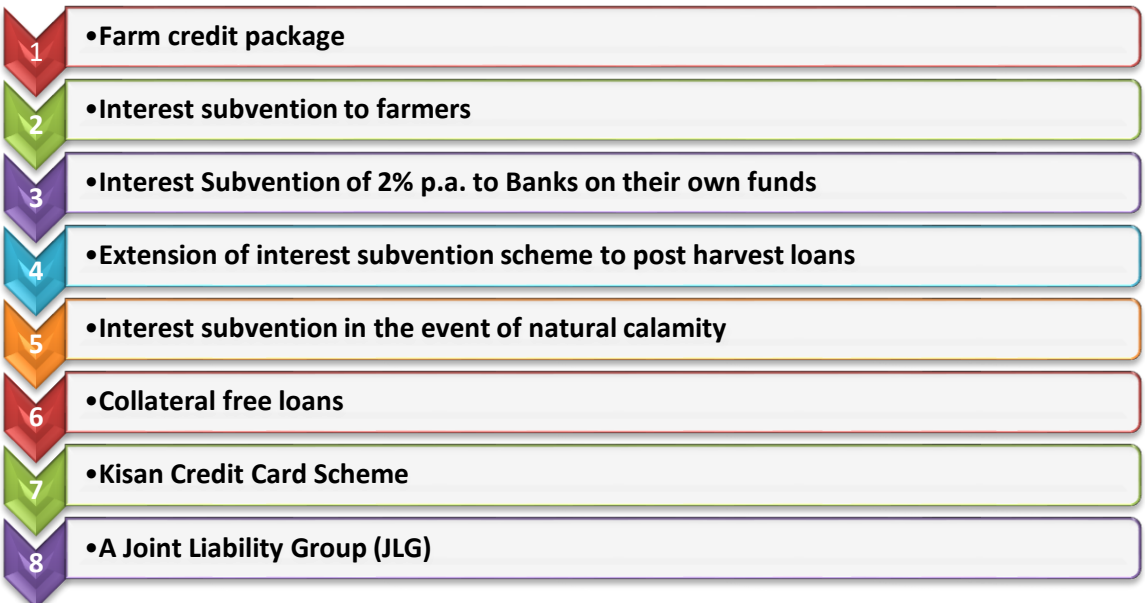


Figure 3.4 Policy Initiatives by Government of India

(1) Farm Credit Package

Government in June 2004 took decision of doubling agricultural credit flow in next three years by referring 2003-04 as base year. Since 2003-04, agriculture credit flow has exceeded target consistently. It was evident from fact that agricultural credit flow that was at Rs.86,981 crores in the year 2003-04 reached Rs.468,291 crores in the year 2010-11. Agricultural credit target of Rs.4,75,000 crores was fixed for the year 2011-12 and the disbursement of ground level credit of Rs.5,11,029 crores was achieved which was 107% of target. In year 2012-13 against target of Rs.5,75,000 crores, achievement or credit disbursement was Rs.6,07,376 crores which was even more than 105 percent

of annual target. The Agriculture credit of Rs. 7,11,621.47 crores (102% of target) was disbursed which exceeded target of Rs.7,00,000 crores which was fixed for year 2013-14. Target for year 2014-15 was fixed at Rs.8,00,000 crores and target achieved was Rs.8,45,328.23 crores. Target for the year 2015-16 was Rs.8,50,000 crores and target which was achieved was Rs.8,77,527 crores. The target set for the year 2016-17 was set as Rs. 9,00,000 crores and sum of Rs. 7,55,995.17 crores was disbursed as the agriculture credit during the quarter April-September, 2016.
(Source : Agriculture Credit Overview. (n.d.). Retrieved from http://agricoop.nic.in)

(2) Interest Subvention to Farmers
Interest subvention of 2% annually to the Public Sector Bank, Private Sector Scheduled Commercial Banks (with respect to loans which was given by rural and the semi-urban branch), Cooperative Bank and RRBs on their funds owned by them used for the short term crop loan up to Rs.3.00 lacs per farmer provided lending institutions making availability of short term credit at ground level at 7% annually to farmers. 2% interest subvention is calculated on amount of crop loan from disbursement date up to actual repayment date of crop loan by farmer or till due date of loan which is fixed by banks, whichever is early, this is subjected to maximum period of one year.

(3) Interest Subvention of 2% p.a. to Banks on their Own Funds
Indian Government announced a scheme of interest subvention in the year 2006-07 for enabling banks for providing agricultural credit for short term (crop loan) up to Rs.3 lacs at 7 percent interest rate to the farmers. Further, for incentivizing the prompt repayment, Indian government announced in Union Budget for the year 2009-10, additionally 1% interest subvention to the farmers who repaid their short-term crop loan promptly, on or before due date. The interest subvention was later raised to 2% in the year 2010-11. Interest subvention of 3% has continued since 2011-12. Thus, the farmers, who promptly repaid their crop loan as per repayment schedule that was fixed by banks, were extended loans at effective rate of interest of 4% annually. Government has extended scheme to the crop loans borrowed from the private sector scheduled commercial banks with respect to loans which are given within service area of concerned branch.

(4) Extension of Interest Subvention Scheme to Post Harvest Loans
So as to discourage distress sale among farmers and for encouraging them for storing their produce in warehouse against the warehouse receipt, benefit of the interest subvention scheme have been extended to marginal and small having a Kisan Credit Card for further period up to six months post harvesting on same rate as is available to the crop loan against the negotiable warehouse receipt to keep produce in the warehouses.

Release of funds to Reserve Bank of India to settle claims under the scheme of Interest Subvention:
In the year 2015-16, Government allocated sum of Rs.13,000 crores to the Department of Financial Services to settle claims under the Interest Subvention Scheme and entire sum was then released to RBI/ NABARD. Interest Subvention Scheme has been transferred now to the Department of Agriculture, Cooperation and Farmers Welfare. In the year 2016-17, Government allocated sum of Rs.15,000 crores to the Department i.e. Department of Agriculture, Cooperation and Farmers Welfare to settle claims under the Interest Subvention Scheme. On 5th Aug. 2016, sum of Rs.4127.72 crores was released to NABARD.

(5) Interest Subvention in Event of Natural Calamity
RBI revised criteria of loss in crop through their Master Circular which is dated 01.07.2015 keeping in view Government of India through notification dated 8th April 2015. According to RBI Master Circular which was dated 01.07.2015 along with circular dated 21st Aug. 2015, RBI allowed the State Level

Bankers' Committee, District Level Consultative Committees and Banks for taking view on the loan rescheduling if crop loss is 33% or more. Advice has been given to the Banks to allow a maximum repayment period of up to 2 years (this includes one year moratorium period) if crop loss is between 33 – 50 %. If crop loss is 50% or more, restructured period for repayment will be extended to maximum of 5 years (this includes moratorium period of 1 year). Banks have been advised further:

- All the short-term loans are eligible for restructuring. Amount of Principal of short-term loans and interest which is due for repayment will be converted into a term loan.
- In all restructuring cases, the moratorium period of minimum one year is granted. Further, banks should not insist for some additional collateral security for such type of restructured loans.
- Installments of the existing term loan are rescheduled. Directions have been given to Banks for rescheduling payment of the installment during year when some natural calamity has occurred and loan to be extended for a period of one year. The banks will also be required to postpone the payment of interest by the borrowers.
- Fresh crop loan is granted to affected farmers that would be based on scale of finance for particular crop and cultivation area, as per extant guidelines.
- Crop loan continue at the concessional interest rate i.e. 7% till one year completes. After this period, normal interest rate is charged.

(6) Collateral Free Loans

The limit of the collateral free farm loan has increased from Rs.50,000 to Rs.1,00,000.

(7) KCC Scheme

For ensuring all the eligible farmers are provided timely and hassle free credit for their agricultural operations, scheme of KCC scheme was introduced in the year 1998-99. Share choppers, marginal farmers, tenant farmers and oral lessee are eligible for conversion under this Scheme.

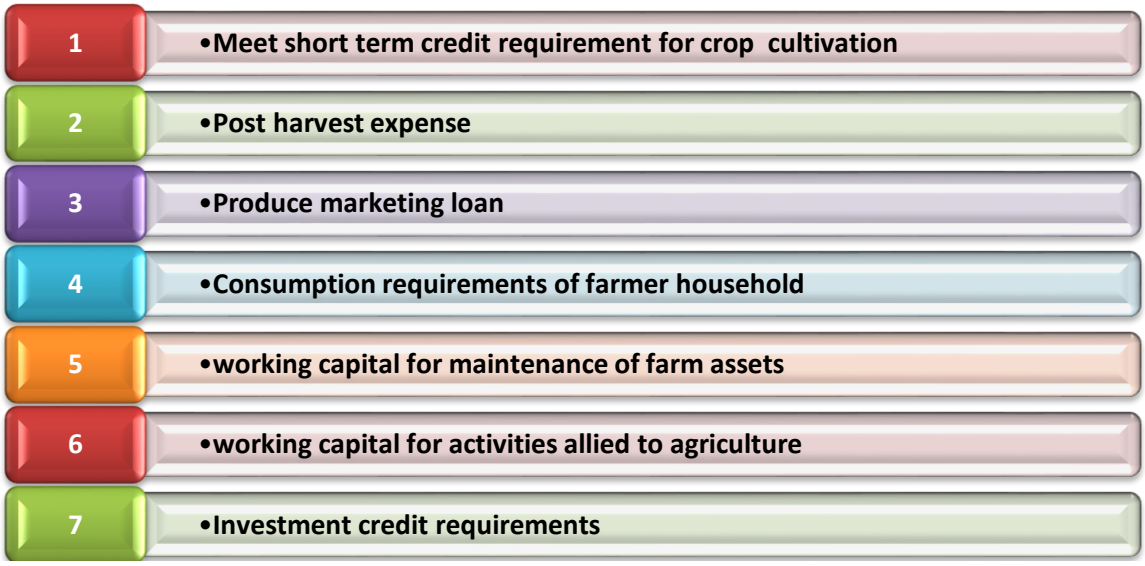


Figure 3.5 Main objectives of Kisan Credit Card (KCC)

There are certain activities which are allied to agriculture, like inland fishery, dairy animals etc. The farmers also require funds for Investment credit for agriculture and the allied activities like pump set, sprayer, dairy animal etc. State Government has been advised for launching intensive branch and village level campaign for providing KCC to all farmers who are eligible and also willing in time bound manner. KCCs have been converted into a Smart Card cum Debit Card for facilitating operation through the ATMs. Cumulative number of live KCCs which were issued by the Commercial

Banks, Cooperative Banks & RRBs as on 31st March 2016 was 752.72 lacs with an outstanding amount of loan of Rs.530034.58 crores.

Some of major features of revised KCC Scheme are:

- Assessment of crop loan component which is based on scale of finance for crop plus insurance premium x the extent of cultivated area + 10% of limit toward household/ post-harvest/ requirement for consumption + 20% of the limit towards maintenance expenses of farm assets.
- Flexi KCC with the simple assessment which is prescribed for the marginal farmers.
- Validity of KCC is for 5 years.
- For the crop loans, no separate margin needs to be insisted as the margin is in-built in finance scale.
- No withdrawal in account to remain outstanding for a period more than 12 months and no need for bringing debit balance in account to zero at any time.
- Interest subvention or incentive is given for prompt repayment is available as per norms of Government of India and/ or the norms of State Government.
- No processing fee till a limit of Rs.3.00 lacs.
- One time documentation at the first availing the loan and after that a simple declaration (about the crops raised or proposed) by the farmer.
- KCC cum Saving Bank account instead of having two accounts separately by the farmers. Credit balance in KCC cum Saving Bank account should be allowed for fetching interest at the saving account's rate.
- Disbursement of loans through different delivery channels which includes ICT driven channel like Point of Sale (PoS)/ ATM/ Mobile handset.

(8) A Joint Liability Group (JLG)

A JLG is an informal group which consists of 4 to 10 individuals who come to avail a bank loan through a group mechanism or individual basis against a mutual guarantee. This mode of financing serve as a collateral substitute of loan which could be provided to target group like marginal, tenant farmers, oral lessees, share croppers, small farmers etc. In this way, mutual trust and confidence gets build up between bank and target group and also the risk is minimized in loan portfolio for banks through the credit discipline, cluster approach, peer education and group dynamics. Objective of this mode of financing is providing food security to the vulnerable section by enhancing the agriculture production, livelihood promotion and productivity.

Scheme for the financing of JLG of Tenant Farmers was started by the NABARD in the year 2005-06. This scheme was extended to the non-farm sector from the year 2009 onwards. JLGs consist of farmers and non farmers. Exclusive scheme for the Bhoomi HeenKisan was launched by Indian Government during Union Budget Announcement in 2014-15 with target for financing 5 lacs Joint Farming Group of "Bhoomi HeenKisan" through the organization, NABARD. Total number of JLGs were 18.21 lacs and the total loan amount which was provided (cumulative) was 18005.79 crores as on 30.09.2016.

Innovations in Agricultural Credit

Economic reforms of 1990s which started with first Narasimham Committee (1991), emphasized on financial soundness and also financial sector's operational efficiency which includes rural financial institutions. RBI gradually deregulated the regime of interest rate regime for aid improvement in bank's operational efficiency. Next many years witnessed various important innovations in the agricultural credit.

- Credit was recognized as priority sector which was direct as well as indirect, although there was some ceiling on the indirect credit. As per changing requirement, the inclusion of indirect and direct agricultural credit is with time.
- In the beginning of 1995, the banks which fell short while meeting the lending target of priority sector, agriculture and weaker sections were required for depositing shortfall amount in Rural Infrastructure Development Fund (RIDF) which was set up by the NABARD. Funds which were deposited in RIDF were lent to the state governments for financing the rural infrastructure.
- Since 1994/95, there was a requirement for the commercial banks to prepare some special agricultural credit plans with a prescribed annual growth rate.
- In the year 1989, NABARD introduced KCC which farmer could use for drawing credit for all the production needs through production cycle. KCC has been powerful mechanism to cut down the transaction cost both for farmers and bank.
- In the year 2004, a "Comprehensive Credit Policy" was announced with mandate for stepping up the institutional credit to agriculture by 30% each year. Banks were also enjoined for ensuring that every branch finances a minimum of at least 100 farmers (i.e. 5 million farmers at aggregate level) and minimum two or three projects related to agriculture every year. Policy also included mass of debt relief measure like debt restructuring, one-time settlement and also loans for paying off borrowings from the money lenders.
- A scheme of interest subvention was introduced in 2006/07 on short-term credit which was extended to the farmers. Budget for 2011/12 announced additional subvention of 3% so that farmers prefer to make prompt repayment.
- There was a significant financial innovation as in terms of financing the farmers through JLGs, aggregation model and also developing PACS into multi-service centres for meeting credit and the non-credit services which are required by marginal and small farmers.

Innovations in other Areas

There are some other innovations in the agricultural credit market.

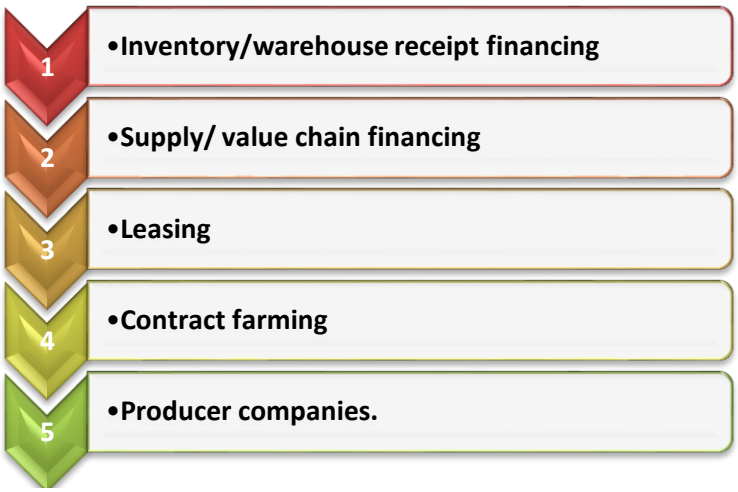


Figure 3.6 Innovation in other areas

1) Inventory/ Warehouse Receipts Financing — Credit extended against the commodity stored in the bonded warehouse is foundation in the developed countries. Appropriate finance for inventory contributes to increased access of the producers directly to credit and indirectly by reduction in instability of the inter-seasonal price of commodity, ensure loan security and transform the low-income farming household from the non-creditworthy to the creditworthy ones.

2) Supply / Value Chain Financing — It could be described as the interrelated link that includes

input-use, production, storage, processing, transportation, marketing in the domestic markets and export to the foreign markets, finally reach ultimate consumers. Finance could be delivered directly by the financial institutions to each link in supply chain or indirectly through one link to the other which participates in supply chain. Supply chain encompasses usage of inputs like land, seeds, labour, pesticides and fertilizers, parts of which could be purchased through credit which is extended by the other participants in supply chain (example input traders) or by pure creditors like financial institutions.

3) Leasing — Leasing can be promoted as substitute when there is existence of severe scarcity or absence of long-term credit, as is a typical case in many developing countries.

4) Contract Farming — with increasing demand for the value-added and higher quality product; need for increase in full value chain, funds are being directed by some corporate firms for adopting contract-farming mechanism. They provide production credit to the farmers and also act as payment channels for the companies that provide crop insurance product to the farmers. They offer various other banking products like warehouse receipt and commodity-based financing to their clients.

5) Producer Companies — Agri-business enterprise having high capital investment have been increasingly looking for some direct tie-ups with the farmers for ensuring continuous, adequate and consistent supplies. The producer companies that combine positives of co-operative enterprise and company's efficiency mode of operation meet expectations of the agri-business enterprise. NABARD has created 'Producer Organization Development Fund' with initial corpus of ` 50 crores for supporting comprehensively various types of producers' organizations which also includes producer companies.

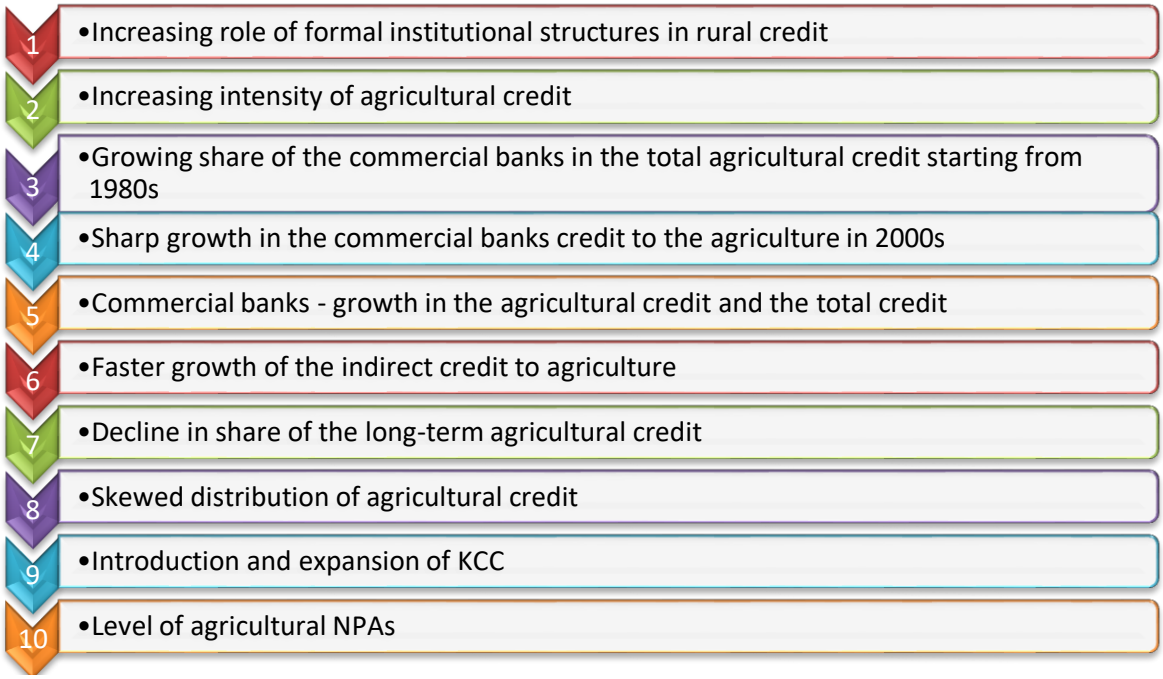


Figure 3.7 Evolving patterns in flow of agricultural credit

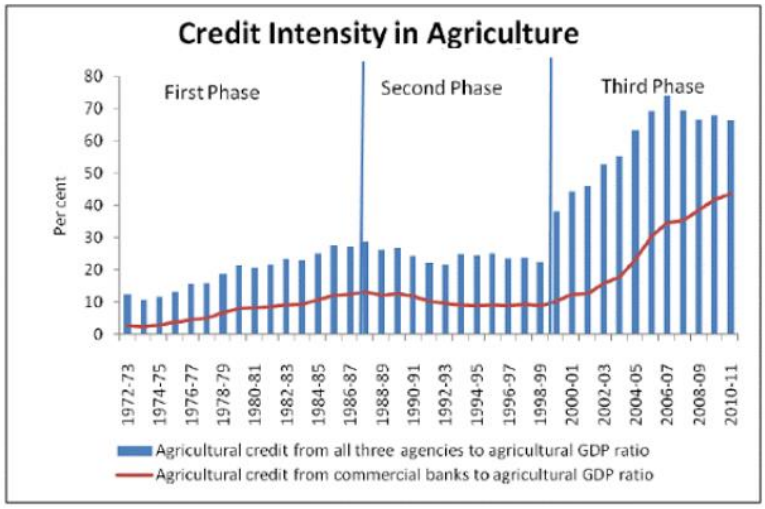
a) Increasing role of formal institutional structures in rural credit

Since last few years, there have been striking increase in share of the formal financial institution like Commercial banks, Cooperatives and RRBs; in total credit which is availed by the cultivator households. In 1950s, the non-institutional source, especially the money lenders, accounted for all credit which is taken by the cultivator households and there was negligible flow of credit from formal institutional structures.

a) Increasing Intensity of Agricultural Credit

Over last many years, the credit intensity of agriculture as measured by ratio of the agricultural credit to the agricultural GDP. Credit intensity has increased from 12 % in early 1970s to 67 % by 2010-11 as shown in graph below. Between 1970s and 2010, there were three distinct phase in behaviour shown by credit intensity. First phase from the early 1970s to mid 1980s, the credit intensity moderately increased. Second phase from mid 1980s to the late 1990s showed declining trend. In this period share of the institutional sources in the total debt of the cultivator households declined In the third phase which started in 2000, there was noticeable increase in credit intensity of agriculture.

Graph 3.1 Credit Intensity in Agriculture

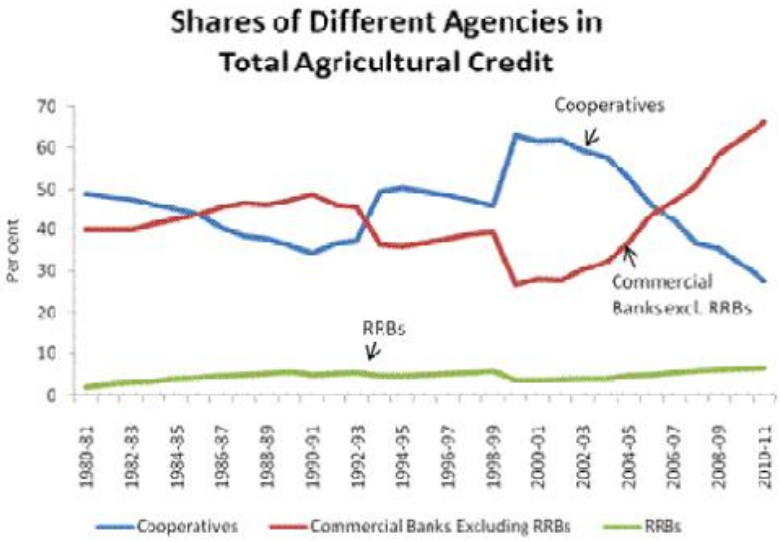


Source : Handbook of statistics on Indian Economy, RBI 2010-11

b) Growing Share of the Commercial banks in the Total Agricultural Credit Starting from 1980s

Among institutional source of the agricultural credit, co-operatives have been oldest and a dominant source for longer time. Starting with Bank's nationalization, commercial banks have become important source of the agricultural credit gradually, although growth in the share has not been monotonic.

Graph 3.2 Shares of different agencies in Total Agricultural credit



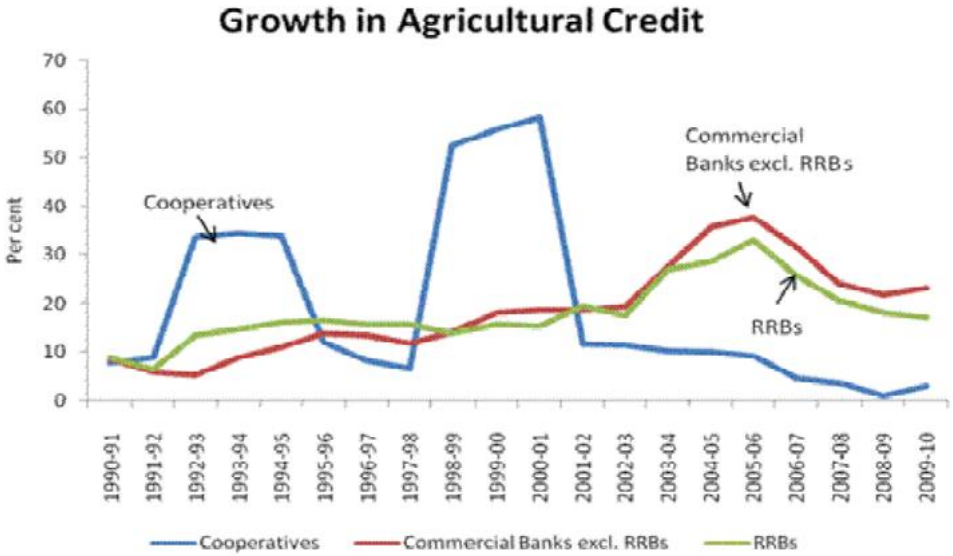
Source : Handbook of statistics on Indian Economy, RBI 2010-11

In beginning of 1980s, the cooperatives supplied half of total institutional credit while the commercial banks had share of around 40 % and the RRBs around 2 %. Through 1980s, share of the commercial banks have increased continuously overtaking cooperatives share. The trend reversed in 1990s when share of the commercial bank declined. During this period banking penetrated across country, as measured by number of rural branch and average population per branch, has shown fall during period.

c) Sharp Growth in the Commercial Banks Credit to the Agriculture in 2000s

Decline in share of the commercial banks in the total institutional credit towards agriculture in first half of 1990s as indicated above also begin to change with modest renewal in 1990s second half and then steep rise in 2000s first half. By 2005/06, the moving average growth based on three year in the agricultural credit was in two-digits, which hovered around 35 % per annum as indicated in graph below. Agricultural credit from the commercial banks grew faster significantly than from the cooperatives during the period.

Graph 3.3 Growth in Agricultural credit



Source : Handbook of statistics on Indian Economy, RBI 2010-11

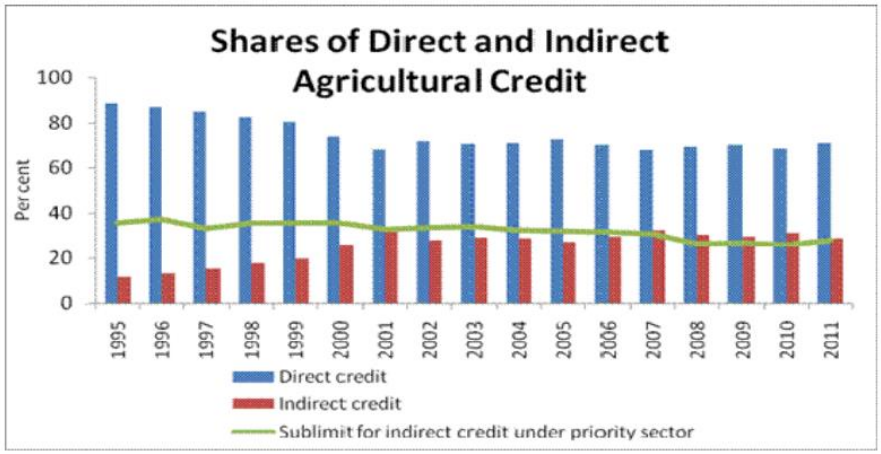
d) Commercial Banks - Growth in the Agricultural Credit and the Total Credit

Notably, the growth in the commercial banks credit to agriculture, that was lower than growth in the aggregate bank's credit during 1990s, that picked up penetratingly in 2000s first half and largely it coincided with growth in the aggregate banks credit. There was downturn in commercial bank's credit growth to agriculture after 2005/06, when the growth in the aggregate bank's credit also slowed down.

e) Faster Growth of the Indirect Credit to Agriculture

Since second half of 1990s, the indirect credit to agriculture grew faster than the direct credit taking share of the indirect credit in the total agricultural credit which was supplied by the commercial banks from 11 % to 29 % from 1995 and 2011 respectively. During second half of 2000s, indirect credit exceeded its prescribed sub-limit under priority sector guideline by narrow margin. Rising importance of indirect credit could be interpreted as reflection of growing credit need to provide strength to supply chain infrastructures and consequently widen definition of the indirect credit.

Graph 3.4 Shares of Direct and Indirect Agricultural Credit

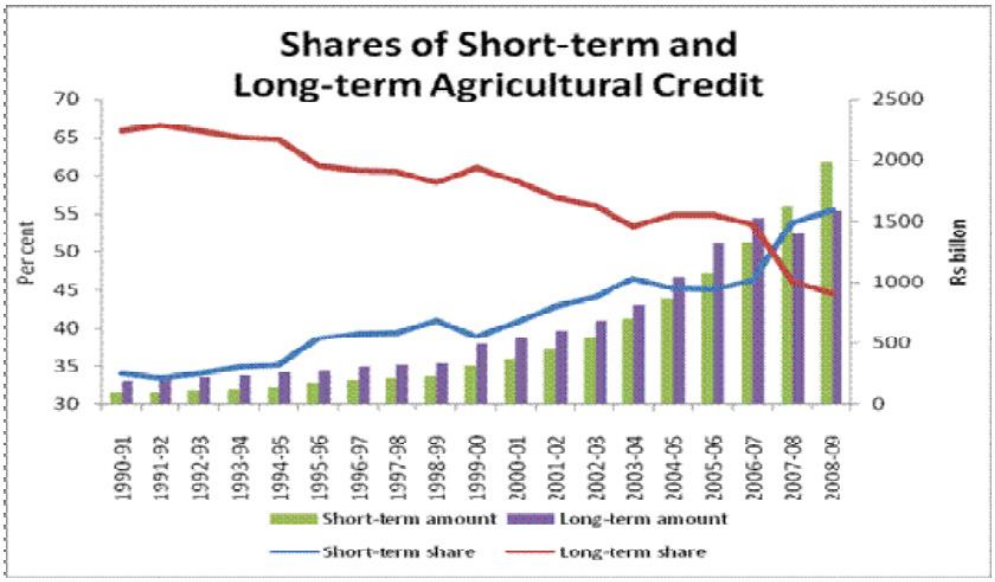


Source: Priority Sector Returns of Scheduled Commercial Banks, RBI.

f) Decline in Share of the Long-Term Agricultural Credit

In starting of 1990s, share of the short-term agricultural credit as compared to total agricultural credit have been increasing and long-term credit have been declining. The status of long term and short term credit is disturbing rather not surprisingly given slowdown in the capital formation in agriculture.

Graph 3.5 Shares of Short-term and Long-term Agricultural Credit



Source : Handbook of statistics on Indian Economy, RBI 2010-11

g) Skewed Distribution of Agricultural Credit

Agricultural credit's regional distribution by the commercial banks is skewed both in the terms of quantum of credit and number of accounts. There is significant concentration in southern states like Karnataka, Tamil Nadu, Andhra Pradesh, Kerala) followed by western and northern states. The shares of eastern states like Odisha, Bihar, West Bengal and Jharkhand and north-eastern states have been low. The availability of low credit in north-eastern state could be explained by relatively shallower financial inclusion. As indicated by statistical analysis, inequality in incremental agricultural credit favoring the western, northern and southern regions declined marginally in 2000s as compared to 1990s.

h) Introduction and Expansion of KCC

The KCC is credit delivery innovation to provide timely and adequate credit to the farmers under single window with simplified and flexible procedure. KCC have been important instrument to deepen financial inclusion in the recent years. At the end of March 2011, about 10.2 million KCCs have been issued while agricultural credit amount outstanding against them was 726 billion. Commercial banks, with share of 55% in the total number of cards issued and 69% in total amount of agricultural credit played a very important role in the expansion of KCC route towards credit.

i) Level of Agricultural NPAs

During period from 2004–12, gross Non-Performing Asset (NPA) ratio in the agriculture was high than corresponding ratio in non-agricultural sector, except during the year 2009 and 2010. This was partially due to implementation of agricultural debt waiver and the relief scheme. In 2011/12, the agricultural NPAs increased by 47% and NPAs in non-agricultural sector increased by 40%. Rise in the agricultural NPAs during 2011/12 could have been due to lagged effect of the two-digit growth in the agricultural credit during last four years (2006-07 to 2009-10), general economic slowdown and possibly new system wide identification of NPAs.

To Do Activity

Make group of 4 students each and present about any one initiative or innovation done by Government of India related to rural credit before the entire class.

3.2 Kisan Credit Card

The KCC scheme was introduced in the year 1998 for issuing KCC to the farmers based on their holdings for uniform adoption by banks, so the farmers could use them for readily purchasing the agricultural inputs like fertilizers, pesticides, seeds etc. and drawing cash required for production. This scheme was extended further for investment credit requirement among farmers viz. allied and also non-farm activities in year 2004. This scheme was revisited further in 2012 by working Group under Chairmanship of Shri T. M. Bhasin, CMD of Indian Bank having a view for simplification of the scheme and facilitating the issuance of Electronic KCCs. This scheme provides broader guidelines for the banks for bring KCC scheme into operation. Implementing banks would have discretion for adopting same so that it suits institution's and locations specific requirements.

Applicability of KCC Scheme

The KCC Scheme has to be implemented by the Commercial Banks, Regional Rural Banks, Small Finance Banks and the Cooperatives.

Objective / Purpose

The KCC scheme aim at providing timely and adequate credit support from banking system under single window having simplified and flexible procedure to farmers for cultivation and various other needs mentioned in figure 3.8.

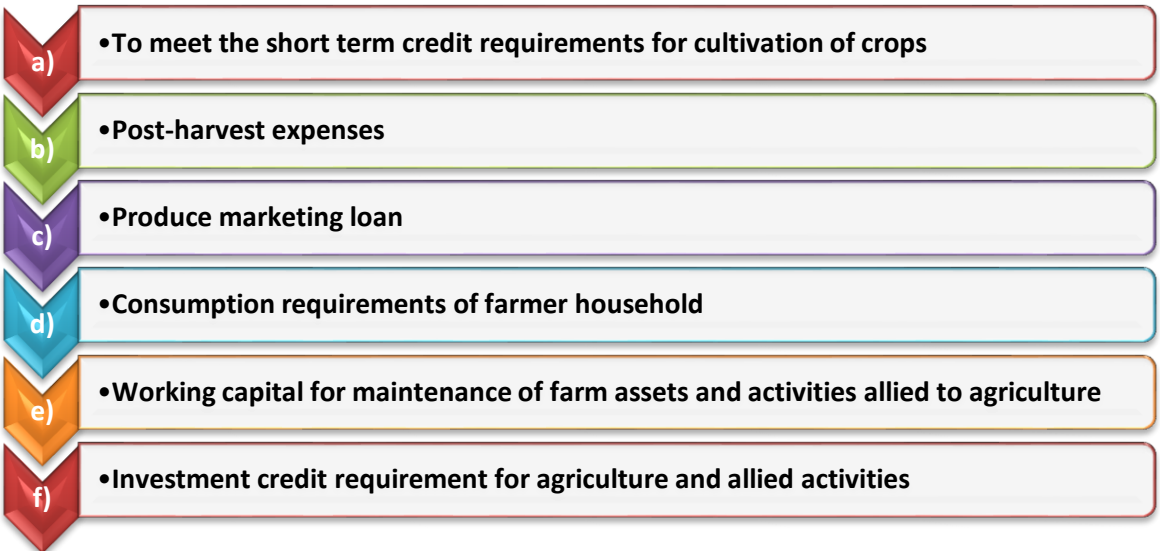


Figure 3.8 Need for Kisan Credit Card

The sum of a to e components as mentioned above would forms portion of short-term credit limit and sum of components under f is a part of long term credit limit.

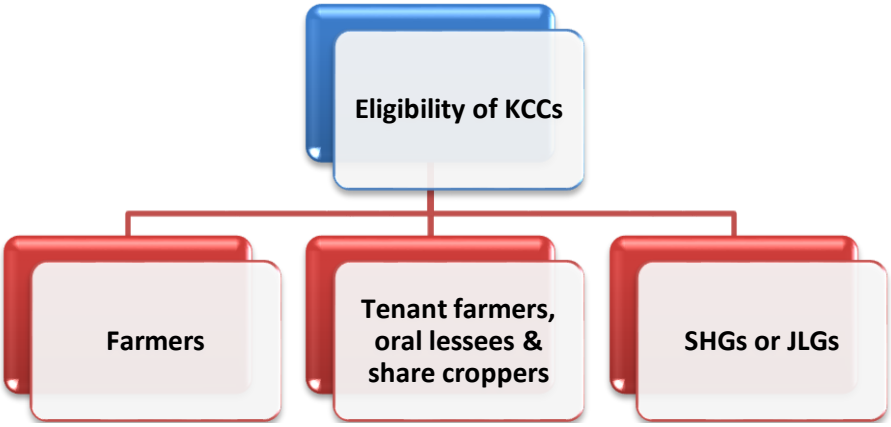


Figure 3.9 Eligibility for Kisan Credit Card

i) Farmers – The famers are eligible for taking KCC as an individual or joint borrower who are basically owner cultivators;

ii) Tenant farmers, share croppers & oral lessees – These people are also eligible for taking loan

iii) SHGs or JLGs – The SHGs or JLGs are also eligible for taking Kisan Credit Card for various purposes.

Credit Limit Fixation / Loan Amount

The credit limit under the KCC may be depicted as in the figure 3.10.

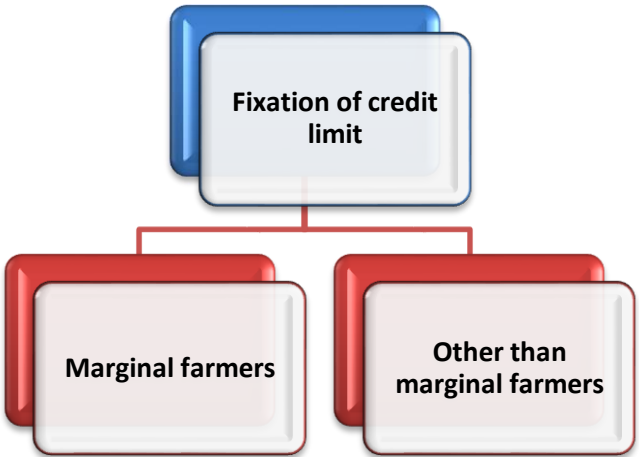


Figure 3.10 Fixation of Credit limit

A. For Marginal Farmers

A flexible limit ranging between 10000 – 50000 could be provided (as a Flexi KCC) which is based on land holding and grown crops which includes warehouse storage which is post-harvest related to credit need and various other expenses related to farming, consumption need, etc., plus loan investment(s) which is small term in nature like purchasing farm equipment(s), establishing a mini dairy or backyard poultry as per the assessment of Branch Manager which is not related to land's value. Composite KCC limit needs to be fixed for five year period based on this. The limit for finance is estimated wherever there is a requirement of higher limit due to changing pattern of cropping or finance scale.

b) All Farmers other than Marginal Farmers

The farmers having a land holding up to 1 hectare is for the Marginal farmers. The farmers having land holding of more than 1 hectare up to 2 hectares are small farmers.

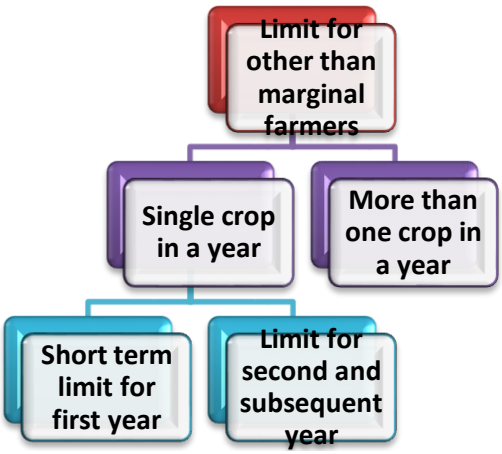


Figure 3.11 Limit for other than marginal farmers

a. For Cultivating Single Crop in a Year

- **Short term limit arrived for first year**

For arriving at finance scale for crop (as per the decision by the District Level Technical Committee) x the extent of area cultivated + 10% limit toward household/ post-harvest/ consumption requirements plus 20% limit toward repair and maintenance expense of the farm assets plus the

crop insurance and/or the accident insurance which includes the health insurance & the asset insurance.

- **Limit for the second & the subsequent year**

The limit for the second and the subsequent year could be arrived at by adding 10% to the short term limit which is arrived for the first year toward the cost escalation or increase in the scale of finance for each successive year (second, third, fourth and fifth) and the estimated component of term loan for tenure of KCC.

b) For cultivation of two or more crops in an year

The limit of KCC needs is fixed as is the case discussed above but it depends upon crops cultivated depending upon the cropping pattern which is proposed for first year plus additionally 10% of limit toward the cost escalation or increase in the scale of finance for each successive year which is second, third, fourth and fifth year). An assumption is made that farmer adopts same pattern for cropping for succeeding four year. The limit is reworked if the cropping pattern changes in subsequent years.

- **Term loan for investment**

The amount received through term loan is utilized towards development of land, minor irrigation, purchasing farm equipments and other allied activities of agricultural. Banks may fix credit quantum for the term and limit of working capital for the agricultural and the allied activities, etc., which is based on unit cost of asset(s) proposed for acquiring by farmer, allied activities which are already undertaken on farm, bank's judgment on the repayment capacity vis-a-vis the total burden of loan devolve on farmer, includes the existing obligations of loan.

Limit of long term loan should be based on investment(s) which are proposed during period of five year and also bank's perception based on the farmer's repaying capacity.

Maximum Permissible Limit

The limit which is arrived at in the short term loan for 5th year plus estimated for requirement of long term loan will be Maximum Permissible Limit (MPL) and is treated as KCC limit.

Fixation of the Sub-Limits

i. Short term loan and term loan are governed by various interest rates. Presently, the short term crop loans up to 3 lacs covered under the Interest Subvention Scheme or the scheme of Prompt Repayment Incentive of Indian Government. The repayment schedule and the norms for short term and term loans are different. For having accounting and operational convenience, bifurcation has to be done in card limit into separate sub limits for the *short term cash credit limit cum saving account* and the *term loans*.

ii. The drawing limit for the cash credit which is short term has to be fixed on the basis of cropping pattern. Amount for crop production, maintenance and repair of the farm assets and the consumption could be allowed for drawing as per farmer's convenience. In case, revision of finance scale for any year by district level technical committee exceed estimated hike of 10% contemplate while fixing five year limit, revised drawable limit could be fixed through consultation with farmer. In case, revisions are required in card limit itself for enhancing (4th or 5th year), it could be done in a same way and farmer may be advised.

iii. For the term loans, installments could be allowed for withdrawing on the basis of investment's nature and the schedule for repayment drawn based on economic life of proposed investments. There is a need for ensuring that total liability has to be within drawing limit of concerned year.

iv. Wherever card limit or liability which is arrived at warrant the additional security, banks might take suitable collateral based on policy.

Disbursement

The components which are short term of the KCC limit are having nature of revolving facility of cash credit. There should not be any restriction in the number of credits and debits. Drawing limit for current season or year could be allowed for drawing based on delivery channels. Operations in Kisan credit card could be carried out through various delivery channels:

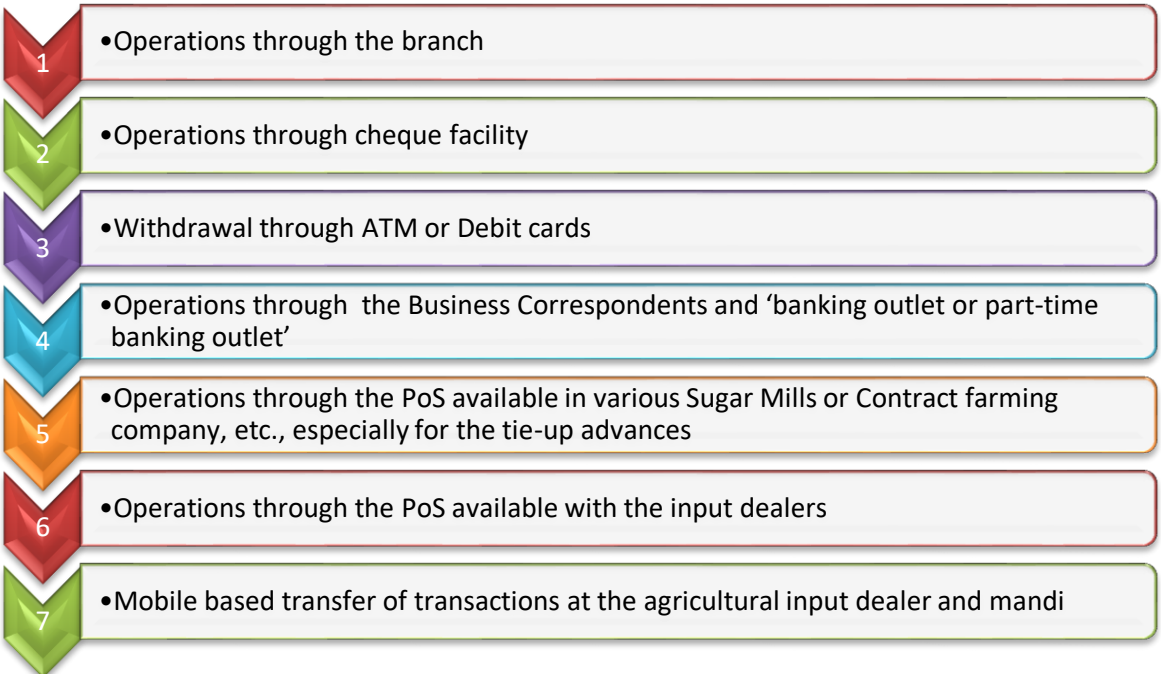


Figure 3.12 Delivery channels of Kisan Credit Card

Note : (5),(6) & (7) has to be introduced early for reducing the transaction cost of bank and the farmer. Long term loans for purpose of investment could be drawn as per fixed installment.

Issuance of Electronic KCCs

All new KCCs are issued as Smart card cum debit card. Further, at renewal time of the existing KCCs; the farmers must be issued smart card cum debit card. Short term credit limit and term loan limit are two distinct components of aggregate Kisan Credit Card limit which bears different interest rates and repayment period. Until composite card is issued with the appropriate software for separate account transactions in sub limits, two electronic cards could be issued separately for all the new and renewed cards.

Refinance

RBI set up Agricultural Refinance Corporation (ARC) in the year 1963 for working as refinancing agency to provide medium and long term agricultural credit for supporting investment credit need for the agricultural development. In the year 1975, ARC was renamed as the Agriculture Refinance and Development Corporation (ARDC) for giving focused attention to the credit off take, promotion and development of agricultural sector. In 1982, NABARD took over functions of erstwhile the Agricultural Credit Department (ACD) and the Rural Planning and Credit Cell (RPCC) of ARDC and RBI. The Department of Refinance (DOR) deals with short term and the long term refinance function of NABARD.

Core Functions of the Department

DOR deals with

- Short-term refinance for the production credit activity contributing for food security
- Long term and medium–term refinance for the investment credit activity for giving boost for private capital formation in the agriculture
- DOR act as subsidy channelizing agencies for various Indian government schemes

A. Short-Term Refinance

NABARD provides through way of refinance, advances and loans repayable on the demand or on expiry of fixed period which is not exceeding 18 months, for Cooperative Banks and RRBs for the production, procurement and marketing activities. Basic objectives of short-term refinance provisions are supplementing resource of banks and improving credit flow at ground level. Such activities include:

- Short-term refinance to the State Cooperative Banks and the RRBs for seasonal agricultural operations
- Short-term refinance to the State Co-operative Banks and RRBs for the purposes besides seasonal agricultural operations like rural marketing, fishery sector, social infrastructure project, working capital for the MSMEs, etc. Refinance is extended State Co-operative Banks in respect of advances made to the State and the Apex Level Agency which are engaged in the wholesale procuring, stocking and distributing fertilizers, agricultural input, finance Bonafide trade or commercial transactions.
- Short-term refinance to the Scheduled Commercial Bank, State Co-operative Bank and the Regional Rural Bank for lending to the weavers

B. Long-Term and Medium-Term Refinance

NABARD provide refinance for long-term and the medium-term to following institutions for supplementing their resource to provide adequate credit to support investment activity of the farmers and the rural artisans, etc.

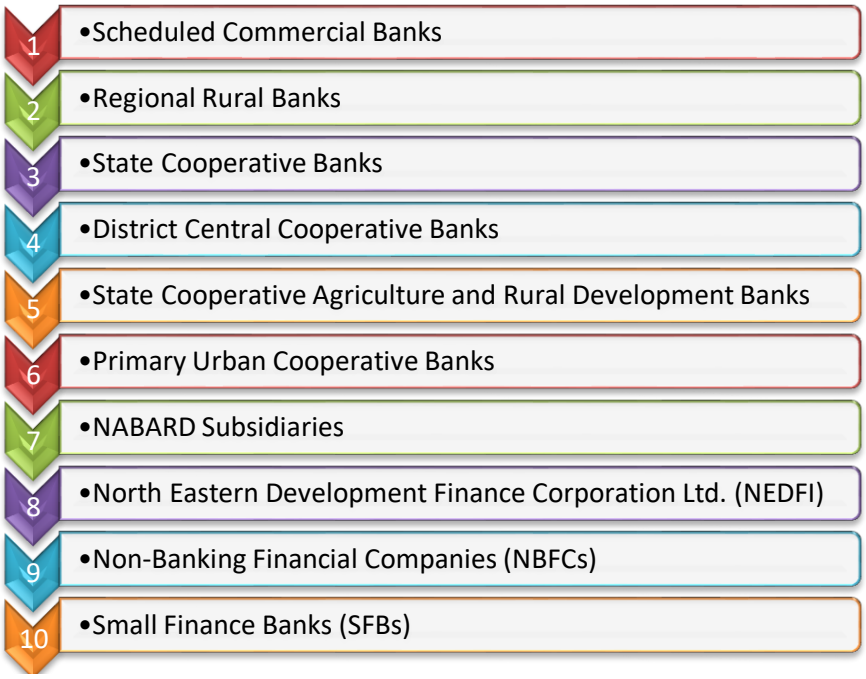


Figure 3.13 Refinance Institutions for Long and medium term Refinance

These activities cover farm sector and off-farm sector activity. Tenure of the refinance ranges from 18 months to 5 years.

C. Medium-Term Conversion

NABARD provide medium term credit limit for converting short-term crop loan which is advanced for financing the seasonal agricultural operations (SAO) to the State Co-operative Bank and RRBs to provide relief to farmers whose crops were damaged because of natural calamities.

D. Long-Term Loan to the State Government

NABARD provide long-term (LT) loan to the State Government for contributing share capital of the cooperative credit institution. This reimbursement-based support is intended for encouraging the larger lending programme by the cooperatives for meeting requirements for agricultural credit.

E. Kisan Credit Card

Government of India introduced the scheme of Kisan Credit Card during the year 1998-99 for meeting production credit requirements of the farmers in hassle free and timely manner. This scheme was extended further extended for investment credit requirement of the farmer's viz. non-farm and allied activities in 2004.

The KCC scheme, was revised in the year 2013, aiming to provide timely and adequate credit support from banking system under single window with simplified and flexible process to farmers for cultivation and other need as indicated below:

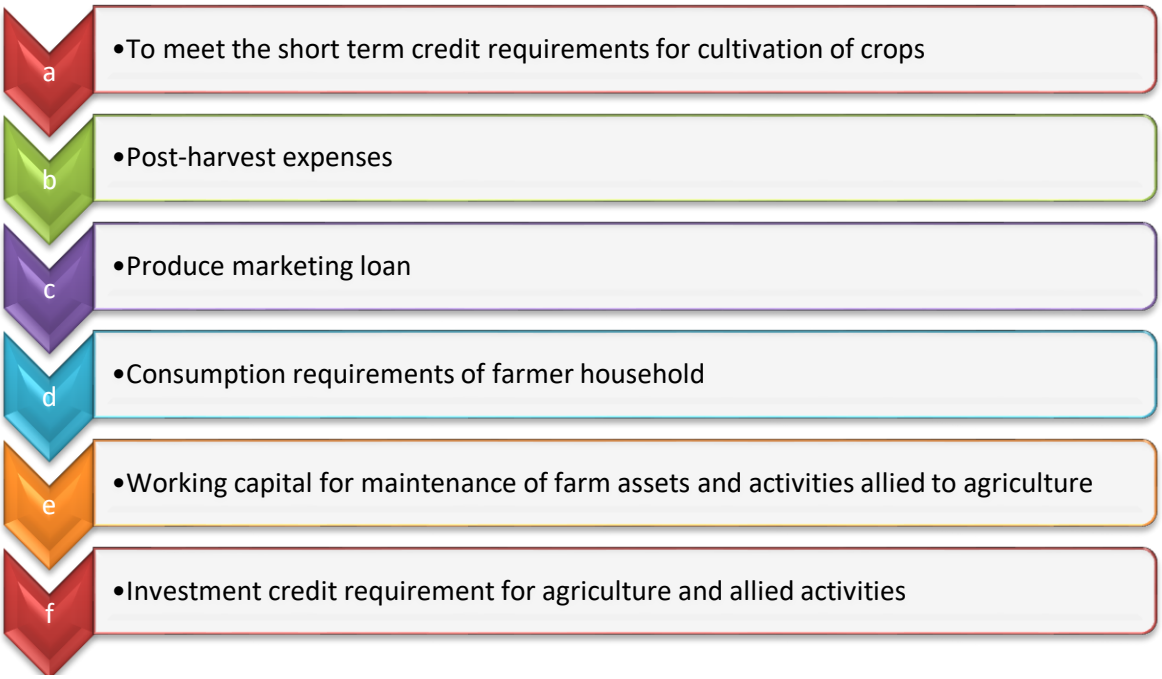


Figure 3.14 Simplified and flexible process to farmers for cultivation

The sum of components from 'a' to 'e' mentioned above will be a part of short term credit limit and sum of component under 'f' will be part of long term credit limit. This scheme is being implemented in entire country through institutional credit framework which involves Commercial Bank, RRBs and the Cooperatives. RBI has been monitoring this scheme for the Commercial Banks and NABARD for RRBs and the Cooperatives.

F. Interfacing for Government of India Schemes

As a nodal agency for various schemes which are sponsored by Government of India, NABARD acts as interface between the various stakeholders.

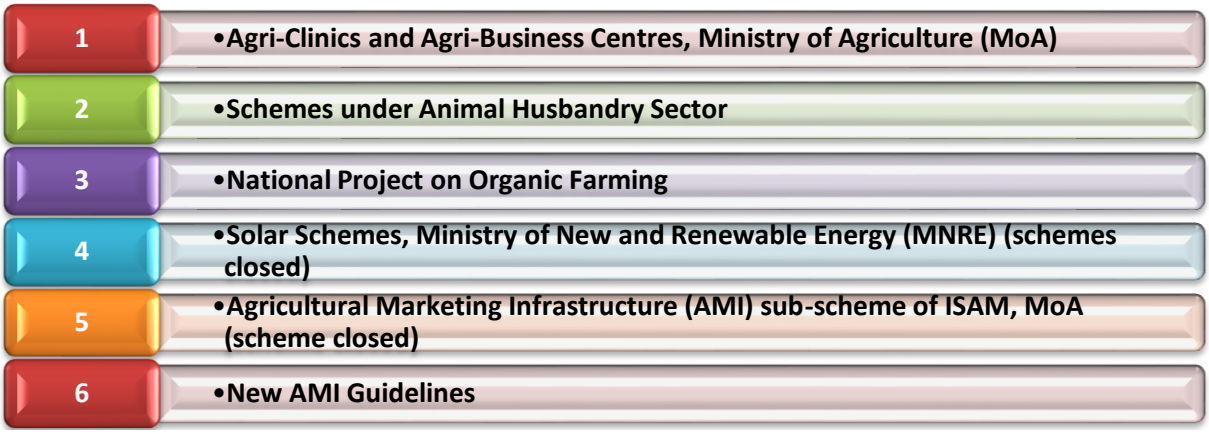


Figure 3.15 Capital Investment Subsidy Schemes

- **Interest Subvention Scheme for Crop Loans, GoI**

3. Broad Achievements of Department at National Level

Short Term Refinance

An amount of Rs.79,704 crores were disbursed as a short–term refinance in 2017-18. Purpose-wise and agency-wise break up is given as under

Table 3.1 Short Term Refinance (Rs. Crores)

Purpose	StCBs	RRBs
Short Term –Seasonal Agriculture Operations (ST-SAO)	45,000	10,000
Additional ST-SAO	15,308	4,828
ST-Others (Including Weavers)	3,150	1,418
Total	**63,458**	**16,246**

Long Term Refinance:

An amount of Rs.65,240 crores were disbursed under the long-term refinance during 2017-18. The agency wise break up is given below :

Table 3.2 Long Term Refinance (Rs. Crores)

Agency	Achievement
Scheduled Commercial Banks	40,000
Regional Rural Banks	11,537
State Co-operative Banks	7,086
State Cooperative Agriculture and Rural Development Banks (SCARDBs)	2,594
NABARD Subsidiaries	1,228
NBFCs	2,794
Total	**65,240**

Support from the Government

- Indian Government provides 2% for interest subvention and incentive for prompt repayment of 3% to farmers, thus making credit available at very subsidized rate i.e. 4% annually.
- As per information which was available with Indian government, there are around 6.95 crores (with reference to report of the Ministry of Agriculture & Farmers Welfare dated 4th February, 2019) the active KCCs. The coverage as mentioned above was possible due to a collaborative and successful effort made by State Governments, District administrative machinery and Financial Institutions. There has been an increase in agricultural credit due to issuance of KCCs in a large number has helped to increase agriculture credit that has contributed significantly in increasing farmer's income and not only in fulfilling objective of security of food.
- Government has taken major friendly step for farmers for extending benefits of Kisan Credit Card with an interest of subvention to farmers who are engaged in the activities that are related to fisheries and animal Husbandry. Farmers who possess KCC and are involved in various activities related to fisheries and animal husbandry could avail additional sublimit within overall limit of Rs. 3 lacs and interest subvention / incentive for prompt repayment will be applicable within credit limit. Farmers who are involved in activity related to fisheries and animal husbandry but do not possess KCC, will be eligible for issuing of fresh KCC having credit limit up to Rs. 2 lacs with the applicability of subvention of interest /incentive for prompt repayment.
- Government has taken decision for launching campaign for saturating farmers under KCC for financial inclusion. This campaign would be launched through Financial Institutions which includes Commercial Bank, Cooperative Bank and RRBs in collaboration with State Governments.

Uttar Pradesh Agriculture Policy 2013

Agriculture is a very important area of Indian economy and it is helpful in development of agricultural loan, making agricultural production grow, profitable and sustainable farming system. Smaller and marginal farming family in state was 92.5% from which marginal farm family were 79.5% and small farmer were 13.0%. Out of 79.5% of marginal family, 73.2% land holding was lesser than 0.5 hectare and the average holding is 0.27 hectare. Lack of sufficient land holding did not allow them towards adoption of new technology as well as scientific farming. Crop loan at low interest rate and availability of sufficient crop loans from commercial bank is not the only help in increasing farms productivity but it will also improve the economic conditions, assets creation, and security of food along with the social security. Because of this reason, State government and Government of India were interested in adding more farmers with banking system and availing crop loan from the commercial banks for improving the economic condition. State government have formulated "Uttar Pradesh Agriculture Policy 2013" which aimed to transform state into "Grainary of the Nation" by ensuring nutritional and food security and for improving village life quality with a sustainable and inclusive growth and achieving 5.1% growth in agriculture sector.

State government have given special emphasis on Agriculture Policy on the crop availability through Kisan Credit Card for all the eligible farmers of state in order to ensure easy availability of farm inputs and also increase crop loan utilization in it.

Government of India has accepted recommendations of the task force organized by Government of India, Ministry of Finance, Department of Finance Services for reviewing Kisan Credit Card scheme and converting it into a smart card cum debit card.

Source: Agriculture Department, Uttar Pradesh. (n.d). Retrieved from http://upagripardarshi.gov.in/StaticPages/KisanCreditCard.aspx

To Do Activity

Visit any Bank branch and try to find out the features (including limit, charges and documentation etc.) of Kisan Credit card and present the same before the class.

3.3 Loan Repayment and other Levy

Repayment is referred to act of paying back the money which was previously borrowed from lender. Return of the funds happen through periodic payment that includes principal as well as interest. Loans could usually be allowed to be paid fully in lump sum at any point of time, though there are some contracts which might include some repayment fee for paying early.

The loan types that many people require to repay include auto loan, mortgages, education loan, and also credit card charge. Businesses enter into debt agreement that can include auto loan, mortgages, and other credit lines along with the bond issuances and various other type of structured corporate debt. In case of failure of keeping up any debt repayment, it could lead to credit trail issues which include forceful bankruptcy, increase in charges from late payment, and a negative change to credit rating. Repayment can be well explained through following points:

- Repayment is act of paying the back money which is borrowed from lender.
- Repayment terms on loan are mentioned in detail in loan's agreement that also includes contracted rate of interest.
- Generally, people end up repayment of mortgage loan.
- All the type of distressed borrowers might have various options in case they are unable to make payments regularly.

When the consumers take loans, the lender expects that the borrower will be able to repay the loan. The rate of interest is charged on the basis of contracted rate and also the schedule for time which passes between the period when the loan is given out and when borrower returns money fully. Interest is expressed as Annual percentage rate (APR) which is charged against the borrowed money. Sometimes the borrowers are unable to repay the loan and they turn towards bankruptcy protection. In fact, borrowers should search for every alternate solution before being declared as bankrupt as bankruptcy could affect borrower's ability for obtaining finance in future. There are other alternatives to bankruptcy and hence borrowers should try to find solution through them instead of being declared as bankrupt.

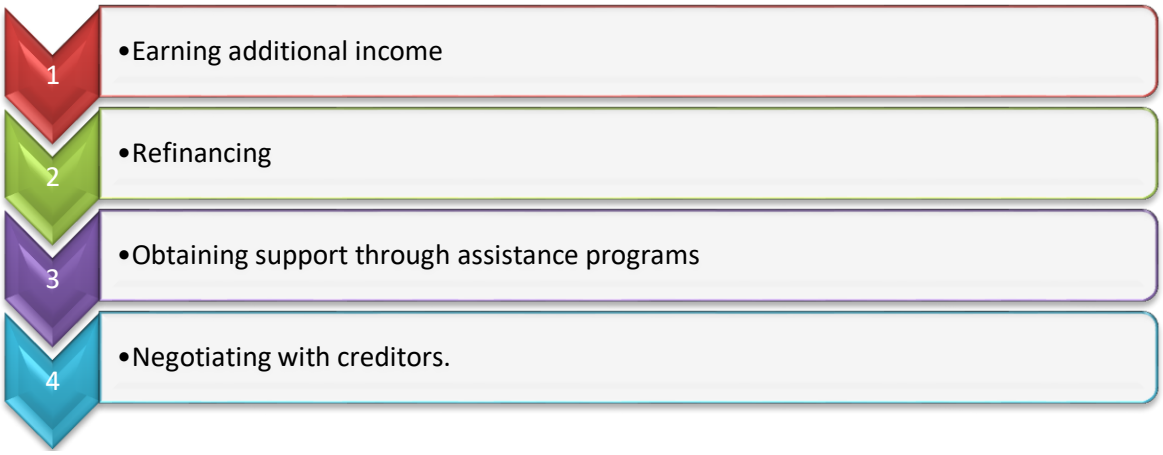


Figure 3.16 Alternative to Bankruptcy

Structuring of repayment schedule depends on loan type and lending institutions. There should be some terms and conditions printed on the loan application which specifies what could be done by the borrower in case he or she is unable to make scheduled payment. The borrower should be proactive and try to reach out the lender for explaining any existing circumstance. Sometimes the borrower is facing some health issue or employment issue or some other family issue, this should be informed to the lender, so that sometimes the lenders offer some special terms and conditions for facing hardships.

Banks are urged for ensuring that when loans and advances are being granted, the realistic repayment schedule might be fixed based on cash flow with the borrowers. This will go long way for facilitating a prompt repayment by borrowers and this would improve record of recovery in the advances.

The repayment period and margin of loans could be determined by banks. Whenever any natural calamity is being faced by the agricultural borrowers, the repaying capacity could be impaired and then banks could make decision as per their own terms and conditions as relief measure conversion of short-term production loan into a term loan or repayment period could be re-scheduled and a fresh short term loan could be sanctioned as per guidelines given by RBI as per its circulars. When repayment schedule is being fixed for rural housing advances are being granted to the agriculturists under the Indira Awas Yojana and Golden Jubilee Rural Housing Finance Scheme, banks should ensure that interest/ installment which is payable on advances have been linked to the crop cycles. In case of Kisan Credit Card, repayment period could be fixed by banks based on anticipated harvesting and the marketing period for crops for which loan is being granted.

The application for loan with respect to all the loan categories irrespective of loan amount which is being sought by borrower must be comprehensive. For bringing transparency and fairness, banks have been advised by RBI, that all information related to loans should be transparently disclosed to borrowers regarding fees / charges that are payable for processing of loan application, fees amount which is refundable if the loan amount is not being sanctioned or disbursed, pre-payment option and charge, penalty for the delayed repayments, conversion charge for switching a loan from fixed interest rate to floating rates or vice versa, existence of any clause related to interest reset and any remaining other matter that affects interest of borrower. This information must be displayed on bank's website for various kinds of loans. Some banks also charge some other fee in addition to processing fee and these charges are not informed to the borrower initially. This practice is unfair if the banks do not disclose charges to the customers. Banks and Financial Institutions should ensure that all the charges and fees are disclosed in the application form. Further, banks must inform 'all-in-cost' to customer for enabling him to compare interest rates and charges with the other finance sources. Banks should ensure that these charges and fees are non-discriminatory.

Credit Monitoring

Credit monitoring in Bank is ensuring that funds are being utilized for sanctioned purpose and even the terms and the conditions are to be complied. The purpose of credit monitoring is avoiding time lag and cost overruns, for detecting signals of early warning and the symptoms of incipient sickness in units which were financed by banks and for initiating timely action for rehabilitation or recovery.

Under Credit Monitoring Arrangement, Banks should Ensure following :

a) Reasonable estimates of current asset, current liability and working capital should be maintained by borrower
b) Classification of current asset and current liabilities should be maintained as per the guidelines of bank
c) Minimum current ratio of 1.33 should be maintained except for the export industry and also new units
d) During the annual review by the banks, annual audited accounts should be submitted
e) Ad Hoc limit is sanctioned for the period not exceeding three months
f) Post Sale limit is sanctioned in form of Bill Finance as far as possible

Steps Involved in Credit Monitoring

1) Identification of potential NPAs when loan default is for two months
2) Study causes – whether default is because of inherent weakness or due to temporary liquidity or problem of cash flow
3) Offers contingency helps immediately in form of ad-hoc limit, if cash flow mismatch are genuine
4) If the limits are inadequate leading to default of loan during an year, the borrower is asked to submit renewal proposal and enhance suitably
5) If the cheques are drawn on the parties who are not related to business or cash withdrawal are heavy and no corresponding increase in stock, passing cheques for payment after detailed scrutiny. Advice should be given to the borrowers for stating purpose of cheques, the reason for which cheque is drawn.
6) Visiting factory immediately, if stock statement has not been submitted and securities were verified
7) Collection of interest is on monthly basis. Frequent visit is called for whenever there is default of payment of interest.
8) Documents need to be kept live and they have to be scrutinized periodically.
9) The report of concurrent auditor, branch inspector, regional manager, credit audit, statutory auditor etc have to be implemented
10) Local newspaper needs to be read daily, position of accounts needs to be ascertained with the other banks, information needs to be exchanged about borrower in consortium meeting etc.
11) The steps need to be initiated for preventing slippage in the standard asset.

Default

Default' means non-payment of debt (as defined under Insolvency and Bankruptcy Code, 2016 (IBC) when whole or any part or installment of debt has become due and payable and has not been paid by debtor or corporate debtor, as case may be. For various revolving facility like cash credit, default would also mean, without any prejudice to above, outstanding balance which remains continuously in excess of sanctioned limit or the drawing power, whichever is lower, for a period more than 30 days.

Framework for Resolution of the Stressed Assets

A. Early identifying and reporting stress

Lenders shall recognize incipient stress in the loan accounts, immediately as on default, by classification of such assets as Special Mention Accounts (SMA) as per following categories:

Table 3.3 Basis for classification of Special Mention Accounts

SMA Sub-categories	Basis for classification – Principal/ interest payment or any other amount which is wholly or partly overdue between
SMA-0	1-30 days
SMA-1	31-60 days
SMA-2	61-90 days

As mentioned in RBI circular dated 22nd May, 2014 and other subsequent amendment thereafter, lenders need to report about credit information which includes classification of account as an SMA to the Central Repository of Information on Large Credits (CRILC), on all the borrowers having a aggregate exposure, lenders shall submit weekly report about instances of default by all the

borrowers (with an aggregate exposure of 50 million and above) by closing of business on each Friday, or preceding the working day if Friday happen to be holiday. The CRILC-Main Report needs to be submitted on m*onthly* basis.

B. Implementation of the Resolution Plan (RP)

All the lenders must follow the Board-approved policies for resolution of the stressed assets, and also includes resolution timelines. Default with a lender is a lagging indicator about financial stress which is faced by borrower, it is expected that lenders initiate process of implementing RP even before default. In any case, once borrower is reported about being in default by any of lenders, lenders shall undertake prima facie review of borrower's account within a period of thirty days from such a default ("Review Period"). During the Review Period, lenders might decide on a resolution strategy, which includes nature of RP, approach for implementation of RP, etc. Lenders might choose regarding initiating legal proceeding for recovery or insolvency.

In case, where RP needs implementation, all the lenders shall enter in to Inter-Creditor agreement (ICA), during review period, for providing ground rules for finalization and the implementation of RP with respect to borrowers having credit facilities from more than one lender. ICA shall provide any decision which is agreed by the lenders representing 75 % by the value of total outstanding credit facilities. Additionally, ICA may provide right and duties of the majority lenders, duties and the protection of right of dissenting lender, lender's treatment with priority in the cash flows/ differential security interest, etc.

In the accounts having aggregate exposure more than threshold with lenders, as mentioned below, on or after 'reference date', RP would be implemented within a period of 180 days from end of the Review Period. Review Period shall commence not later than:
(a) Reference date in case of default or
(b) Date of first default after reference date.

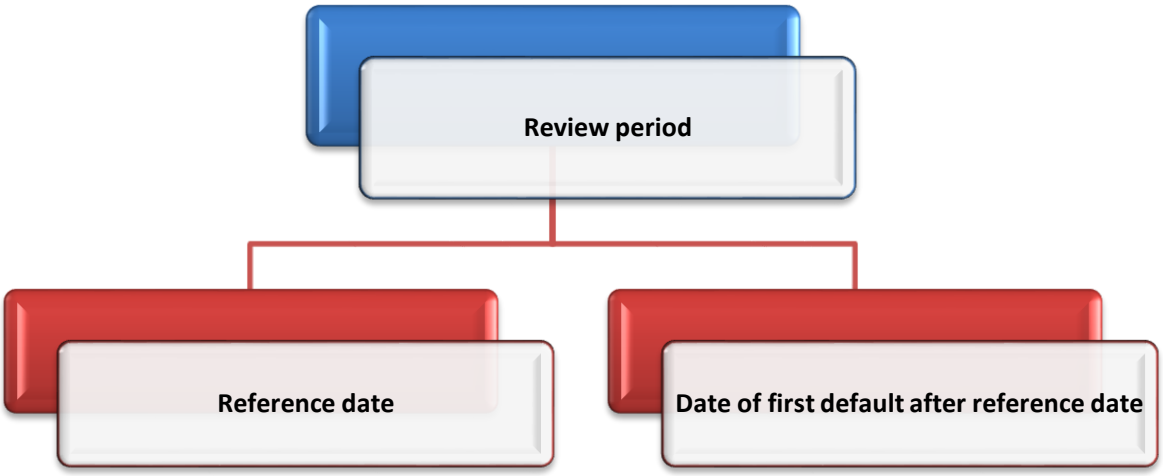


Figure 3.17 Commencement of review period

The RP might involve any action or plan or reorganization which includes, which is not limited to these, regularization of account by paying all over dues by borrower entity, sale of exposures to the other entities or investors, ownership change and restructuring. The RP required clearly documented by concerned lenders even if the terms and conditions.

C. Implementation Conditions for RP

A Resolution Plan with respect to borrowers to whom lenders continuously have credit exposure, would be deemed to be 'implemented' only in case the following conditions are met:

(a) An RP that does not involve restructuring or ownership change would be deemed for implementation only if borrower is not in the category of default with any of lenders as on 180th day from ending of Review Period. If there is any subsequent default after 180 day, the period shall be treated as fresh default, which triggers fresh review.

(b) A RP that involves restructuring or change in the ownership shall be deemed for implementation only if all following conditions have been met:

   i. All the related documentation, which includes execution of the necessary agreements among lenders as well as borrower/ security charge being created/ securities perfection are completed by lenders which are concerned in the consonance with RP being implemented;

   ii. New structure of capital and/ or changes in terms of conditions for existing loans gets duly reflected in books of all lenders and borrower

   iii. Borrower's name is not there in the list of default among the other lenders

Prudential Norms Applicable to Restructuring

1. Restructuring is an act through which lender, for legal or economic reason relating to borrower's financial difficulties, grant concessions to borrower. Restructuring might involve modification in terms of advances or securities, that would include generally among the others, alteration in payment period or payable amount or installment amount or interest rate; roll-over of credit facility; sanctioning of additional credit facilities or release of the additional fund for a default account for curing default or enhancement in the existing credit limit; compromise settlement where payment time of settlement amount exceed three months.

2. Board-approved lender's policies on resolution related to stressed assets, require for being placed in terms of this framework, could have detailed policy on different signs of difficulty in finance, providing quantitative and qualitative parameter for determination of financial difficulty expecting from prudent bank. So as to enable the lenders for framing the respective policies for determining financial difficultly, non-exhaustive list of sign of financial difficulty:

   (a) Default, as per definition provided in framework, it shall be treated as indicator with financial difficulty, whatever the reason may be for default.

   (b) Borrower who is not in default, but there is a probability that borrower would default on any exposure in foreseeable future without concession, for instance there have been pattern of negligence during payments on its exposure.

   (c) Borrower's outstanding security has been delisted or is in process of being delisted or is under the threat of being delisted from exchange because of non-compliance with listing requirements or due to financial reasons.

   (d) Based on actual performance, projections and estimates which encompass borrower's current level of operations, borrower's cash flow is assessed to be insufficient for servicing its loans or debt security (both the interest and the principal) according to contractual terms of existing agreement for foreseeable future.

   (e) Borrower's credit facility is in status of non-performing or would be categorized as nonperforming without concessions.

   (f) Borrower's existing exposure is categorized as exposure which has already evidenced some difficulty in borrower's ability for repaying in accordance with bank's internal credit rating system.

Prudential Norms for Asset Classification

A. Asset Classification – for the case of restructuring, accounts classified as 'standard' would be immediately downgrade as non-performing assets (NPAs), i.e., 'sub-standard' in the beginning. Upon restructuring, the NPAs, shall continue having same classification of asset prior to restructuring. In both the cases, asset classification would continue to be governed by ageing criteria as per the extant asset classification norm.

B. Conditions for Upgrade - Standard accounts which have been classified as NPA and NPA account that are retained in same category on the restructuring by lenders might be upgraded when all outstanding loan / facility in account demonstrate a 'satisfactory performance' during period from implementation of RP up to date by which at least 10 % outstanding sum of principal debt as per RP and interest capitalization which is sanctioned as a part of restructuring, if any, becomes repaid ('monitoring period'). The account could not be upgraded before period of one year from commencement of first interest payment or the principal (whichever is later) on credit facility with the longest moratorium period under terms of RP.

Non-Performing Assets (NPA)

Income recognition policy should have objective and should be based on recovery record rather than based on subjective considerations. Assets should be classified on the basis of objective criteria that would also ensure a consistent and uniform application of norms. Additionally, provision should be done on the basis of asset classification on period for which assets have remained non-performing and security available and realizable value.

An asset which includes leased asset becomes NPA when it ceases generating income for bank. An NPA is loan or advance where:

a) The interest and/ or principal installment remains overdue for 90 days or more with reference to term loan
b) An account remain 'out of order' in case of overdraft or cash credit
c) Bill remained overdue for 90 or more days, in case of bill purchased and discounted
d) An installment or interest remains overdue for a period of two crop seasons for crops of short duration
e) Installment of principal or interest remains overdue for a period of one crop season for longer duration crops

'Out of Order' Status

An account is treated as 'out of order', if outstanding balance remained in excess continuously of sanctioned limit or drawing power. In case, where outstanding balance in operating account is lesser than sanctioned limit or drawing power, although there are no credit in account continuously for a period of 90 days as on balance sheet date or credit is not enough for covering interest debited during same period, these account should be treated as 'out of order'.

Overdue

In case, any amount has not been paid on due date which is fixed by bank, the amount which becomes due under credit facility is 'overdue'.

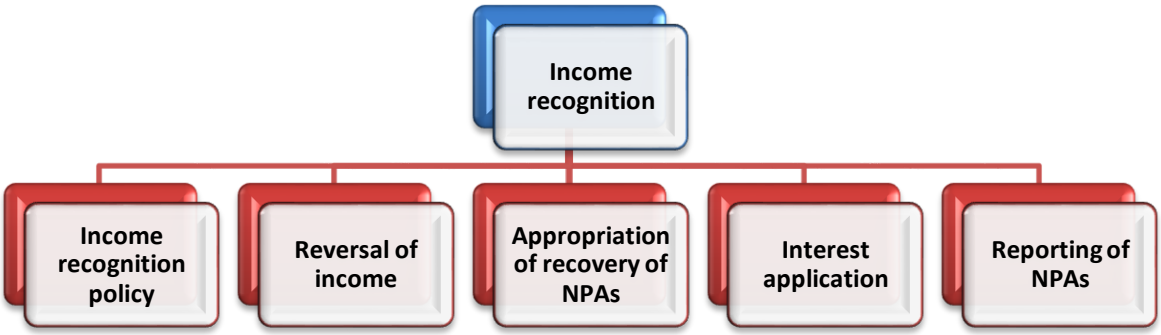


Figure 3.18 Income recognition

a) Income Recognition Policy

Income recognition policy has to be objective and based on record of recovery. Income from NPA is not recognized on accrual basis, but it is booked only when it is received actually. Banks should not charge and take to income account or interest on NPA. Interest on the advances against National Savings Certificates (NSCs), life policies and term deposits, are taken to income account on due date, only if sufficient margin is available in accounts. Commissions and fees which is earned by banks through rescheduling or renegotiation of outstanding debt should also be recognized on accrual basis over time period which is covered by renegotiated or rescheduled extension of credit. If the advances are guaranteed by government becomes NPA, interest on these advances should not be taken into income account unless interest have been realized.

b) Reversal of Income

In case of advance, which includes bill purchased and discounted, becomes NPA at close of any year, interest accrued and also credited to income account in corresponding previous year, should be reversed or provided if it is not realized. This will also be applied to government guaranteed accounts. If NPAs, fee, commission and a similar income which have accrued will cease being accrued in current period and provided or reversed for past periods, if it is uncollected.

c) Appropriation of Recovery of NPAs

The interest which is realized on NPA is taken into account, which provides credit in account toward interest are not a part of fresh or additional credit facilities which is sanctioned to concerned borrower. In absence of clear agreement between bank and borrower for purpose of appropriation of NPA recovery in NPAs, bank should adopt accounting principle and implement appropriation right of recovery in consistent and uniform manner.

d) Interest Application

On account of turning NPA, bank should reverse interest which is already charged and also not collected by debited Profit and Loss account, and also stop further interest application. However, bank may continue to keep record accrued interest in memorandum account in the books. For purpose of compounding Gross advances, interest which is recorded in memorandum account should not be accounted for.

e) Reporting of NPAs

There is a requirement for banks to furnish report related to NPAs on 31st March every year, after completing audit. The NPAs would relate to banks' global portfolio, which includes advances at foreign branches. While NPA is being reported, banks are required to compute Gross Advance, Net advance, Gross NPA and Net NPA, which has to be as per guidelines which is prescribed by RBI and submission of data in format which is prescribed by RBI.

Asset Classification

There is a requirement for Banks to classify the Non-performing assets into three categories which is based on period during which asset have remained non-performing and reliability of dues :

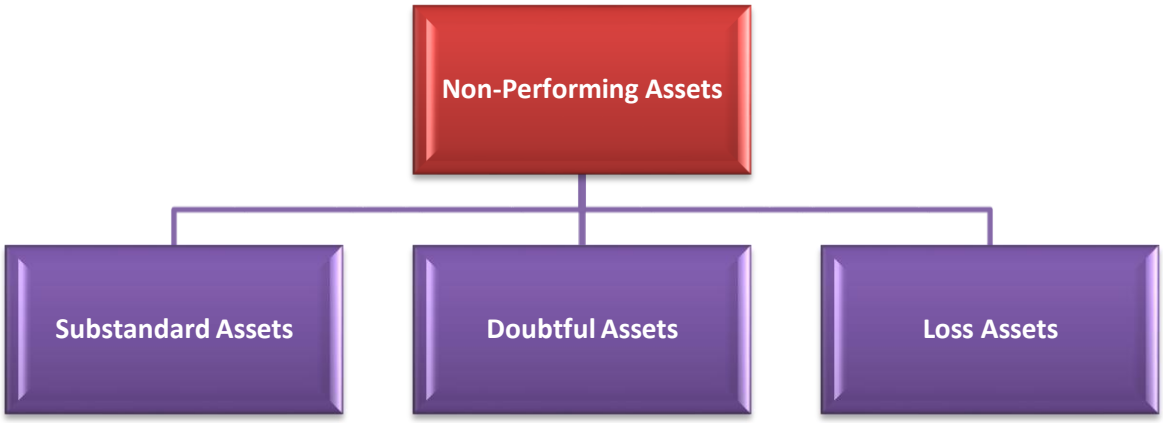


Figure 3.19 Classification of Non-Performing Assets

a) **Substandard Assets**
With effective from 31st March 2005, substandard asset would be such asset, which has remained NPA for period lesser than or equals twelve months.

b) **Doubtful Assets**
With effective from 31st March 2005, asset would become doubtful asset if it remained in substandard category for period of twelve months.

c) **Loss Assets**
Loss asset is one in which bank or internal or external auditor or RBI inspection identifies loss but amount has not been written wholly off. Such asset will be considered uncollectible and such value than continuance as bankable asset which is not warranted though there might be some recovery or salvage value.

Cost or Levy Associated with Agriculture Finance or Loan

RBI released a circular regarding loan in India that states the processing fee for the agriculture loans should not exceed 1% of gross loan amount and the processing fee should not be included in margin cap or interest cap of 26%.

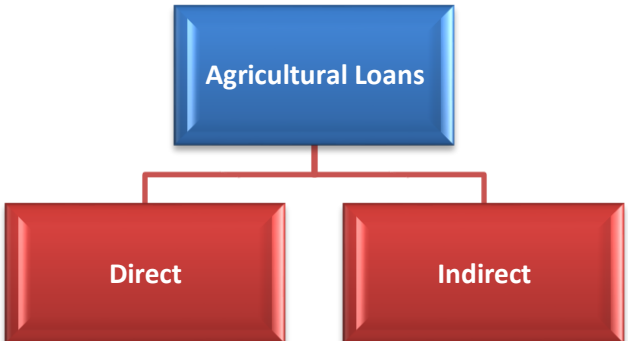


Figure 3.20 Classification of Agricultural Loans

(1) Direct Agriculture Loans

These loans include the loans given to individual farmers and also includes SHGs or JLGs, i.e. group of individual farmers, provided that banks maintain a disaggregated data on these loans], which are directly engaged in the Agriculture and other allied Activities like fishery, dairy, poultry, animal husbandry, sericulture and bee-keeping.

(2) Indirect Agricultural Loans

These loans includes loan to the corporate which includes farmers' producer companies of the individual farmers, partnership firm and the co-operative of farmers that are directly engage in the Agriculture and other allied activities.

Detail about Fee or Levy for Various Loans/ Finance

- The processing fee of KCC (Saral) by Housing Development Finance Corporation (HDFC) Bank is Rs 250/-. The repayment schedule charges for this is Rs 200/- per request. Late payment penalty for the KGC type varies from 1.33 % to 2 % per month on the payment overdue. Supervision charges of KGC type ranges between Rs. 500/- to Rs. 2000/-.
- The processing fee of the Agriculture term loan from JK bank is 0.05 % of sanctioned amount with minimum cap of Rs. 25/- which has to be paid up front.
- The processing charge of agriculture gold loan by the Canara Bank vary from no charge (for loan up to Rs 25000/-) to Rs. 900/- (for loan up to Rs. 3 lakh). Handling charge differs from nil to Rs. 100/-.
- Mortgage charge vary from no charge to Rs. 30000/-. However, the processing charge cannot be collected under the conditions like government sponsored scheme, SHGs or the agriculture loan which is given to the employees.
- Processing fee for agriculture loan from Industrial Credit and Investment Corporation of India (ICICI) bank is upto 4 % of loan amount. Late payment penalty is 2 % p.m. on the unpaid installment.
- The processing fee for agriculture loan in the rural area from Vijaya bank range from nil (loan amounting Rs.25000/-) to 0.16 % i.e. Rs. 102/- (loan of Rs.25000/- to 2 lakh).
- There is no processing fee for the agriculture loan upto 10 lacs and there is no documentation charge for credit limit upto Rs. 2 lacs.
- There is no processing charge and documentation charge for KCC from Central Bank of India and no collateral security for loan upto 1 lakh.
- Government of India has exempted the farmers from paying the stamp duty on agricultural loan which amounts upto Rs. 5 lacs.

To Do Activity

Form a group of 5-6 students and prepare a presentation on any one of the following topics and include some examples :

- Loan repayment
- Bankruptcy
- Credit monitoring
- Non Performing Asset
- Restructuring
- Income recognition
- Cost associated with Finance / Loans

Agricultural sector in India, contributed 16 % of country's GDP in the year 2017, it support livelihood of 43.9 % of population. The employment in agricultural sector decreased by 10 % within decade from 2008 - 18, from 53.1 % in 2008 to 43.9 % in 2018. This sector has been facing multiple problems.

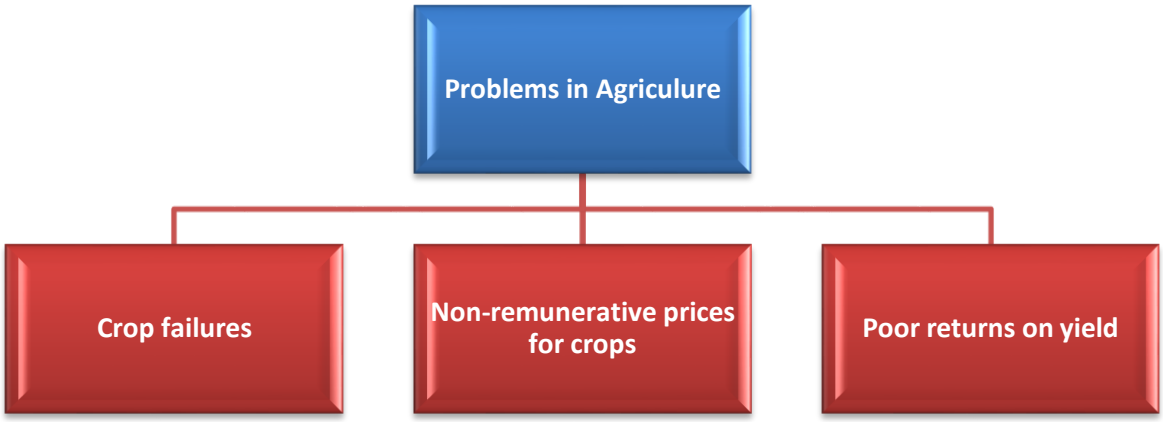


Figure 3.21 Problems in Agriculture

Stress in agriculture is very severe, it has been pushing farmers toward despair; about 39 % of cases related to farmer's suicide in the year 2015 were attributed towards indebtedness and bankruptcy. While Government of India (GoI) have made many efforts for addressing farmers' grievance, policies are not sufficient, being weighed down as they are merely ad hoc and subjected to the political wrangling. There is imperative for financial safety net which does not consists only loans wavers and direct transfers; short-term solution which often proves to be counter-productive, but framework which consistent, timely and improve agricultural productivity as well improves farmers' quality of life.

Farmers are susceptible toward agricultural risk and need a system of insurance. India had one such system since 1972, but there are many problems in this like it lacks in transparency, premium is high, there is non-payment or delay in claims payment. The first scheme of crop insurance was based on "individual farm approach," that was later dissolved as it was unsustainable. Next insurance scheme was based on "homogeneous area approach." In the year 1985, scheme of comprehensive Crop Insurance was implemented for a period of 15 years; improvement was made based on area approach which was linked to crop credit which was short term. Its successor, National Agricultural Insurance Scheme (NAIS), was then implemented for increasing farmer's coverage, with the existing loan and those without. However, despite modifications, scheme failed covering all the farmers, and in the Kharif season 2016, Government of India formulated Pradhan Mantri FasalBima Yojana (PMFBY) for weeding out issues in previous schemes of crop insurance.

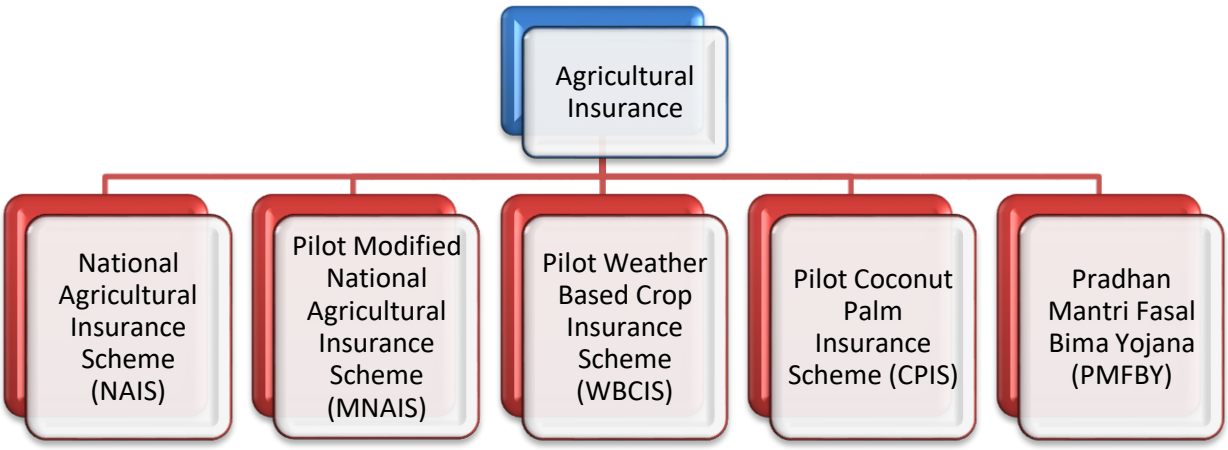


Figure 3.22 Agricultural Insurance in India

There are five schemes for crop Insurance in India i.e. NAIS, MNAIS, WBCIS, CPIS and PMFBY that are being implemented in India.

(1) National Agricultural Insurance Scheme (NAIS)

In this scheme, Government sponsored the crop insurance scheme under the implementation in country since Rabi (1999-2000) season as a part of risk management in the field of agriculture having objective to provide financial support to farmers when there is failure of crop because of natural calamity, pest and disease. The Agriculture Insurance Company of India (AIC) Ltd. has been the Implementing Agency in this scheme. This scheme has been available to all farmers – Loanee and Non-Loanee - irrespective of holding size. It envisage the coverage of all food crops i.e. cereals, pulses and millets, oilseed and the annual commercial/ horticulture crop, for which data about past yield is available for sufficient number of years.

Premium rate for bajra and oil seeds is 3.5% of sum insured, 2.5% for the other Kharif crop; 2% for rabi crops and 1.5% for wheat. In case of horticulture/ commercial crops, the actuarial rates will be charged. Currently, small as well as marginal farmers are entitled for subsidy of 10% of premium being charged from them that will be shared equally by State and Central Governments. This scheme is operated based on 'Area Approach' i.e. areas have been defined for each notify crops.

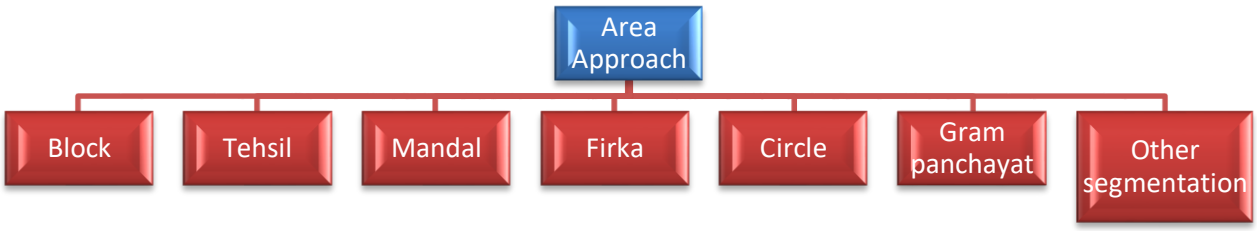


Figure 3.23 Area Approach

Presently this scheme is being implemented by 24 State and 2 Union Territory. During last many years crop season (i.e. from Rabi 1999-2000 to Rabi 2011- 12), 1930 lacs farmer have been covered over area of around 2919 lacs hectares of which the sum insured amounts to Rs 256065 crores under this scheme. Claims of around Rs. 25001 crores have been paid or payable against premium of around Rs. 7565 crores which benefits about 518 lacs farmers (up to Rabi 2011-12 seasons).

Table 3.4 National Agricultural Insurance Scheme (NAIS) Source : http://agricoop.nic.in

Year	B.E.	R.E.	Actual Expenditure
2007-08	500.00	718.88	718.88
2008-09	644.00	694.00	694.00
2009-10	644.00	1419.00	1419.00
2010-11	950.00	2662.00	2660.00
2011-12	550.00	330.82	360.00
TOTAL XI Plan	3288.00	6324.70	5851.88
2012-13	400.00	700.00	700.00
2013-14	1200.00		

(2) Modified National Agricultural Insurance Scheme (MNAIS)

For improving further and making scheme easier and more farmer friendly, Joint Group which was constituted by Government of India for studying existing schemes of crop insurance. Based on recommendations given by Joint Group and view or comments of various stakeholder; proposal on MNAIS was prepared that have been approved for the implementation on a pilot basis in 50 districts during remaining period of 11th Plan from Rabi 2010-11. There were certain salient improvements which were made in MNAIS are mentioned below :

- Actuarial premium along with subsidy in premium ranges up to 75% for all the farmers;
- Only the upfront premium subsidies are shared by State and Central government on 50:50 basis and all claim liability is on insurance Company.
- Unit area of insurance got reduced to the village and village's panchayat level for the major crops.
- Indemnity for the prevented sowing or planting risk and for post harvest loss due to cyclone in coastal areas;
- On account's payment up to 25% of the likely claims as an immediate relief to the farmers;
- Uniform seasonality discipline for the Loanee and Non-Loanee farmers;
- More proficient base for calculating threshold yield; and the minimum indemnity level increased from 60% to 70%;
- This scheme has been introduced compulsorily for the Loanee farmers and was voluntary for the Non-Loanee farmers;
- Participation of the private sector insurer for creating a competitive environment for insurance of crop
- Setting up catastrophic fund at national level as contributed by central and state government on a 50:50 basis for providing protection to insurance company in event of premium for claiming ratio exceeds 1:5 at the national level and a failure for procuring appropriate reinsurance cover at rates that are competitive;
- NAIS was withdrawn from such area or areas and crop(s) where MNAIS has been implemented.
- This Scheme was implemented in 50 districts during Rabi 2011- 12 season and 44 districts during Kharif 2012. It was implemented in 35 districts during Rabi 2012-13. Since the inception of Pilot, 33.26 lacs farmer were covered over area of 36.27 lacs hectare insuring sum amounting to Rs.8063.73 crores. The claim which amounted to around Rs. 234.27 crores was payable against premium of around 824.38 crores which benefitted about 2.29 lacs farmer (up to Kharif 2012 season).

Table 3.5 Pilot Modified National Agricultural Insurance Scheme (MNAIS)

Year	B.E.	R.E.	Actual Expenditure
2010-11	-	50.00	25.00
2011-12	150.00	63.00	62.15
2012-13	80.00	195.00	194.18
2013-14	250.00		

Source : http://agricoop.nic.in

(3) Pilot Weather Based Crop Insurance Scheme (WBCIS)

With objective for bringing more farmers under Crop Insurance, a Pilot WBCIS was launched in 20 States (as was announced in Union Budget, 2007). This scheme aims towards providing insurance

protection to farmers against the adverse weather incidence, like excess and deficit rainfall, low or high temperature, humidity and many others which could impact crop production adversely. It has advantage for settling claims during shortest possible time period. This scheme is based on the actuarial rates of premium but for making this scheme attractive, actual premium charged from the farmers are restricted at par with the NAIS. Addition to the Agriculture Insurance Company of India Ltd. (AIC) some private General Insurance Companies also were allowed to implement this scheme.

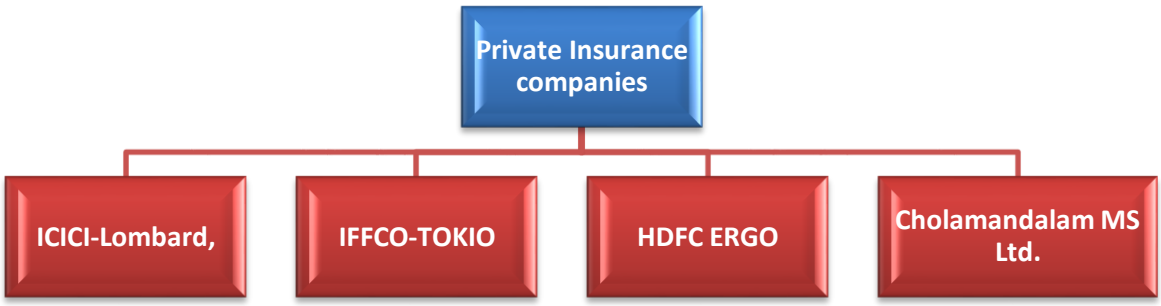


Figure 3.24 Example of Private Insurance companies allowed for implementing WBCIS

IFFCO TOKIO (Joint Venture of Indian Farmers Fertilizer Co-operative (IFFCO) andTokioMarine Group) HDFC ERGO (Joint venture of HDFC Ltd. and ERGO International AG)

From Kharif 2013 season, some more private insurance companies were allowed for implementation. Since the inception of Pilot in the Kharif 2007, 323.74 lacs farmer have been covered over the area of 450.31 lacs hectares insuring sum that amounted to Rs. 55813.40 crores. These claims amounted to around Rs. 2764.35 crores has become payable against premium of around 5113.25 crores which benefited around 181.26 lacs farmers (upto the Kharif 2012 season).

Table 3.6 Pilot Weather Based Crop Insurance Scheme (WBCIS)

Year	B.E.	R.E.	Actual Expenditure
2007-08	Nil	69.19	69.19
2008-09	50.00	100.00	100.00
2009-10	50.00	120.00	120.00
2010-11	100.00	450.00	450.00
2011-12	450.00	631.18	631.18
TOTAL XI Plan	650.00	1300.37	1370.37
2012-13	655.00	655.00	655.00
2013-14	700.00		

Source : http://agricoop.nic.in

(4) Pilot Coconut Palm Insurance Scheme (CPIS)

The CPIS was approved for being implemented on pilot basis from the year 2009-10 in certain selected areas of Goa, Andhra Pradesh, Kerala, Karnataka, Orissa, Tamil Nadu and Maharashtra. The Sum Insured (SI) is actually based on average input cost of plantation and age of specific plant that varies from Rs. 600 (age group - 4-15 years) to 1150 per palm (age group - 16-60 years). Premium rates per palm range from Rs. 4.25 (age group - 4 to 15 years) to Rs. 5.75 (age group - 16 to 60

years). 50% of premium is contributed by the Government of India and 25% by concerned State Govt. and remaining 25% by farmer. The Insurance Company i.e. Agriculture Insurance Company (AIC) of India Ltd. has been the implementing agency of scheme and also responsible to make payment of claims within specified period. CPIS has been administered by Coconut Development Board (CDB).

Since inception of the Pilot in 2009-10, 27.66 lacs farmer were covered over the area of 0.25 lakh hectare insuring sum amounting to Rs.269.53 crores. Claims amounting to about Rs. 1.53 crores were payable against premium of around 1.46 crores that has benefitted around 3385 growers.

Table 3.7 Pilot Coconut Palm Insurance Scheme (CPIS)

Year	B.E.	R.E.	Actual Expenditure
2009-10	Nil	1.00	0.10
2010-11	1.00	1.00	0.85
2011-12	1.00	1.00	1.00
TOTAL XI Plan	2.00	2.10	1.95
2012-13	1.00	0.50	0.50
2013-14	1.00		

Source : http://agricoop.nic.in

(5) Pradhan Mantri Fasal Bima Yojana (PMFBY)

This scheme made several improvements as compared to the predecessor's schemes like NAIS and MNAIS. One such highlight of PMFBY is absence of any upper limit in government subsidy, even when balance premium is 90 percent. This scheme was implemented in the month of February 2016 and central government allocated a budget of Rs. 5,500 crores for the year 2016–17. It was increased by 154 percent, as was announced in Interim Budget, 2019. This massive increase in outlay for scheme show that this is important for government for insuring that all the farmers and guaranteed financial support and credit flow to them in event of loss in crop-yield.

Features of the PMFBY

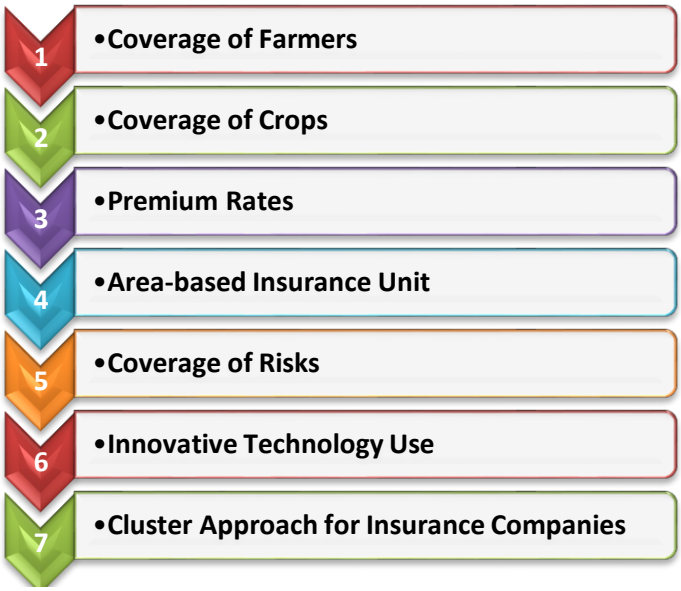


Figure 3.25 Features of PMFBY

1. **Coverage of Farmers:** This scheme covers the loanee farmers, non-loanee farmers, share choppers and tenant farmers. Loanee farmers are those who take loan and the non-loanee farmers are those who are farmers on voluntary basis.

2. **Coverage of Crops:** Each state has certain notified crops which are major crops for Rabi and the Kharif seasons. Premium rates are different across seasons.

3. **Premium Rates:** PMFBY fixed uniform premium of 2% of sum insured, for being paid by the farmers for all the Kharif crops, 1.5 % of sum insured for all the Rabi crops, and 5% of sum insured for the annual commercial as well as horticultural crop or the actuarial rate, of whichever is lesser, without any limit on government premium subsidy.

4. **Area-based Insurance Unit:** This scheme operates on area approach. All the farmers in particular area must pay same premium and have same claim payment. Area approach reduces risk of the moral hazard and the adverse selection.

5. **Coverage of Risks:** It aims for preventing sowing and/ or planting risks, standing crop loss, post-harvest loss and localized calamity. Sum insured equals the cultivation cost per hectare, which is multiplied by area of notified crop which is proposed by farmer for the insurance.

6. **Innovative Technology Use:** This scheme recommends use of the technology in the field of agriculture. An example of this is use of drones for reducing usage of crop cutting experiments (CCEs) that is traditionally used for estimating crop loss; and also using mobile phone for reducing delays in the claim settlements through upload of crop-cutting data on apps or online.

7. **Cluster Approach for Insurance Companies:** This scheme encourages the L1 bidding among insurance companies before allocation is done to district for ensuring a fair competition. Functional insurance office would be established at local levels for redressal of grievance, in addition to crop insurance portals for online administration process.

PMFBY was implemented for ensuring availability of real-time data, accurate assessment of yield loss and transparency. State-run Agriculture Insurance Company of India (AIC) that was allocated largest number of districts under this scheme handle insurance in many other district and states. There are some other Insurance companies like New India Assurance, Oriental Insurance and United India Insurance and there were some private general insurers like ICICI Lombard, HDFC ERGO, IFFCO-TOKIO and Reliance General Insurance.

Table 3.8 Comparison of crop insurance schemes in India

Sr. no.	Feature	NAIS (1999)	MNAIS (2010)	PMFBY (2016)
1	Premium rate	Low	High (9–15%)	Low (Govt. to contribute five times that of farmer)
2	One season-one premium	Yes	No	Yes
3	Insurance amount covered	Full	Capped	Full
4	On account payment	No	Yes	Yes
5	Localized risk coverage	No	Hailstorm, landslide	Hailstorm, landslide, inundation
6	Post-harvest losses coverage	No	Coastal areas	All India
7	Prevented sowing coverage	No	Yes	Yes
8	Use of technology	No	Intended	Mandatory
9	Awareness	No	No	Yes (target to double coverage to 50%)
10	Insurance companies	Only government	Govt. and private companies	Govt. and private companies

Source: PIB, Ministry of Agriculture and Farmers Welfare, January 2016.

Models that were prior to the PMFBY were actually claim-based schemes of insurance. NAIS was backed by insurance company which was government-funded called "Agriculture Insurance Company," that collected the premiums from farmer without subsidy and then use that money for paying claims at season end. PMFBY allow subsidy in system which is premium-based and is implemented through multiagency framework of a select private insurance company, ministries of agriculture, Government of India and State government in coordination with the commercial banks, RRBs, cooperatives and other regulatory bodies like Panchayati Raj. Thus, premium is subsidized by centre and the state government for reducing farmer's burden.

PMFBY was mainly created for targeting 50 % of farmers, with a promise for compensating crop loss. Previous schemes have seen low enrolment rate due to lack in trust. However, under these schemes, dissemination of the agricultural insurance was very low and also stagnant as in terms of area insured and farmers which were covered in previous scheme due to higher premium, lack in land records, lower awareness and absence of the coverage for the localized damage in crops. Since implementation of this scheme, PMFBY have achieved 41 % coverage among farmers and this could be considered impressive in particular when comparison is made to 28 % coverage among farmers achieved under previous three schemes combined together i.e. NAIS, MNAIS and WBCIS. During the first year, 58 million farmers have been enrolled in PMFBY, quantum jump from 30 million insured in previous year under MNAIS. However, there was a fall in number of the total farmer applicants from 58 million in the year 2016–17 to 47 million in the year 2017–18.

Table 3.9 Percentage change in indicators for Kharif season under PMFBY

	Kharif 2016	**Kharif 2017**	**Percentage change**
Farmers insured	40,258,737	34,776,055	-0.14
Claims paid (crores)	10,496.3	17,209.9	0.64
Gross premium (crores)	16,317.8	19,767.6	0.21
Area insured (ha)	37,682,608	34,053,449	-0.10
Farmer's benefitted	10,725,511	13,793,975	0.29

Source: Compilation using data from the PMFBY Website.

In the table above, percentage change in certain indicators for ascertaining and comparing impact that PMFBY has on Kharif, 2016 and Kharif, 2017. Because of lack in data on Rabi (2017–18) on PMFBY website, table does not show percent change during the season. However, there has been increase significantly in claims paid and the farmers who benefitted i.e. 64 % and 29 %, respectively. While positive effect is significant, it is also important to discuss negative changes. As shown in table above, number of farmers insured has declined by 14 % from Kharif, 2016 to Kharif, 2017, and total area which was insured decreased by 1% over a span of one year. PMFBY has failed in achieving the main target, i.e. increasing area and number of farmers who were insured.

Pension

A new scheme for providing a social security pension to the farmers was launched by government. The beneficiary could opt for becoming a member of Scheme through subscription to Pension Fund, which is managed by Life Insurance Corporation (LIC). The Indian government evolved a scheme for providing social security pension amounting to Rs. 3000 monthly to farmers whose age is above 60 years.

India - Crop insurance fails in 10 districts, Govt. taps options for farm relief

As per report of Jan. 2020, after the state agriculture department earlier divided 32 rabi districts in state into six clusters and also invited tender for implementation of Centre's flagship scheme of farm insurance, bids were not received for 10 districts. With the farmers across 10 districts were not able to avail the crop insurance under PMFBY, state government had set up ministerial committee for looking at an alternate way for compensating farmers to face crop loss because of climate change. Later the ministers from Indian government criticized the way insurance companies have been opting out of this scheme. Ministers pointed out about the increase in farmer's participation in scheme, increase in premium rate, despite of these issues, compensation by companies was delayed. After understanding the issues, it was decided that ministerial committee needs to be appointed for looking at alternative options. The committee was asked to suggest some other insurance model which could insure he farmers in an effective manner. Meanwhile, CM ordered an investigation for looking into the alleged financial irregularities by the Pune-based Chhatrapati Shahu Maharaj Research Training and Human Development Institute (SARTHI), a non-profit government company, which was launched by previous Devendra Fadnavis regime for policy, research, training and advocacy for socio-economic and the education development of Maratha community. After the Chief Secretary Mr. Ajoy Mehta apprised Cabinet about alleged irregularities and the ministers asked the committee to conduct probe.

Source – https://in.news.yahoo.com

This pension has been approved for all the small and marginal farmers (SMF). This scheme was subjected to certain exclusion clause with view of providing social security net since they have minimal or even no savings for their old age and for supporting them in event of consequent loss in livelihood. The entry age is 18 to 40 years and this is voluntary and a contributory pension scheme. The beneficiary could opt for becoming member of Scheme by subscribing to Pension Fund, which is managed by the LIC. This scheme provides for services utilization of Common Service Centres (CSCs) e-Governance Services India Ltd. or even alternatively State Nodal Officers of State/Union Territories (UT) Governments under the Pradhan Mantri-Kisan Scheme for farmer's enrolment. The farmers who have cultivable land of 2 hectares or lesser, could enroll for scheme at CSCs in their neighborhood and even more than 400 farmers have registered already. The farmers could contribute monthly between Rs. 55 to Rs. 200 and government would pay matching amount. The fund contributed will be managed by LIC. In case of farmer's death before retirement date, spouse could contribute towards the scheme by paying remaining contributions till remaining age of deceased farmer. In case, the spouse is not interested in contributing, then total contribution which is made by farmer along with interest is paid to spouse or to nominee in case there is no spouse. If farmer dies after retirement date, spouse will receive 1,500, or 50 % of, as family pension. After death of farmer and spouse, accumulated corpus would be credited to pension fund. There is option for the beneficiaries for opting out of scheme after minimum period of five years and LIC would return entire contribution with interest equivalent to the prevailing rate of saving bank.

Remittances

The remittances by the Indian's who are working overseas have increased to a great level. Indians who have been working across globe have sent home USD 62.7 billion in 2016, this has made India as the top country who has been receiving remittance even surpassed China, according to UN report. As per 'One Family at a Time' study by United Nations International Fund for Agricultural Development (IFAD), indicated that around 200 million migrant globally have sent more than USD 445 million in the year 2016 as a remittance to their family, helping them in lifting out from poverty. Remittance flow has grown over a decade from 2007 to 2016, at an average rate of 4.2 % annually, from USD 296 billion in the year 2007 to USD 445 billion in the year 2016. This study was the first-ever study which was focused on 10-year trend in remittance and migration flow over period from 2007 to 2016. According to this report, 80 per cent remittances have been received by 23 countries which were led by India, China, Philippines, Mexico and Pakistan. Top 10 sending countries which

accounted for almost a half of the annual flows were led by US, Saudi Arabia and Russia. In this study India topped as the receiving country for remittance in the year 2016 at USD 62.7 billion, which was followed by China (at USD 61 billion), Philippines (at USD 30 billion) and Pakistan (at USD 20 billion). In the year 2007, India was second spot, after China, with USD 37.2 billion remittances in comparison to China with USD 38.4 billion. As per this study, Asia is highest originating region having 77 million migrants; with 48 million remaining within region. Over past decade (2007-2016), remittance in Asia and pacific have increased by 87 per cent, which reaches USD 244 billion, while the migration grew by 33 per cent in comparison.

To Do Activity

Explain any one of the following Crop Insurance scheme in detail :

- National Agricultural Insurance Scheme (NAIS)
- Pilot Modified National Agricultural Insurance Scheme (MNAIS)
- Pilot Weather Based Crop Insurance Scheme (WBCIS)
- Pilot Coconut Palm Insurance Scheme (CPIS)
- Pradhan Mantri FasalBima Yojana (PMFBY)

3.5 Protection

Importance of pesticide in agriculture is massive as they have been considered as a major tool for protecting crops and increasing the yield. In the current scenario, sector of crop protection product is fast developing industry and it is open for innovation. Pesticide market propels by various factors like the need to minimize crop damage and growing population. There is an opportunity lying in development and executing various innovative farming solutions that addresses needs of Indian farmer having low land holding size, knowhow available and the resources which are available with him. India ensures that is food security for the population while facing reduction in the cultivable land resources. With the increasing population, the demand for food grain is also increasing at faster pace as we compared to production. This indicates that there is a necessity to use pesticides or other chemicals for crop protection judiciously within confines of country's regulatory framework.

The consumption of Asia-Pacific region and demand for the pesticides is prepared for witnessing fast growth having global basis, with China and India taking a clear lead in propelling the crop protection product segment. Population statistic in region has been responsible to maintain adequacy in the agricultural practices, ensuing in the greater pesticides utilization in the areas which were ignored in past. India's pesticide market is slated towards posting volume CAGR of about 8.9% and 9.3% between 2014 and 2020 respectively.

Parliamentary Standing Committee report – use of Pesticides

There was a query from Parliamentary Standing Committee (2012-2013) regarding the extent to which the agricultural production have increased with usage of pesticides, Department of Chemicals and Petrochemicals replied in a written form that :

In India, every year, diseases and pests eat away on average 20-30% of food, which is worth Rs. 45000 crores, that is produced by farmers. In the entire world, damage to rice by fungi, maize and wheat alone cost $60 billion per year and fungal disease destroys 125 million tonnes rice, maize, wheat, soyabeans and potatoes every year. Stemming fungal disease alone in world's five most significant crop can feed more than 600 million people. It is essential to control pests and the diseases through a Primary Plant Protection to provide sufficient food security to growing population of country. "Green Revolution" during 1960s and the 1970s, have considerably increased crop production and made our country self-sufficient in food. It is also mentioned that apart from the high yielding seeds, irrigation, chemical fertilizers; pesticide play very essential role to enable Green Revolution. Availability of effective and safe pesticide and should be judiciously used by farming community is serious to sustained increase in the agricultural productivity and production. Pesticides are useful in the health programmes to control vectors, responsible for disease like malaria.

Source: Agriculture Today: The National Agriculture Magazine, July 2012

Importance of Crop Protection Products in Indian Agriculture

The chemical products for crop protection are commonly referred as pesticides or the agrochemical products. They play vital role in pest controlling and disease that could infect, damage or consume crops and thereby significantly result in reduction of quantity and food quality, while benefits of the agricultural innovation goes further to the farmers and the consumers.

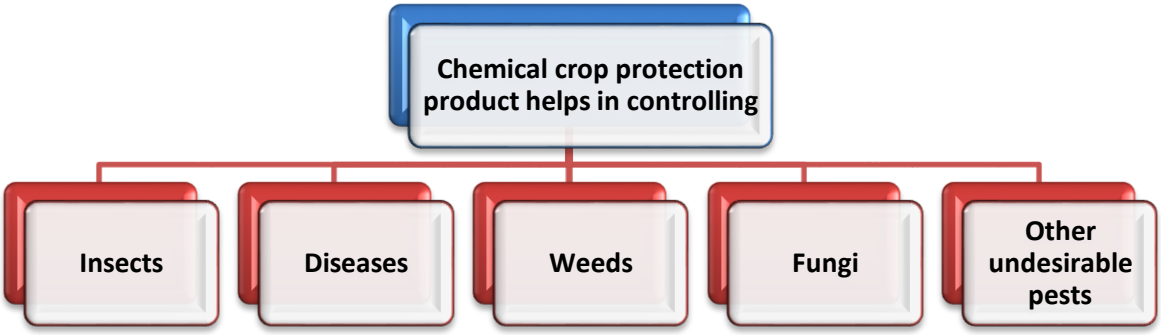


Figure 3.26 Chemical crop protection product helps in controlling

Chemical products for crop protection or the "pesticides" helps in controlling insects, weeds, fungi, diseases and various other undesirable pests. It is also estimated that the annual crop loss could be doubled without use of products for crop protection. Based on pesticide type, pesticides market is classified into insecticides, fungicides, herbicides and others. Based on crop type, pesticides market can be categorized into rice, cereals, fruits, rice, corn, nuts, soyabean, cotton, vegetables, and others. The pesticides market would witness a robust growth in vegetables, nuts and fruits. Synthetic pesticides are being used extensively used in country to alleviate estimated 45% gross crop loss due to infestation of diseases and pests.

Government Regulations and Registrations

The pesticide sector is deregulated. Our country is self- sufficient in producing technical pesticide and their formulation. India has also been exporting pesticides. The pesticide industry is governed by provisions of Insecticide Act, 1968 that is administered through Department of Agriculture and Cooperation, Ministry of Agriculture. Central Insecticides Board and Registration Committee are agencies under Department for regulating manufacture, export, distribution, import, usage and ban of pesticides. Insecticide Act is imposed by State Governments. Department of Chemical and Petrochemical play facilitator's role for growth of Industry.

For preventing risk towards human health, environment and animals, manufacture, sale, import, distribution, transportation, and usage of pesticides is governed under provisions of Insecticide Act, 1968. This act is administered through the Ministry of Agriculture, Department of Agriculture and Cooperation (DAC) and not by the Department of Chemicals and Petrochemicals. There are some other vital issues related to pesticides industry like prevention from usage of spurious pesticide, quality standard, testing, reviewing pesticide use, creating awareness about the judicious usage of pesticides among farmer community have also been looked after by DAC.

Challenges Faced by the Industry

There are certain challenges which are being faced by pesticide industry like time bound grants of license, grant for new pesticide molecule registration, accreditation of the private laboratory for functioning as the Central Pesticide Laboratories (CPL), elaborating procedure to withdraw pesticide samples and also making punishment more stringent for the misbranded, spurious and sub-standard pesticides are major concerns in this segment. All such issues are being dealt with by Department of Agriculture & Cooperation.

Growth Drivers for Pesticides

The major factors that have been driving growth in the pesticide industry in India include greater demand for food grain, increase in awareness regarding crop loss because of not making use of pesticides. Despite this, Indian pesticide industry has to confront many challenges.

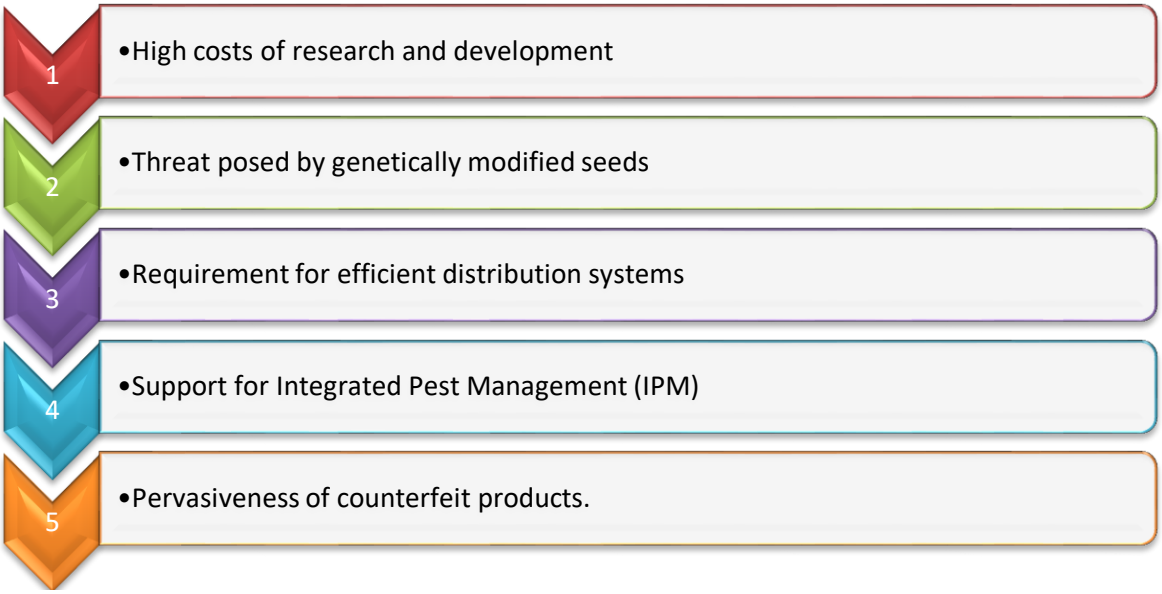


Figure 3.27 Challenges for pesticide industry

There are primary opportunities which are available in the pesticide market like there is a scope of increasing utilization, huge potential of exports and patent's expiry and expansion of portfolio of products.

Crop Life India

It is an association which is a part of technology driven industry of crop science, it is committed towards responsible crop production and crop care for sustainable and safe development of the Indian agriculture. This organization promotes benefits and the responsible use of various crop protection products and regulatory system which is sound science based for protecting people and environment, timely crop's access, use of new pesticide for supporting sustainable agricultural system in our country. It is unit of Crop Life International, which is a global federation of plant size industry in over 90 countries.

It shares a common goal of sustainable agriculture while augmenting farmers' welfare, Crop Life India partnered with Department of Agriculture and Co-cooperation, Government of India, for launching the "Grow Safe Food campaign", which is in line with country's efforts for improving agricultural production, quality food crop for billion-plus population. This nation-wide initiative aims at promotion of awareness and capability-building effort like hands-on training for the farmers on responsible usage of chemicals, IPM (Integrated Pest Management) and GAP (Good Agricultural Practices) and also to improve country's agricultural challenges on permissible use of agricultural exports and other technical barriers for trading.

The collaboratory effort of this campaign aims towards educating farmers, agriculture extension of workforce, Agri-input retailer, district culture officials and NGOs, on responsible usage of chemicals, warehouse management for storing pesticides securely, awareness about counterfeit product, and use of Personal Protective Equipment (PPE) in the fields.As an extension of this Stewardship effort, Crop Life India had piloted its projects in three states which covered districts which targeted about

6000 farm families. These districts were of East Godavari in Andhra Pradesh, East Champaran in Bihar and Bharuch in Gujarat. The famers were made aware through classroom as well as practical field training session with curriculum having 16 elaborative modules that covered IPM, the role of some beneficial insects like pollinators, responsible and judicious usage of chemicals, pesticide storage to be secured, the impacts of illegal and counterfeit products, usage of PPE (Personal Protective Equipment) like gloves and masks, correct spraying technique, maintaining nozzles and sprayers, and also used containers to be triple rinsed.

Why do Indian Farmers Need Crop Protection Products?

Products for Crop protection are designed for protecting crops from the insects, weeds and diseases. Crops are protected through control of pests which could infect, damage or consume crops. The uncontrolled pests significantly reduce quality and quantity of food production. There is an estimate that annual crop loss could double if there is no use of products for crop protection. As per study released by the industry body Assocham as well as Yes Bank in the month of February 2014, pest and disease infestation resulted in loss of crop worth Rs 50,000 crores every year in India. The pesticide market will be witnessing a robust growth in fruits, nuts and vegetables segment. Synthetic pesticides are being used extensively in our country for alleviation of estimated 45% gross loss of crops because of infestation of diseases and pests.

Why do Indian Farmers Need Pesticides?

Food crops need to compete with 30,000 species of weed, 3,000 species of nematode and 10,000 species of plant-eating insect. Despite there is use of modern products of crop protection, 20-40% of food production is lost every year due to pests. This loss could occur while crops are growing in field, while it is being stored and at home. An adequate and reliable food supply could not be guaranteed without usage of crop protection products. Agrochemicals that form major division of chemical industry in India, refers to broad range of pesticides, which includes insecticides, fungicides and herbicides.

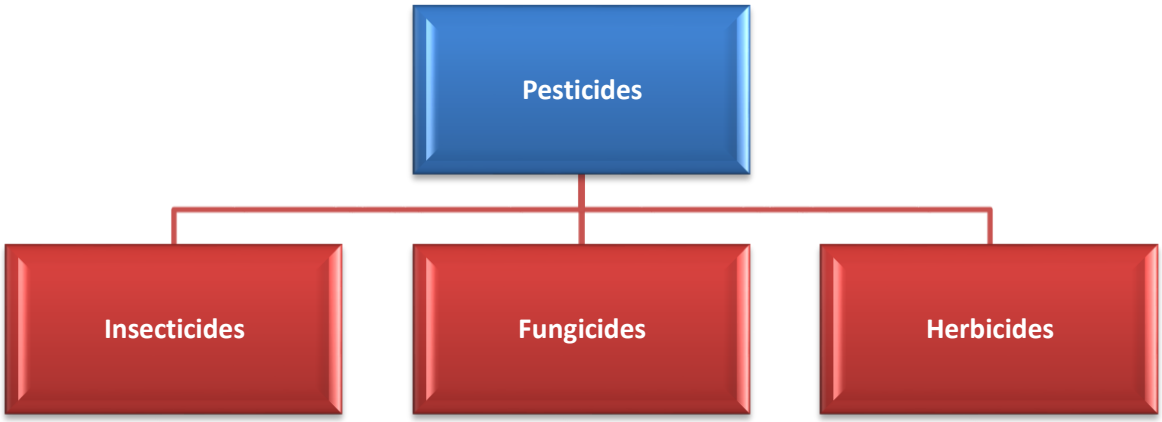


Figure 3.28 Broad range of pesticides

India is one of largest producer of agrochemicals in world. Domestic market is driven primarily by insecticides, which is followed by herbicides and then fungicides. Lower manufacturing cost and availability of the process technologies attracts multinational companies for forming strategic alliance with the agrochemical company in India, which results in technology transfer and knowledge sharing.

1) Herbicides

Save crops through control of weeds and the unwanted vegetation like nettles and thistles.

2) Fungicides
Protect plant by combating certain harmful diseases in crops like potato blight and reduces fungal toxins.

3) Insecticides
Safeguard crops through control of insect pests like aphids and improving human health.

Certain uses of the Highly Hazardous Pesticides (HHPs) could be desirable when there is benefit to the society through pests control pests which spread diseases or threaten food supply. There is a tremendous opportunity for Indian Pesticide Industry for manufacturing and introducing the off patent products. There exists ambiguity in the registration process and this has kept progress on hold in the industry. In our country, there is huge talent pool having qualified Indian scientist and technician, there is a lot of scope in the industry to increase investments and also there is a capability of introducing new molecules. There are ample opportunities available for growth in our country.

New Product development and screening of ideas in crop protection industry
The major contention in the Agrochemical and the Pharmaceutical industry is not only fact that there exist around 3 years of lead time between products which is being applied for patent and the time when it is actually into market. Lead time actually conceptualizes product and finally it is sold commercially in the market. For last few years of industry average, lead time between synthesizing of the product for first time to market was about 9.1 years. For formulation of a successful and unique product of crop production, screening of around 140,000 molecules is required and whole process costs about $ 210 million from the inception to consummation. So main concern for designing a product is very important and while designing it is necessary that market is analyzed for the scenario that will be 10 years ahead from now. The Research and Development of agrochemical companies will need to assume the prevailing problems, market conditions and regulations that could be 10-12 years ahead from now and then a product should be designed.

Benefits of Pesticides

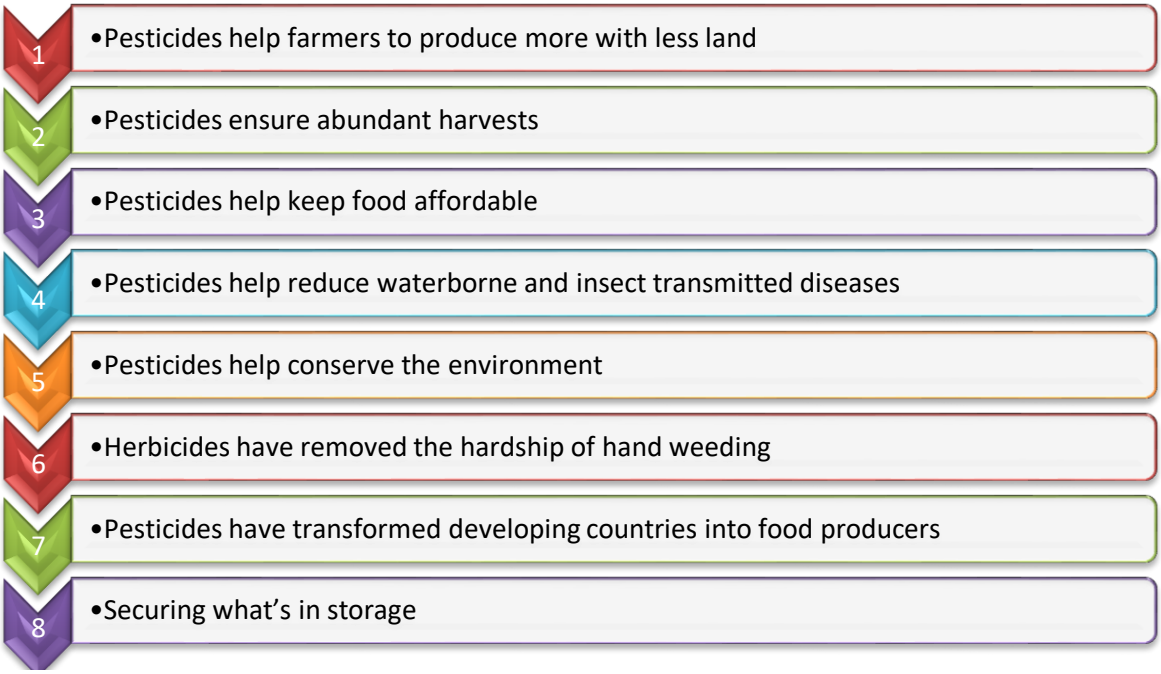


Figure 3.29 Benefits of Pesticides

1) Pesticides help farmers to produce more with less land
With introduction of pesticide, the farmers are now able to produce more crops on lesser land, and even the crop productivity has increased between 20 - 50 %. Additionally, pesticides also allow the farmers for maximizing benefits of other valuable agricultural tool like higher quality seed, fertilizer and water resource. Pesticides are indispensable tool for sustainable production of higher quality fiber and food.

2) Pesticides ensure abundant harvests
Many scientific studies have shown that eating vegetables and fruits regularly can reduce risk of cancer, heart disease, high blood pressure, stroke, diabetes and many other chronic diseases.

3) Pesticides help keep food affordable
With the use of pesticides, farmers are able to grow more food on same land. Studies show that the organic vegetable growers spend significantly more on hand weeding as compared to the growers who have been using herbicides. This is the main reason why organic food is expensive as compared to the food which is grown conventionally.

4) Pesticides help reduce waterborne and insect transmitted diseases
Pesticides help in reduction of waterborne and other insect transmitted disease like Lyme disease, West Nile virus and malaria. Pesticides contribute towards improved human health through prevention from diseases that outbreak through rodent control and also insect populations.

5) Pesticides help conserve the environment
Pesticides help in environment conservation as they enable farmer for producing more crops per unit area with lesser tillage, thus reduces deforestation, conserves natural resource and also curbs soil erosion. Pesticides are critical for controlling noxious weeds and invasive species.

6) Herbicides have removed the hardship of hand weeding
Herbicides remove hardship of hand weeding which means that the farmer's families across world have choice for pursuing education and other opportunities far away from the farming, thus they can improve their quality of living standards and their life.

7) Pesticides have transformed developing countries into food producers
Products for crop protection have been helping the farmers in developing their world in growing two to three crops in a year, so that these countries could become 'breadbaskets' for rest of world. Food export benefits people in the temperate countries having shorter growing season.

8) Securing what's in storage
Even if crop is in, it could get subjected to attack by pests. Moulds, bugs and rodents could harm various precious grains. Pesticides which are used in storing products can prolong its viable life, prevent huge loss which could be post-harvest from pest and disease and protect grain so that it is safer to eat.

Methods of crop protection
Crop protection is practice and science of managing the weeds, plant diseases and other pests (invertebrate and vertebrate) which damage the forestry and agricultural crop. Agricultural crop includes the field crops like wheat, rice, maize etc, vegetable crops like cabbages, potatoes, etc) and also fruits. Crops in the field are also exposed to many other factors. Crop plant might be damaged by birds, insects, bacteria, rodents, etc.

There are different methods of Crop protection:

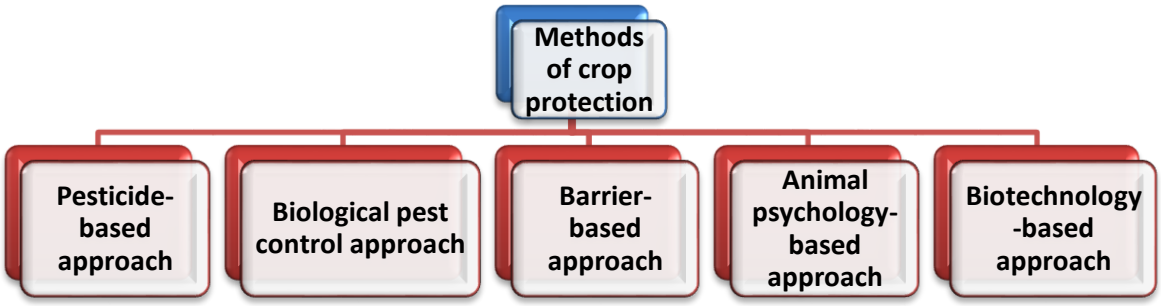


Figure 3.30 Methods of Crop Protection

(1) Pesticide-Based Approach

This approach is based on herbicides, fungicides and insecticides. Pesticide is a substance which is meant for controlling pests which includes weeds. Pesticide includes many products.

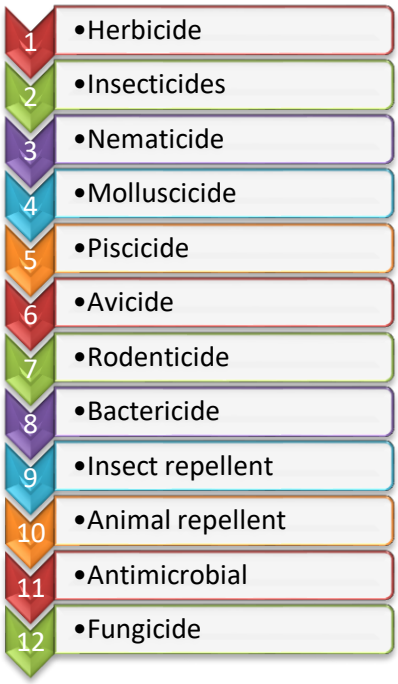


Figure 3.31 Various pesticides

Most common pesticide is herbicide that accounts for approx. 80% of all the pesticides in use. Most pesticides intended towards serving as a plant protection product which is also known as crop protection product that protects plants from fungi, weeds or insects. In general, pesticide is a kind of chemical or a biological agent like bacterium, fungus or virus deter, incapacitate, kills or otherwise even discourages pests. Target pests could include plant pathogens, insects, mollusks weeds, birds, mammalsnematodes, fish and even microbes which destroys property, causes nuisance or spreads disease, or even are disease vector. There are some drawbacks of using pesticides like potential toxicity to the humans and even other species.

Herbicides are also known as weed killers are substances which are used for controlling the unwanted plants. There are selective herbicides that controls specific species of weed, while they leaving desired crop unharmed, while the non-selective herbicides could also be used for clearing

waste ground, construction and industrial sites, railway and railway's embankments since they kill all the plant material with which these come in contact. Historically, even products like common salt and some other metal salts were being used as a herbicide, however gradually they are not being used and in few countries a number of them are banned because of persistence in the soil, toxicity and also groundwater contamination concern.

Insecticides are certain substances which are used for killing insects. They also include larvicides and ovicides are used against insect larvae and eggs respectively. Insecticides are being used in medicine, agriculture, by consumers and industry. Insecticides have helped in increasing productivity in agriculture. Nearly all the insecticides are having potential to alter ecosystem significantly; many of them are toxic to the humans and animals; some of them become concentrated because they spread along food chain.

Fungicide is a biocidal chemical compound which is used for killing parasitic fungi and their spores. A fungi could cause a serious damage in the agriculture which results in a critical losses of quality, profit and yield. Fungicides are being used in agriculture and for fighting fungal infection in animals. Fungicides could be either contact, systemic or translaminar. Most fungicides could be bought from retail and are sold in liquid form.

(2) Biological Pest Control Approach

Bio-control or Biological pest control is method for controlling pests like mites, insects, plant diseases and weeds with the use of other organisms. It relies upon parasitism, herbivory, predation or other such natural mechanism, but typically it involves active role of human management. It could be important component of the Integrated Pest Management (IPM) programs.

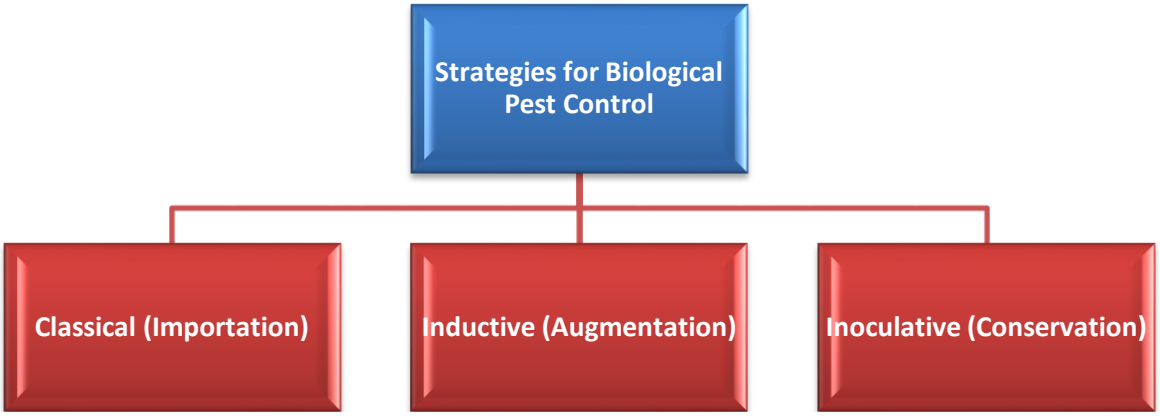


Figure 3.32 Strategies for Biological pest control

There are basically three strategies for biological pest control:

a) Classical (importation) – In this natural enemy of pest is introduced in hope for achieving control

b) Inductive (augmentation) – In this, a large population of the natural enemies are administered to quickly control pest

c) Inoculative (conservation) – In this strategy, measure is taken for maintaining natural enemies through a regular re-establishment.

Biological pest control approach includes cover crops, trap crops and beetle banks. In agriculture, cover crops are plants which are planted for covering soil rather than for purpose of being harvested. Cover crops manage soil fertility, erosion, soil quality, weeds, water, diseases, pests, wildlife and biodiversity in agro ecosystem. Cover crop may be off-season crops which are planted after harvesting of cash crop. These might grow in winter.

Trap crop is plant which attracts agricultural pests which are usually insects, away from the nearby crops. This will form companion planting of which could save the main crop from decimation by the pests without using pesticides. Many trap crops successfully diverted pest off of focal crops in a small scale green house, field and garden experiments, only small portion of such plants have shown reduction in damage in pest at a larger commercial scale. Common explanation as reported for trap cropping failures is attractive trap plant only protects nearby plants if insects don't move back in to main crop.

Beetle bank in horticulture and agriculture is kind of biological pest control. It is strip planted with grass (i.e. bunch grass) or the perennial plant, within garden or crop field, which foster and provide habitat for the beneficial birds, fauna and insects which prey on pest.

(3) Barrier-Based Approach

This approach includes agro textiles and bird netting. Agro textiles are those which are used in agriculture. These are used for fertilization and crop protection. Essential properties which are required are elongation, stiffness, bio-degradation and strength, resistance towards sunlight and towards toxic environment. All such properties are help with harvesting and growth of crops and also other foodstuff. There is a growing interest in using materials which gradually degrade.

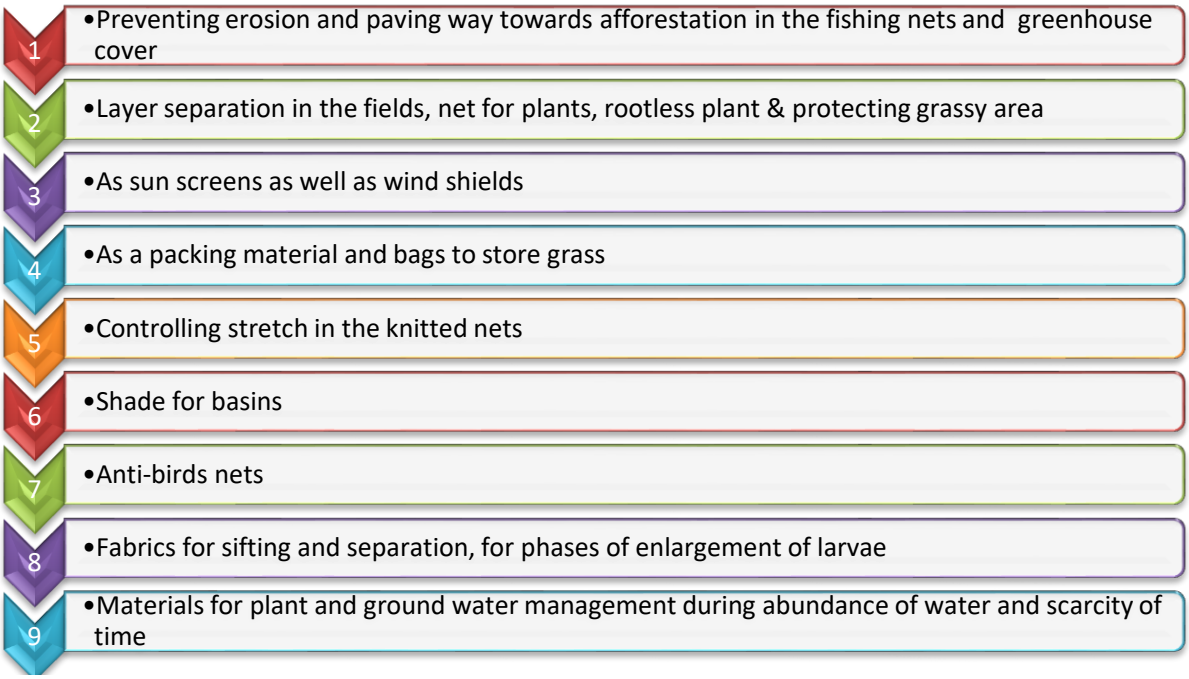


Figure 3.33 Examples of Agro textiles

Bird netting or Anti-bird netting is form of bird's pest control. In this method, a net is used for preventing birds from reaching certain area. Netting for bird protection comes in different forms and shapes. Mostly small mesh is used which has 1-2 cm squares either bi-oriented and extruded polypropylene or woven polyethylene. The color of net is generally black (for protecting against the solar rays) as such it is available in different colors.

(4) Animal Psychology

Animal psychology refers to scientific study of mental processes and behavior of the non-human animals, especially related to adaptive significance, development of behavior and phylogenetic history. Research in the area address various issues, use different methods and explore behavior of different species from the insects to the primates. It is sometimes assumed towards emphasizing on comparison of cross-species, which includes those which are between animals and humans.

However, few researchers felt that direct comparison should not be sole focus related to comparative psychology and intense focus on single organism for understanding the behavior is just desirable. This approach is based on an approach of using bird scarers. There are many devices which are used for scaring birds, which usually farmer's employ for dissuading bird from eating recently planted arable crop.

(5) Biotechnology-Based Approach

Biotechnology is broad area of biology which involves organisms and living systems for developing or making product or any technological application which uses biological system, living organism or derivative thereof for making or modifying products or process for some specific use. Depending on tool and application, it often overlap with related field of the molecular biology, biomedical, bio-engineering, molecular engineering, bio manufacturing etc. This approach includes plant breeding and genetic modification.

Plant breeding is a science of changing plant's traits for producing the desired characteristics. It has been used for improving quality of nutrition in the products for animals and humans. Plant breeding could be accomplished through different techniques which range from simply selection of plants having desirable characteristic for propagation, to method which makes usage of knowledge of chromosomes and genetics, to more complex molecular technique.

Genetic modification is direct manipulation of organism's genes with the use of biotechnology. It is set of technology which is used for changing genetic make-up of cell which includes transferring of the genes within and across the species boundaries for producing novel or improved organisms. New Deoxyribonucleic Acid (DNA) is obtained through either isolation or copy of genetic material of interest using certain recombinant DNA methods or through artificially synthesizing DNA.

Life and Individual Protection

Insurance Regulatory and Development Authority (IRDA) have created special category of insurance policy called the micro-insurance policies for promoting insurance coverage among the economically vulnerable section of society. IRDA Micro-insurance Regulations, 2005 defines and also enables micro-insurance. A micro-insurance policy could be a general or a life insurance policy having sum assured of Rs. 50,000 or less.

General micro-insurance product can be a health insurance contract or any contract which covers belonging like the following :

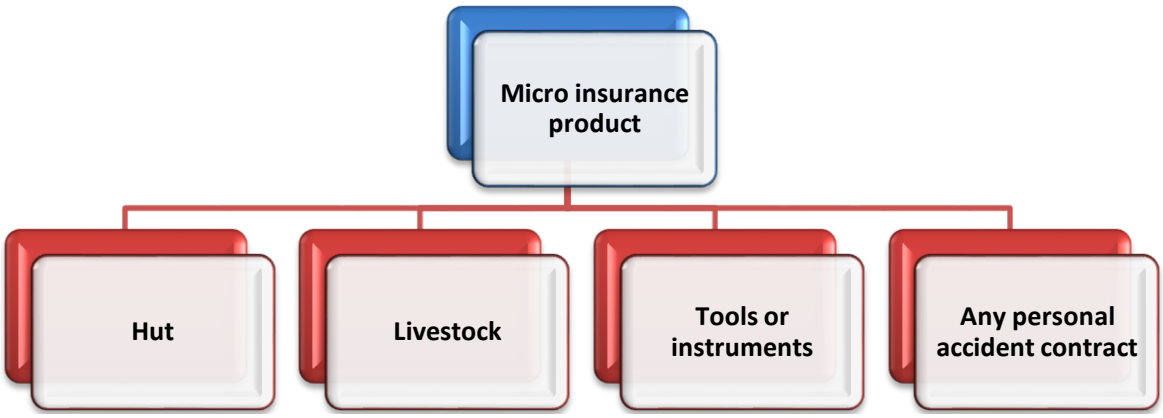


Figure 3.34 Micro Insurance product

These could be on individual or group basis.

A life micro-insurance product is:
• Term insurance contract with or without return of the premium
• Any endowment insurance contract
• A health insurance contract

These products could be with or without any accident benefit rider and could be either on individual or group basis. There is flexibility in regulations for the insurers for offering composite coverage or a package product which includes life and general insurance cover together. Micro-insurance business could be done through various intermediaries.

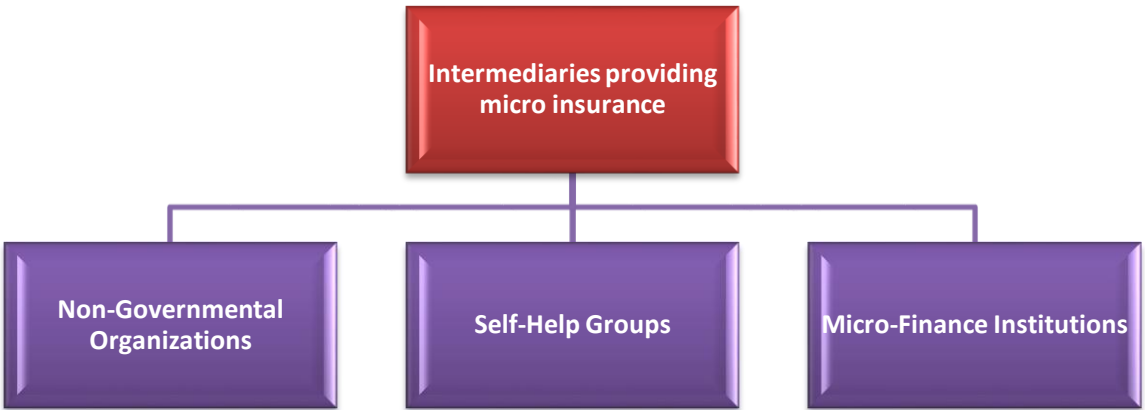


Figure 3.35 Intermediaries providing micro insurance

Mostly entities are registered under the Companies Act and have been permitted by IRDA for being appointed as a Micro Insurance Agent for selling Micro Insurance. Micro-insurance portfolio has made a steady progress. There are many insurers who have commenced their micro Insurance operation and they have launched many other new products also each year. Distribution network have also been strengthened and new business have shown decent growth, though volume is still smaller. Micro Insurance business is generally procured largely under group portfolio. Life Insurance Corporation of India (LIC) contributes the most, in terms of policies which are being sold and also the number of micro-insurance agent has increased.

With notification of IRDA (Micro-insurance) Regulation 2005, by Authority, there has been steady growth in product design catering to needs of poor. The flexibilities provided in Regulations allow insurers for offering a composite coverage or a package product. Bank Mitra mechanism (Business Correspondent) would be enabled for offering micro-insurance product and full coverage of schemes like the Aam Admi Bima Yojana.

To Do Activity

Form a group of 5-6 students and present about any one of the following crop protection method using pictures in the presentation:

- Pesticide-based approach
- Biological pest control approach
- Barrier-based approach
- Animal psychology-based approach
- Biotechnology-based approach

Model Questions

- Discuss the concept of Short Term Agri-credit.
- Explain the policy initiatives taken by Government of India for increasing credit flow.
- Explain the need and eligibility of Kisan Credit Card.
- What do you understand by Short Term, Medium Term and Long Term Refinance?
- What do you understand by Credit monitoring? Explain steps involved in credit monitoring.
- Explain the prudential norms for Restructuring and asset classification.
- Explain different schemes of Crop Insurance in India.
- What do you understand by Pension and remittance?
- Discuss the importance and methods of crop protection in Indian Agriculture.
- What is a pesticide? Explain its benefits.

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Chapter 4 – Financial Products for Rural India

Introduction

Financial products have been designed to suit the needs of different people. Every citizen of India has the right to be a part of the financial system. The people in the urban areas are more aware about the products of banking and financial services sector. People in rural areas are hesitant to be a part of the financial industry. Many people in the rural areas are dependent in agriculture. The income in the rural areas varies and saving money becomes difficult for many people. Regularity of income depends on the profession of people. People in the rural areas intend to use their small savings for meeting one time and regular needs and many of them feel that the amount which they are left with is meager and they find it difficult to save.

Especially income of people in rural areas is less and maximum part of it is used for meeting the consumption requirements. The amount which many people have is small and they do not prefer to visit any financial institution to save this amount and they tend to keep their money aside at home. This does not help them in earning in any interest on this amount. Though the amount is small, but keeping it at home also leads to expenditure in some or the other household expense and this leads to non-saving trend among these people. Financial products being provided by the banking and financial services sector are quite different for the people in the urban and the rural areas. The educational, income and even the awareness level are quite different among the people in the urban and rural areas.

There is a need that the people in the rural areas are made aware about the benefits which they could enjoy through the financial products being provided. The availability of financial products has been made through government and various institutions working in the banking and financial services into the remote locations as well. Sometimes, people have save small amount which could be saved regularly but, people do not find a proper place to keep this amount and tend to put them in a place which is not safe and this amount could be lost or robbed. Some people put their money into hiding place within home or bury it in ground or roll them inside a hollowed-out bamboo or put them in piggy bank made out of clay. Money saved at such places could also rot due to moisture or anyone could steal them. The only need is to make people in the rural areas aware the precautions which they should follow while keeping their money at home and also the benefits which they could enjoy by becoming a part of the financial sector.

Objectives of the Chapter

- To know about various financial products for rural people
- To understand the functioning of Microfinance, Self Help Groups and Farmers Club
- To evaluate the functioning of various Banks working for rural India
- To understand the loans which are available for farmers
- To understand the purpose of providing consumption loans

Chapter Structure

4.1 Financial Products in Detail

It becomes difficult to save money regularly for many people. Sometimes the profession of people also decides the regularity of income. The amount that is saved is used in meeting one time and regular needs and generally people feel that the amount which is left is meager and cannot be saved. Generally people believe that keeping aside small amount will be of no use and hence many of them do not tend to save. Especially income of people in rural areas is less and maximum part of it is used for meeting the consumption requirements.

Example for small savings

Some deposit collectors in Vijayawada, Andhra Pradesh are helping their clients to save even Rs. 5 per day. These collectors are collecting Rs. 5 a day from people (mostly women) and after a period of 220 days, they return back Rs. 1000 to these people and keep Rs. 100 for the service being provided. This helps people save their money, especially in such a small amount and secondly in case these people do not save, they might end up spending even this amount for consumption purpose.

Source : www.vikaspedia.in

For such services, the only drawback is that people are spending money for saving instead they could have earned some interest on this amount, in case they try to save this money themselves. In case people understand the need of saving, they can save money and also earn interest on it. For example, a person working in a Private organization is earning Rs. 100 per day and if this person could save Rs. 30 for 100 days himself, then he would be having Rs. 3000 after 100 days and this amount could be kept in saving or any other form of deposit with a formal financial Institution, then he would be able to earn interest on this amount instead of spending on some expense given to the deposit collectors. Sometimes, people have save small amount which could be saved regularly but, people do not find a proper place to keep this amount and tend to put them in a place which is not safe and this amount could be lost or robbed. Some people put their money into hiding place within home or bury it in ground or roll them inside a hollowed-out bamboo or put them in piggy bank made out of clay. Money saved at such places could also rot due to moisture or anyone could steal them. Additionally, the money value would decline due to inflation. There are many other people around who could also have an eye on such small savings like children, neighbor, alcoholic husband etc.

There are different options available with the financial institutions through which money could be saved safely and even interest could be earned. There are some ways for taking loans in the rural areas, which could be referred to as traditional system.

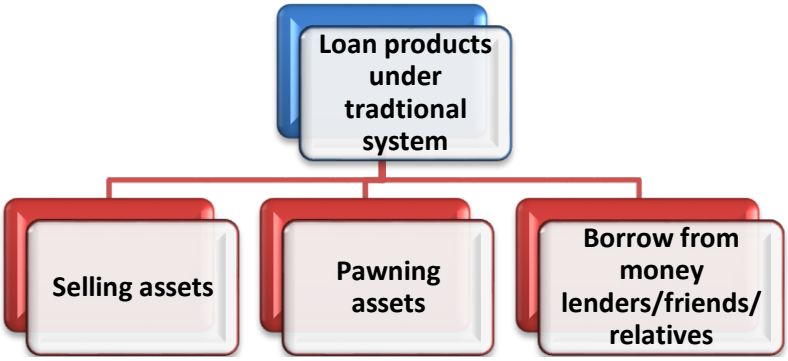

Figure 4.1 Loan products under traditional system

(a) Selling Assets

People can get loans through selling of assets which are owned by them. These assets could be those which they hold already or which they are expected to hold (like advance crop sale).

(b) Pawning Assets

In this method loan could be taken by 'pawning' assets which a person owns or are expecting to own. This method is similar to the above method, where a person could sell an asset but in this method there is an opportunity for buying the asset back within a time frame which is pre-decided. In this method, when a person buys the asset back, there is a heavy amount which is required to be paid as compared to the amount which was paid during selling the asset.

(c) Borrow Money from Money Lenders/ Friends/ Relatives

People, who are unable to take loan through the first two methods, turn towards the third method. People sometimes prefer to borrow from money lenders as there are lesser formalities in this method of borrowing. The main problem in this borrowing form is that they charge very high interest rate by the borrower. In case, people take money from their relatives or friends, then there is a chance that the relations could get spoiled in case the amount is not paid within a correct time frame.

Savings Products

Reserve Bank of India had the agenda of financial inclusion. Keeping financial inclusion in view, banks were given advise by RBI in the month of November 2005 for making a "Basic banking 'No-frills' account" with either nil or a very lower minimum balance and charges which would help in making such accounts to be accessed by vast section of population. Nomenclature of these accounts in the above discussed way would actually tend to signify these accounts to be opened more with view to indicate achievement numerically under financial inclusion plan. On review, it was decided to modify guidelines related to opening of the basic banking 'no-frills' account with view for doing away with stigma which is associated with nomenclature and to make basic banking facility available in uniform manner throughout banking system.

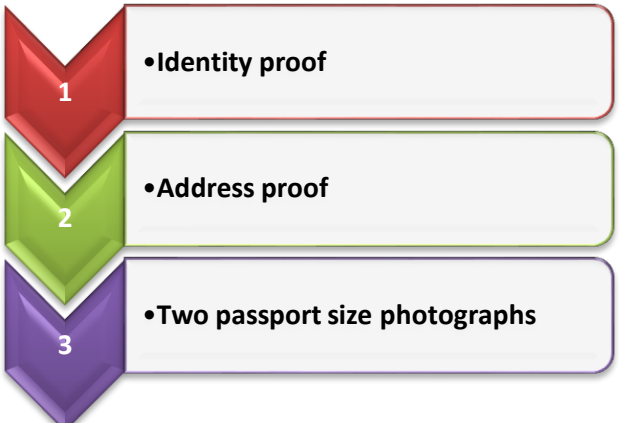

Figure 4.2 Documents required for opening Savings Account

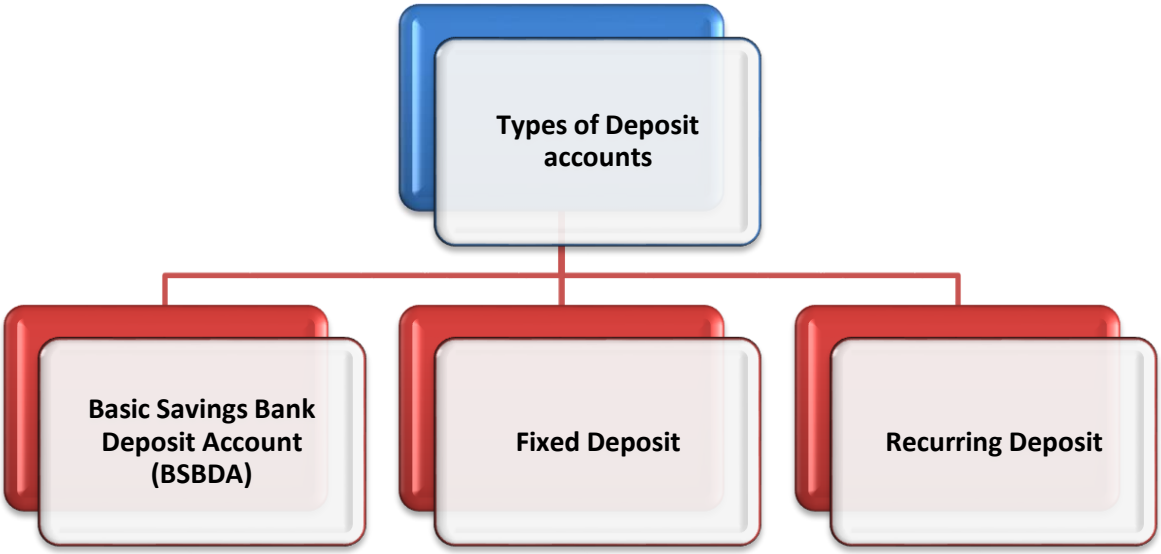

Figure 4.3 Types of Deposit Accounts

(A) Basic Savings Bank Deposit Account (BSBDA)

The BSBD account has been designed as savings account that will be offering certain minimum facility, free of cost to account holders. The BSBD account needs to be considered as a normal banking service which is available to all the people.

Minimum Common Facilities

The following basic minimum facilities will be offered in the BSBD Account, free of charge, without any requirement of minimum balance.

- This account does not have any requirement of minimum balance.
- Cash could be deposited at Branch/Cash Deposit Machines or ATMs.
- Credit or receipt of money through an electronic channel or through deposit or cheque collection which are drawn by State /Central Government agency and department
- There is no limit on the value and number of deposits which are made in a single month
- Minimum four withdrawals monthly which includes ATM withdrawals as well
- ATM-cum-Debit Card or ATM Card
- There will not be any charge that would be levied for the activation or non-operation of the in-operative BSBDA.

Banks could provide any additional value-added service which could include issuance of cheque book, even beyond above mentioned minimum facilities and the other facilities that are provided by the banks for BSBDA holders could be priced or not. It depends upon the customer whether they wish to avail the other facilities or not. In this case, the bankers will not be able to ask the customers to maintain a minimum balance in their accounts even after providing some extra facilities to the customers. Even offering of such additional service would not make these accounts as non-BSBD Account, as long as prescribed minimum service is being provided without any extra cost. These accounts shall be subjected to the instructions given by RBI on Know Your Customer (KYC)/ Anti-Money Laundering (AML) for account opening. The account holders having BSBDA would not be eligible to open any other type of savings account in that particular bank. In case, any person already has another savings account in that bank, he or she will be required to close that particular account within a period of 30 days from the date when BSBDA is opened. The number of minimum

withdrawals that are free to BSBDA could be made at all the ATMs whether they are of that particular bank or of any other Bank.

Short Term Savings Products for Rural People

Besides having a normal saving account, there are different investment options which could be availed by the people residing in rural areas.

(B) Fixed Deposits

Fixed deposit helps in earning a higher rate of interest as compared to Savings account. For opening a fixed deposit, a form needs to be filled and along with certain documents are required.

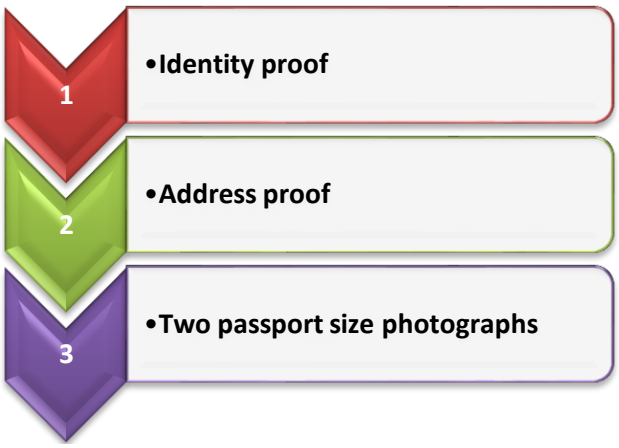

Figure 4.4 Documents required for opening Fixed Deposit Account

If a person already has a savings account in that particular bank, in that case documents will not be required to be provided additionally. Money could be deposited for a period of a few days, months or years. The interest could be received at certain regular intervals of can receive in lump sum.

Main difference between fixed deposit account and savings account is that in deposit account, the amount could not be withdrawn at any point of time. In deposit account, additional money could not be added as and when required as is possible in savings account. In case any person wants to add another amount in fixed deposit, he or she can open another deposit account. In case, there is a requirement of funds due to some emergency, the amount could be withdrawn from deposit account also. For example, in case a person has deposited money for a period of six months and then in case of requirement of funds after three months from the date of deposit, then the person could apply for premature withdrawal and in this case, interest will be paid for three months instead of six months. The amount of principal remains safe and there is no loss on the principal amount instead the amount of interest gets reduced as was mentioned on the receipt issued by the Bank.

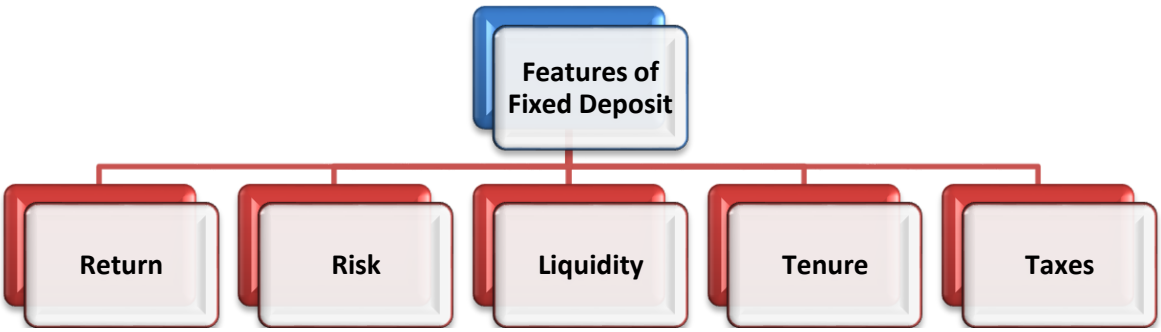

Figure 4.5 Features of Fixed deposit

Features of Fixed Deposits

a) Return

The interest rate being offered in fixed deposit is fixed in advance. This rate varied slightly within various banks. The rate of interest is high as compared to saving account. The Interest rate usually ranges between 6-8% annually. This interest rate is actually linked to the term for which amount is kept in fixed deposit account.

b) Risk

Minimum risk is involved in fixed deposit. The Bank deposit is backed up by RBI up to the amount of Rs. 1 lakh per individual per bank.

c) Liquidity

The amount could be withdrawn whenever required. There will be a penalty in the form of deduction of interest. For example, in case a person invests money for 2 years period at interest rate of 8% and the person wishes to withdraw amount at end of one year, then the interest earned will be only 7%. There will be a loss of 1% as the rate of interest will be applicable as per the time period for which the amount is kept in bank as a fixed deposit.

d) Tenure

The tenure of the fixed deposit is decided by the customer. The period is different in different banks. Generally, banks offer 4-6 options for choosing from. The tenure could range from days to months to years.

e) Taxes

The money which is received in the form of interest needs to be added to the taxable income and taxation rate is applied as per the rate which is applicable based on rate applicable as per the income slab. The amount of interest received from fixed deposit is taxable irrespective of the amount being received as per the latest income tax guidelines.

Recurring Deposits

Banks are offering some other option for depositing customer's money. This option is opening a recurring deposit account. In this type of account, the clients do not need to deposit money in lump sum rather people could contribute an amount which is fixed at the time of opening this account at regular intervals like yearly or monthly. In this account type also, the amount could be withdrawn before the maturity period and as is the case of fixed deposit, penalty is required to be paid in the form of deduction in the interest amount which is due to be paid. For example, if a person deposits an amount of Rs. 500 each month for a period of 3 years. On the date of maturity i.e. end of three year period the customer will receive the amount along with the amount of interest.

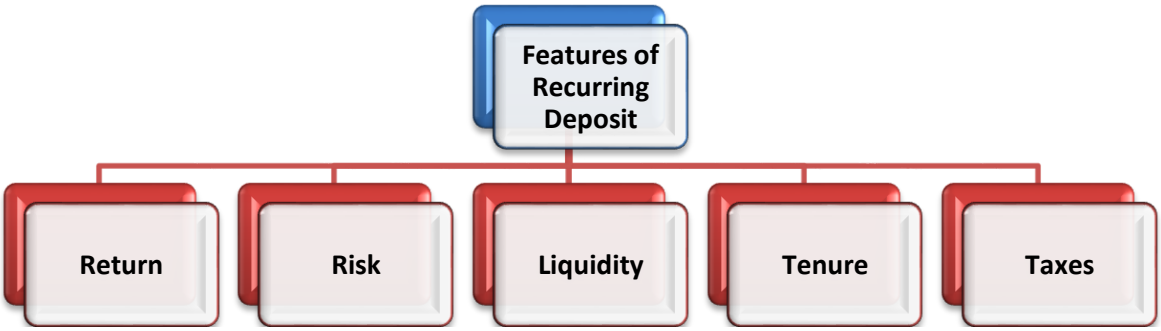

Figure 4.6 Features of a recurring deposit

Features of Recurring Deposits

a) Return

The interest rate being offered in recurring deposit is fixed in advance. The interest varies amongst Banks and is actually linked to standard rate which is being used in banking system. The rate of interest could range between 6-8% annually. The interest rate varies with the time for which the amount is being invested in recurring deposit.

b) Risk

Risk is minimal in this type of account. The amount deposited in recurring deposit is backed up by RBI up to the amount of Rs. 1 lakh per individual per bank.

c) Liquidity

The amount could be withdrawn whenever required. There will be a penalty in the form of deduction of interest. The penalty means that the person who is withdrawing before the due date will lose a small part of interest which would be due, in case the amount is not kept for the tenure which was originally decided by the customer.

d) Tenure

The tenure for this deposit is decided by the customer. The tenure could range between 1 to 5 years and it could be more as offered by some banks.

e) Taxes

The money which is received as interest needs to be added to the taxable income and the tax rate will be applicable as per the income slab. The amount of interest received from recurring deposit is taxable irrespective of the amount being received as per the latest income tax guidelines. There are different products which could be availed by the people like farmers, students, women etc. There are certain features which people would like to receive from the savings products which are being offered.

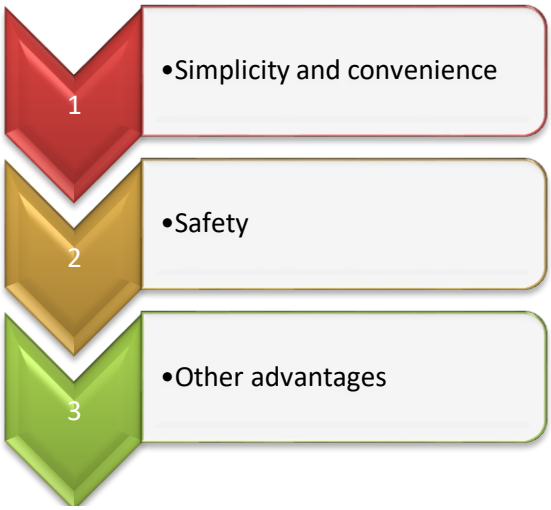

Figure 4.7 Features as required by most of the people from savings products

When the formal savings products are discussed, people look for the above mentioned features.

(a) Simplicity and Convenience

The savings product which is being offered should be easy to be used and also should be easy to be understood. The products features should be such that people of different income level or a different professional background could easily understand.

(b) Safety
The savings product should be safe for investment, as the people should have this much confidence that the amount whatever has been saved by the customer is returned back to him or her.

(c) Other Advantages
The savings products being provided by the formal financial system should provide various benefits as compared to the traditional saving methods.

Savings at Post Offices
The schemes which are offered by the Post office are also called small savings schemes. They are designed for providing attractive and safe investment option to public and at same time helps in mobilizing the resources for postal department.

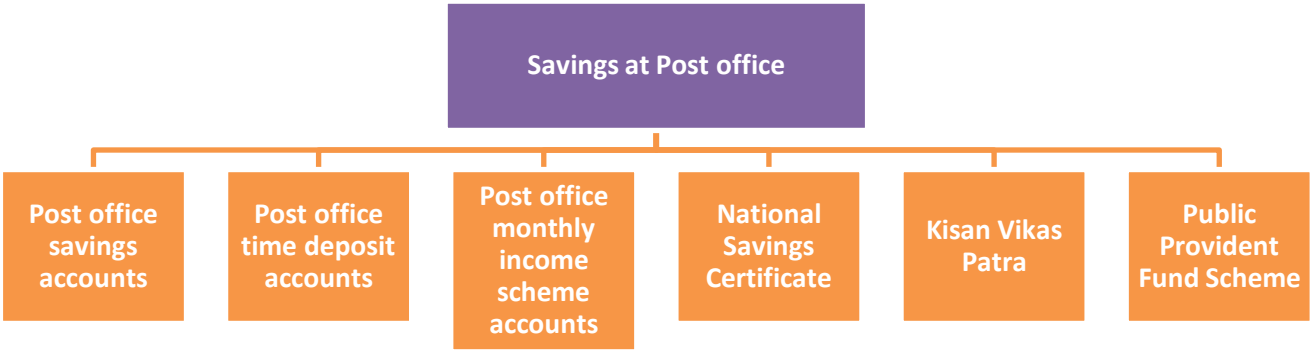

Figure 4.8 Savings at Post office

(A) Post Office Savings Accounts
The Post office savings accounts are popular among people as it could be opened with a minimum of Rs. 500 at any post office throughout India.

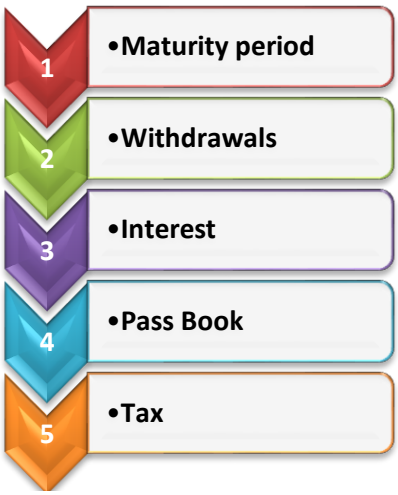

Figure 4.9 Features of Post Office Savings account

(1) Maturity period
There is no maturity or lock-in period like a normal savings account.

(2) Withdrawals
There is a requirement of a minimum balance of Rs. 500. If balance of Rs. 500 is not maintained then Rs.100 is deducted on last working day of the financial year.

(3) Interest
The rate of interest is paid as per terms and conditions listed by Central Government declared from time to time. The current rate of interest is 4%.

(4) Pass Book
The depositors are given a pass book and all transactions are entered in the pass book. The pass book is stamped by post office.

(5) Tax
The amount of interest, if below Rs. 10000, Section 80 TTA of the Income tax Act provides deduction of the entire interest income and in case the interest income is more than Rs. 10000, then deduction is limited to Rs. 10000, which means the amount above Rs. 10000 will be taxable.

(B) Post Office Time Deposit Accounts
These deposits can be compared to bank fixed deposits and like the post office savings accounts, they can be opened at any post office in India.

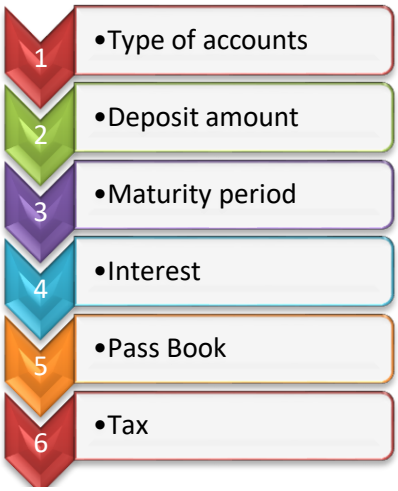

Figure 4.10 Features of Post Office Time Deposit Account

(1) Types of Accounts
The amount could be deposited for different maturity period like 1 year, 2 years, 3 years and 5 years.

(2) Deposit Amount
The minimum with which a time deposit could be opened is Rs. 1000 and in multiples of Rs.100. This type of account does not have any maximum limit.

(3) Maturity Period
The amount which is deposited is repayable after the expiry of period for which it was deposited. Premature encashment of this deposit is not allowed before 6 months and if it is closed between 6 – 12 months, then the rate of interest applicable to Post office savings account will be applicable.

(4) Interest
The Interest on these deposits is payable annually but calculated quarterly. The current rates applicable on time deposit account with Post office are mentioned as below (rates are applicable since 1st July 2019):

- 1 year – 6.9%
- 2 year – 6.9%
- 3 year – 6.9%

- 5 year – 7.7%

(5) Pass Book
A passbook is issued to the depositors and entry about the amount which has been deposited is done and other particulars are also mentioned. It is duly stamped by post office.

(6) Tax
The amount of interest received from time deposit with Post office is taxable irrespective of the amount being received as per the latest income tax guidelines. The investment under 5 Years time deposit qualifies for benefit of Section 80C of the Income Tax Act, 1961 from 1st April 2007.

(C) Post Office Monthly Income Scheme Accounts
This account is somewhat like a bank fixed deposit too. Only one deposit can be made.

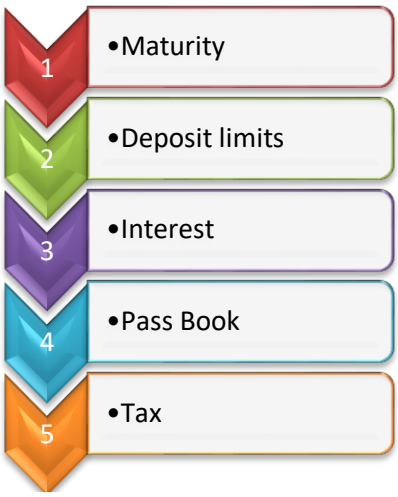

Figure 4.11 Features of Post Office Monthly Income scheme account

(1) Maturity
The maturity period for this type of account is 5 years. This deposit account could be prematurely encashed after one year but before 3 years at the discount of 2% of the deposit and after 3 years at a discount of 1% of the deposit.

(2) Deposit limits
A minimum amount of deposit is Rs. 1000. Maximum amount in this type of deposit is Rs. 4.5lacs for single holder and Rs. 9 lacs for joint account.

(3) Interest
The rate of interest in this deposit is 7.6% per annum which is payable monthly.

(4) Pass Book
Depositors are provided pass book in which entries are made for the amount deposited in the account. This passbook is duly stamped by post office.

(5) Tax
The amount of interest received from monthly income scheme account with Post office is taxable irrespective of the amount being received as per the latest income tax guidelines.

(D) National Savings Certificate (NSC)
People can purchase National Savings Certificates from Post Offices.

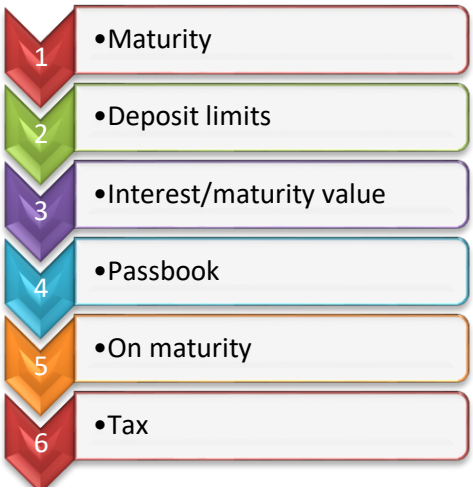

Figure 4.12 Features of National Savings Certificate

(1) Maturity
Period of maturity of a certificate is five years.

(2) Deposit limits
The deposit amount of NSC (VIII) Issue account is minimum Rs. 1000 and in multiples of Rs. 100. There is no maximum limit.

(3) Interest/maturity value
The interest rate is 7.9% which is compounded annually but payable at maturity w.e.f. 1st July 2019. The maturity value of a certificate of Rs. 1000grows to Rs. 1462.54 after 5 years and certificates of other maturities are calculated at a proportionate rate.

(4) Passbook
NSC is issued in the form of passbook w.e.f. 1st July 2016.

(5) On maturity
The certificates can be encashed at the post office where it is registered or any other post office.

(6) Tax
An income tax rebate under section 80C of the Income tax Act is available on the interest received from NSC.

(E) Kisan Vikas Patra (KVP)
Kisan Vikas Patra are available for purchase at Post Offices.

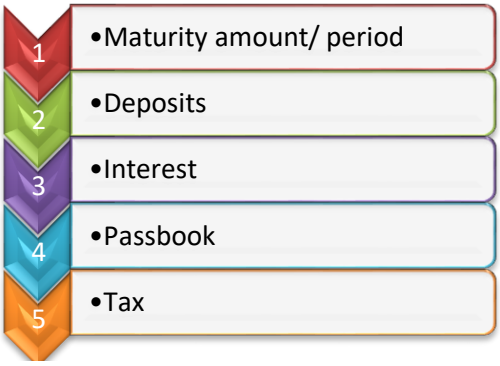

Figure 4.13 Features of Kisan Vikas Patra

(1) Maturity Amount / Period
The amount invested gets doubled in 113 months (9 years and 5 months). The certificate could be encashed after 2 and ½ years from the date of issue.

(2) Deposits
The deposit amount of Kisan Vikas Patra account is minimum Rs. 1000 and in multiples of Rs. 100. There is no maximum limit

(3) Interest
The interest rate is 7.6% which is compounded annually w.e.f. 1st July 2019.

(4) Passbook
KVP is issued in the form of Passbook w.e.f. 1st July 2016.

(5) Tax
The amount of interest received from Kisan Vikas Patra account with Post office is taxable irrespective of the amount being received as per the latest income tax guidelines.

(F) Public Provident Fund (PPF) Scheme
Public Provident Fund schemes could be opened at a certain designated post office throughout the nation and it is available at certain designated branches of the Public Sector banks.

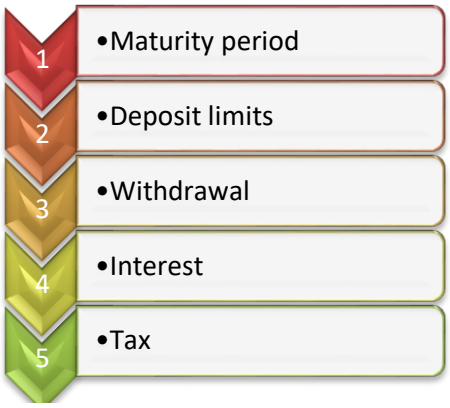

Figure 4.14 Features of Public Provident Fund Scheme

(1) Maturity Period
The maturity period of this type of scheme is 15 years, but the same could be extended within 1 year maturity for further 5 years and so on.

(2) Deposit Limits
There is a requirement of Rs. 500 every financial year and maximum deposit per year is restricted to Rs. 150000 in every financial year. The total number of deposits in every financial year is maximum 12.

(3) Withdrawal
Premature withdrawal will be allowed every year after 5 years from end of year from opening of the account.

(4) Interest
The rate of interest is 7.9% per annum and this interest is compounded quarterly w.e.f. 1st July 2019.

(5) Tax

An income tax rebate under section 80C of the Income tax Act is available on the interest received from PPF. Interest is completely tax free.

Financial Inclusion: Financial Products for Bottom of the Pyramid

Since the start of economic reforms in 1990s, the sophistication and depth of the financial products are improving year on year. The focus of these products was mainly on middle and rich income level customers. There is a need for focusing on financial products for those people who have not ever availed banking services. The real progress of the country in terms of financial inclusion could place only if there is focus on the financially excluded people. Financial inclusion term is being used in a narrow sense in India. Barometer of the financial inclusion is related to deposit accounts which are being opened by banks. Bank deposit is critical, but, financial inclusion is even more than this as there is a need for making loans available to this segment of people along with insurance and other financial products. The Bankers should approach the people who have not availed any banking services in a different way, only then financial inclusion could be successful and even formal banking services could be accessible. The masses are being reached by the banking system, due to push by government and regulator. There is business in the bottom of pyramid and this has to realized by the banking and financial institutions. The Jan Dhan-Aadhaar- Mobile (JAM) trinity refers to Jan Dhan Yojana, Aadhar card and Mobile Banking will provide momentum to work which is being done by banks for achieving 100% financial inclusion. There is exclusion in the urban areas also, even in Delhi and Mumbai. In rural India, the banks and financial institutions are being reluctant towards reaching out among masses. Cost is an inhibiting factor due to lower transaction size and even lower volume. Technology in banking could bring the cost down, but for this there is a requirement that funds needs to be spent on the right technology. There are certain hindrances which could come up in the implementation of technology in the rural areas like frequent power cut, poorer internet connectivity and the unwillingness of the employees for servicing rural masses. Many branches which are located in rural areas are required to keep power generator for ensuring that there is no break in business due to absence of electricity. Such cost is not required to be incurred in the semi urban and urban areas. Transaction size is also relatively larger in these areas.

Source : Chandra Shekhar Ghosh (2016). Financial Inclusion: Financial Products for Bottom of the Pyramid. Retrieved from https://www.businesstoday.in/magazine/cover-story/financial-inclusion-financial-products-for-bottom-of-the-pyramid/story/227499.html

To Do Activity

Write two differences each for the following:

- Normal savings account and No frill account
- Post office time deposit account and Monthly income account
- National Savings Certificate and Kisan Vikas Patra

4.2. Micro Finance, Self Help Groups and Farmers Clubs

Microfinance is regarded as a tool towards economic development having objective of assisting poor people for working their way out of poverty. Microfinance covers many services which includes savings, money transfer, insurance, counseling etc apart from credit provision. For this purpose, Sub-Committee confined itself towards mainly one aspect of Microfinance i.e. provision of credit for the low-income groups.

Provision of credit to Microfinance sector is actually based on following:

a) It addresses concerns of alleviation of poverty through enabling poor to worktheir way out of poverty.

b) It provides credit to such section of the society which generally does not get credit at reasonable rates from the traditional sources.
c) It enables empowerment of women through routing of credit directly to the women; this enhances status within families of women, community and also society at large.
d) Making credit access easier is much more important for poor than getting cheaper credit which could involve a lengthy bureaucratic procedure and delay.
e) Poor people are not generally in position of offering collateral for securing credit.
f) The market is imperfect in this sector and size of loan is also very small in size. The transaction cost is higher and they are unavoidable. However, when community set up their own institutions like cooperatives and SHG federation, the transaction cost could become low.
g) Transaction cost could be reduced through economy of scale. The increase in the scale could not be achieved for both individual operations as well as sector as whole in absence of recovery of cost and also profit incentive.

Micro finance started in India in early 1980s. It involve small self-help groups (SHGs) and Non-Government Organizations (NGOs) which come together for providing credit and saving service to the people who are not having access to formal banking system. Micro finance organizations have been undertaking these activities from the perspective of development in various areas instead of focusing on any kind of profit motive. These organizations are also supported by larger government bodies like National Bank for Agriculture and Rural Development (NABARD) and Small Industries Development Bank of India (SIDBI). Sometimes they get support from larger trusts which have been set up for specifically making availability of funds available to the people at lowest level of society.

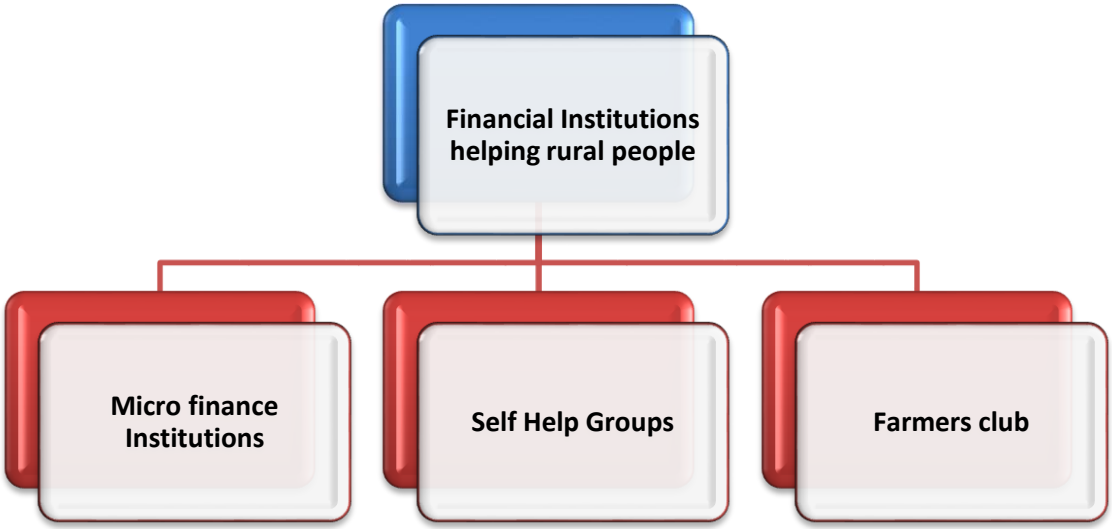

Figure 4.15 Organizations Helping rural poor in facing financial needs

These organizations help in group account and deposits which accept ad hoc or small amounts. For instance, these organizations enable weekly or monthly savings at the joint-liability groups meeting. People through these programmes save money from month to month or week to week. The money e which is collected is used to lend money to someone within group whenever anyone in the group needs money. Even sometimes, Government organizations and NGOs contribute towards kitty of these groups.

Such organizations have been trying to help group of people in planning their personal finances with packages which are specifically designed for these people. Certain financial institutions consider savings, loan and insurance as a single product and do not treat then as separate product. These

products could be considered as a part of financial solution for each individual.

(1) Microfinance

Many people think that microfinance means to provide small loans i.e. microcredit to families which are very poor for helping them to engage in productive activity or nurturing their own small businesses. Micro finance now includes many financial services including savings, credit, insurance etc. It has been realized with time that the poor and very poor require diversity of financial product, specifically those who lack in accessing traditional or formal financial institution. Micro credit became prominent in 1980s, though there were earlier experiments in this field which could be dated back to a period 30 years back in Brazil, Bangladesh and other countries. Micro credit avoided pitfalls of previous generation related to development lending which was targeted, through insistence on repayment, charging rate of interests which could cover credit delivery cost and through focus on the client group whose alternative credit source was informal sector. The emphasis got shifted from the rapid disbursing of the subsidized loans for supporting the targeted sector towards building of a local and sustainable institution for serving the poor. Microcredit was largely a private (non-profit) sector initiative which avoids becoming of overtly political. This has consequently outperformed virtually in all other ways for development of lending. In a traditional way, microfinance has focused on helping the poor in getting access to credit products which are standardized. Poor people also need a diverse range in financial instruments for building asset, stabilizing consumption and protecting themselves against various risks. Concept of microfinance is to provide some reliable and efficient way for providing a variety of financial products.

Clients of Microfinance

The clients of microfinance are the lower income people who did not have access towards the formal financial institution. The microfinance clients are actually self-employed; they are often household-based entrepreneur. In the rural areas, clients are generally small farmers and also the others who have been engaged in smaller income generation activities like petty trade and processing of food. In the urban areas, the microfinance activity is more diverse and also includes service providers, shopkeepers, street vendors, artisans etc. Micro finance clients are vulnerable non-poor or poor who have relatively a stable income source. Access towards conventional formal financial institution for several reasons is related directly to income; poor people have lesser access towards the financial products. On another hand, chances are such that for the poorer people the financial arrangements become expensive and onerous. Moreover, the informal arrangements might not suitably help in meeting certain financial services needs or might exclude anyway. Individuals in the excluded and the under-served market's segment are micro finance clients. As the notion about types of micro finance services are broadened, potential market for the micro finance clients expands. Microcredit may have a limited scope of market than, more diversified financial services range that includes different types of saving product, remittance service, payment service and various other insurance product. There could be many farmers who are very poor and there is a possibility that they may not be interested in borrowing money, rather they might feel like finding a safe place for saving proceeds from the harvest since they are consumed over many months by requirement for daily living.

Microfinance Helps the Poor

Microfinance could help poor for increasing income, building a viable business and reducing their vulnerability towards external shock. It could be a very powerful instrument for self empowerment through enabling poor, especially the women for becoming the economic agent of change. Poverty is actually multi-dimensional. Microfinance plays a very important role for fighting against various aspects of poverty by providing access towards financial services. Income being generated from business actually helps not only in expanding a business activity rather also contributes towards household incomes and its benefits related to child's education, food security etc. Moreover for the

women, those who have been secluded from the public space in different context, those who are transacting with the formal institutions could also build up empowerment and confidence. The people who are around poverty line are more vulnerable toward shocks like illness, theft, weather conditions and many other events. These shocks produces huge claim over limited financial resource of family unit; absence of effective financial service could drive family so deeper into poverty that it could take many years for recovery.

(2) Self Help Groups (SHGs)

SHGs are smaller group of people who are poor. The problems being faced by the members of SHG are similar. Members in SHG help the other group members for solving their own problems. SHGs have been promoting smaller savings among the members. The savings of SHGs are generally kept with bank. The common fund is kept in bank in SHG's name. SHGs utilize their common fund for giving smaller loans to the members. SHG is informal group and it is registered under the Societies Act or State cooperative Act.

Formation of SHGs

Initially, a local person who is helpful and reasonably educated needs to help the poor people in formation of groups. She or he tells the poor people regarding benefits of thrift and advantages for forming groups. The person who helps the people in forming groups is actually called a 'facilitator' or 'animator'. Usually, animator is someone who is already known to community.

Any of following person could be a successful animator:

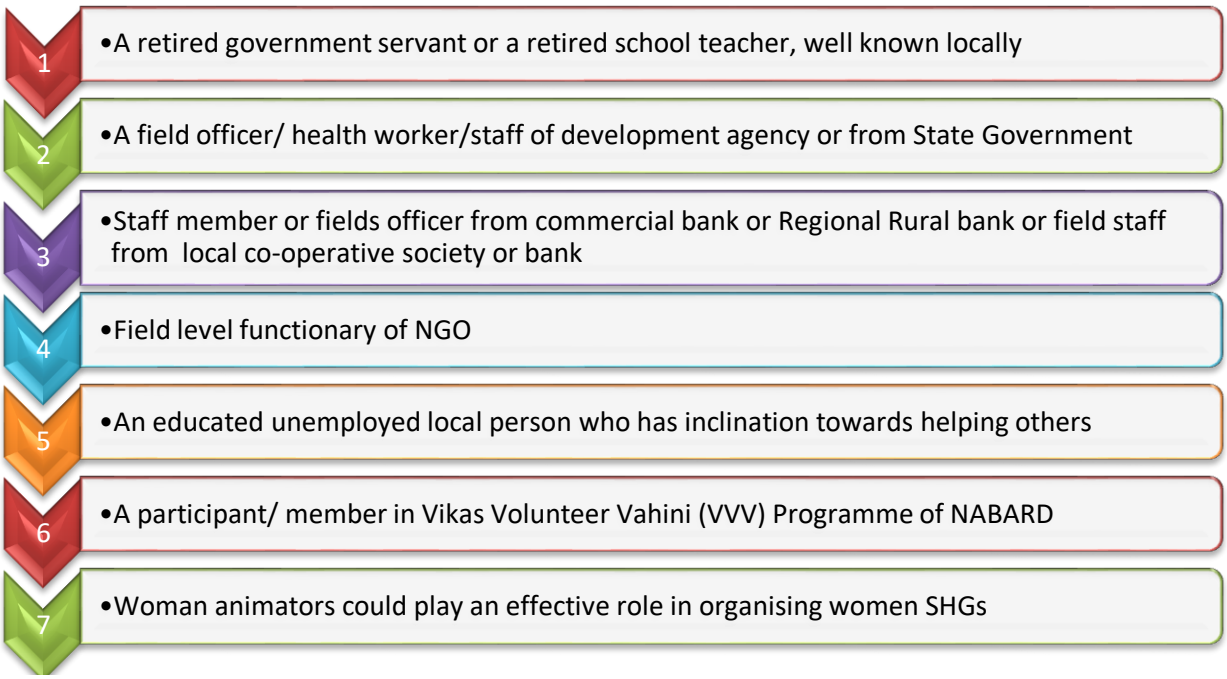

Figure 4.16 Successful animator

The animator could not organize groups alone. She or he will be needing training, reading material, guidance, etc. Usually any one agency as mentioned below could help :

Figure 4.17 Organizations helping the animators

Role of Animator

The task that the animator does is he or she talks to the people in village or go to their homes. The animator explains benefits of group formation and thrift. No such promise is made to anyone that any loan could be given to people. She or he helps group members in holding the initial one or two meetings. The group which is formed finds one group leader, who will be holding further meetings, maintaining books, etc. The animator encourages and guides the leader and group members.

Functioning of SHGs

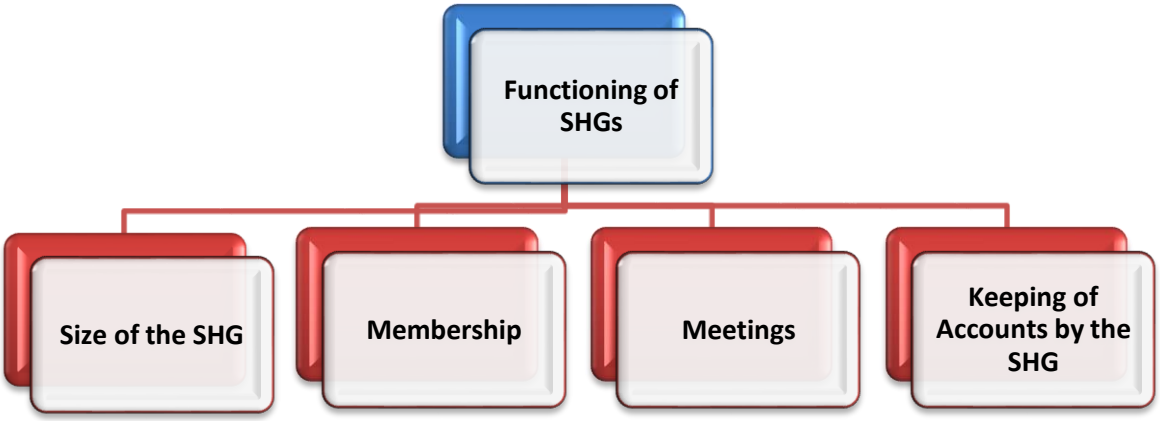

Figure 4.18 Functioning of SHGs

(1) Size of the SHG

The size of SHG is generally 10 to 20 members. If the group is big, then it becomes difficult for the members to participate actively. Legally, group should not have more than 20 people. There is no requirement for the group to get registered.

(2) Membership

Only one person could become member of SHG. More families could further join SHGs also. The group is generally of only males or females. Mixed groups are not generally preferred. It is found that the groups which have only women have been performing better as compared to other groups. Group formed by women have been working better towards savings and usually they ensure loans are properly used. The members of the group should have same financial and social background. The group has members with the same financial status hence people have similar opportunity for participation in group.

Following are some of the common factors related to membership in SHGs :

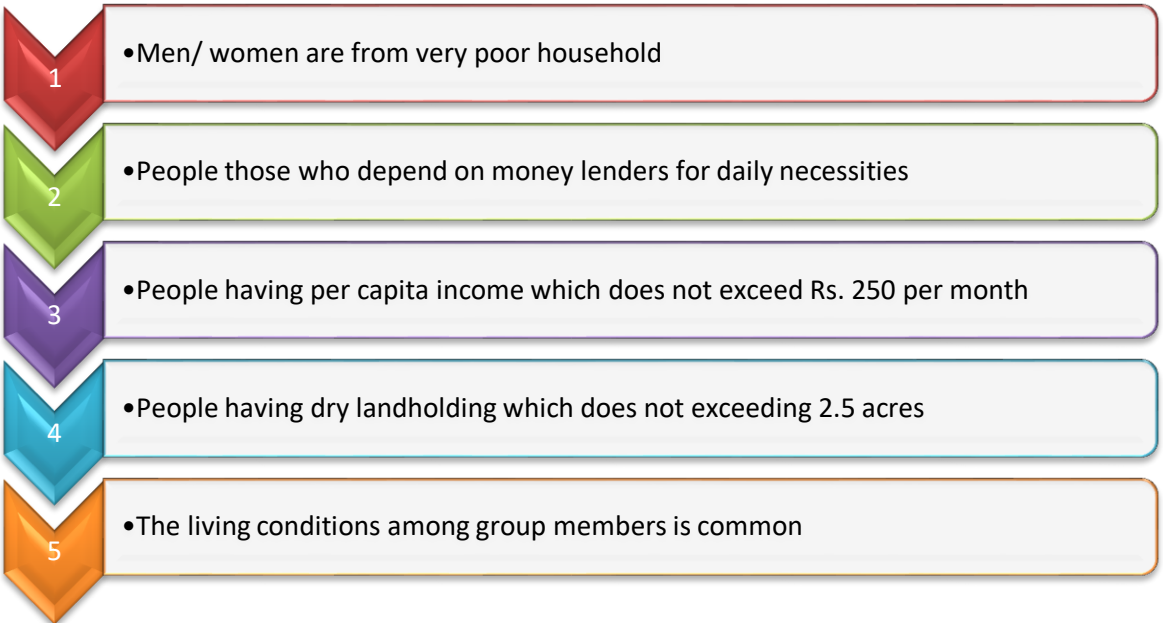

Figure 4.19 Factors related to membership in SHGs

The group members have a common living condition like they live in Kutcha house, not having access for safer drinking water, illiterate adults are present in family etc.

(3) Meetings

There should be regular meetings. Ideally meeting is conducted monthly or weekly. It is very important to conduct meetings as the members come closer. Through meetings the group members try to understand the difficulties of each other. The attendance is compulsory for all the members and full attendance makes it simplified for SHGs to stabilize and work towards the satisfaction of its members. There is a requirement for the SHG to maintain a membership register, a minutes register etc., and need to keep them up to date by group through entries being made regularly in the register. Proper meetings help in building up trust among the members of SHG.

(4) Keeping Accounts by SHG

The SHGs should maintain clear and simple books for all the transactions. The SHGs can take help from outside in case there is no member who is aware about maintaining of books. Or either animator could also help in maintaining accounts. All books and registers should be maintained in writing during the meeting. The members who cannot read or write feel confident when the books are properly maintained.

The following books should be kept by SHGs

Figure 4.20 Books to be kept by SHGs

(a) Minutes Book

In minute's book, the following are to be recorded:

- Proceeding of meeting
- Rules of group
- Names of all the members etc.

(b) Savings and Loan Register

The savings of the members are entered in this book and also savings of group are maintained separately. The following details are entered in this book:

- Individual loans
- Repayments
- Interest collected
- Loan balance, etc.

(c)Weekly /Fortnightly/Monthly Register

In this register, summary of payment and receipts is updated in each meeting.

(d) Members' Passbooks

Passbook of each member is maintained in which savings of individual and outstanding amount of loan is entered regularly. Maintaining of passbooks encourages the members to save regularly.

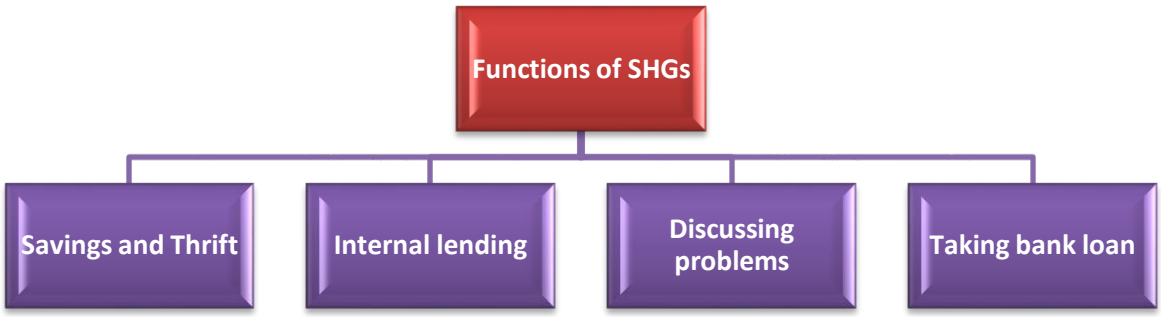

Figure 4.21 Major Functions of an SHG

(a) Savings and Thrift

All the members of SHG save small amount regularly. The amount could be smaller, but savings are required to a continuous and regular habit among all members. Every SHG member should have the motto of Saving first and credit later. The SHG members can take step toward self dependence when each of them starts saving money in small amounts. Members learn discipline financially through internal lending and savings.

(b) Internal lending

The SHGs should use the amount of savings for providing loans to its members. Decision regarding the loan amount, interest rate, purpose, repayment schedule etc should be taken by group itself. Proper accounts are required to be maintained by SHG.

(c) Discussing problems

In each meeting, SHGs should actually discuss and the members should try to solve the problems which are being faced by the other group members. Poor and weak people lack resources for solving the problems. When group try to help the members, it actually becomes very easy for them in facing difficulties and coming up with solution.

(d) Taking bank loan
SHG take loan from bank and give this amount in the form of loan to the members.

(3) Farmer's club
Background and genesis of Farmers' Club Programme
Agriculture is backbone of Indian Economy since nearly a large part of India's population of is dependent on agriculture and it contributes a lot to Gross Domestic Product (GDP). For a sustained growth in the agricultural sector, there is a need towards improvement in productivity and cutting down costs through improvement in efficiency.

Hence, there is an urgent requirement for providing package of initiatives for transferring technology, improving the input use efficiency, promotion of investment in agriculture in public and private sectors and creation of a favorable and to enable economic environment. Emerging need in the agricultural sector are adopting location specific skills and knowledge which is based on technologies, promoting a greater value addition for the agricultural produce, harnessing IT a more effective way for realizing financial sustainability, forged new partnerships amongst public institutions, users of technology and corporate sector and compete in international market. For transferring agricultural technology to farmers' field, giving them orientation for establishing better relation with the banks, and enjoying benefits of the collective bargaining power for procuring input and management of output, Farmers' Club Programme is appropriate and the most suitable strategy which is initiated by NABARD in the late 1982 with a mission of development of rural areas through the credit, transferring of technology, awareness and building capacity.

This programme was initially christened as the "Vikas Volunteer Vahini (VVV) Programme" which was launched for propagating following five principles related to *" Development through Credit "*.

1) Credit must be used accordingly with the suitable methods of Technology & Science
2) Terms & conditions related to credit (techno-economic parameters) must be respected fully
3) Work must be carried out with desired skills for realizing the optimum increase in income and productivity
4) A part of additional income created through credit must be saved
5) Loan installments must be repaid regularly and in time to facilitate credit recycling for the maintenance of a proper flow of credit.

This "VVV Programme" was later rechristened as the "Farmers' Club Programme" in the year 2005.

Role and Function of the Farmers' Clubs
These are the grass root level forums which are formed by the farmers and are informal as their functioning is concerned. Such club is organized by the rural bank branch with support and also NABARD's financial assistance for mutual benefits of the concerned banks and also the village farming communities and rural people. With enhancement of this programme, the other agency like NGOs and many others are included as agencies which help in the promotion and formation of the Farmer's club.

Broadly the functions of Farmers' Clubs could be listed as follows:

- Coordination with the banks for ensuring credit flow amongst the members and forged better relationship between the borrower and bank.
- Organize atleast one meeting every month and the number of meetings could be increased based on need. Even the non-members could be invited to attend meeting.
- Interface with the subject matter specialist in various agricultural fields and also allied activity etc., extension of personnel of the Agricultural Universities, development departments and the other agencies related for the technical upgradation of know-how. For

the guest lectures, the experienced farmers those who are not members from village or neighboring villages can also be given invitation

- Liaison with the Corporate input supplier for purchasing bulk input on member's behalf
- Organizing and facilitating joint activity like the value addition, collective input's purchase, processing and marketing of farm's produce marketing, etc.; for member's benefits. They could also sponsor and/or organize SHGs,
- Undertaking socio-economic actives for development like education, health, community work, management of natural resource and environment management etc.

Emerging Role of the Farmers' Clubs

The broader objective for setting up the Farmers' Clubs would help in achieving prosperity for farmers with the overall development in agriculture in the area of operation through facilitating the credit counseling, market and technology counseling. Over years, vision of the Farmers' Clubs have undergone change and role expected by the farmer's club for being played are enlarged for enabling them for facilitating transferring of the technology, propagating concept of seed village, strengthening the agricultural extension service, undertaking collective purchasing and distributing inputs, producing and marketing, building capacity of the members for acting as a Business Facilitator/ Business Correspondent for the banks, forming SHGs, Joint Liability Group, Producers Group or Company, Federation of the Farmers' Club, undertaking community related work and assuming role of leader.

Benefits of Farmers' Club to the Bank Branch

Formation of the Farmers' Club leads to a better relationship between banker and borrower in area. The following advantages could be listed out from the perspective of the bank branches:

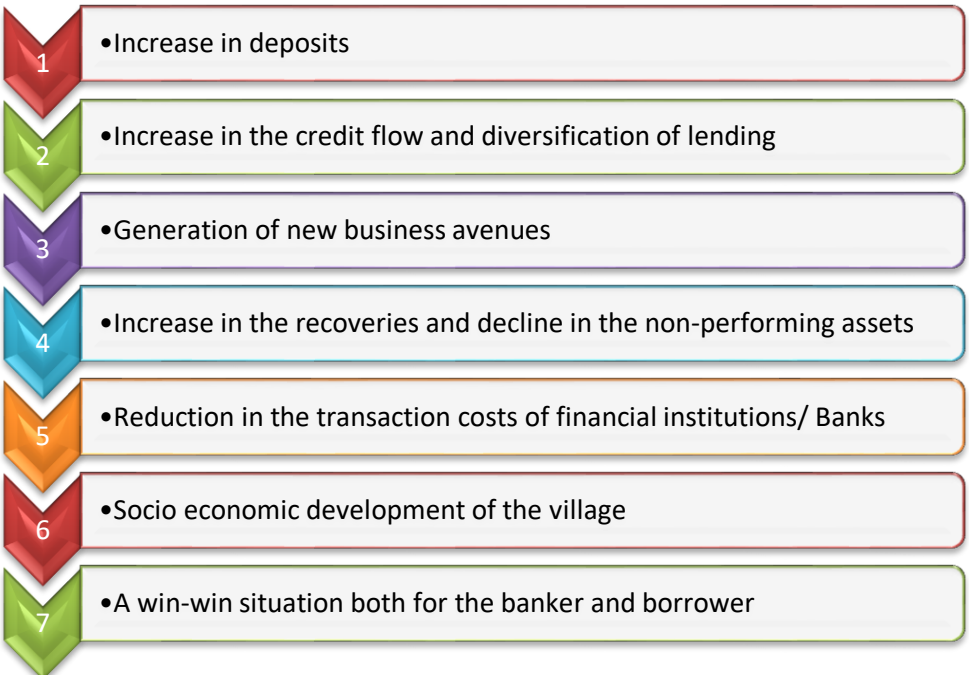

Figure 4.22 Benefits of the farmer's club to Bank branch

Besides the benefits mentioned above to banks, Farmers' Club also has been instrumental in various measures of social welfare like free check up camp for eye, camp for animal Healthcare, vaccination camp for catering to masses, various community work like roads, check-dam, aforestation, etc.

Importance that is Attached to Farmer's Club Programmes by the Government of India

All RRBs have given direction by Union Finance Minister for having at least one Farmers' Clubs in every branch. In a view of importance which is attached to this programme by the NABARD & Government of India and also in business advantage context which accrue to the institutional agency, banks could adopt Farmers' Club programmes as one of their business strategies.

Support of NABARD to the Farmers' Club Programmes

The policy of NABARD for supporting the Farmers' Club Programmes lays down stress for linking the technologies with the members of farmers' club and also facilitating them with market access through following mechanism:

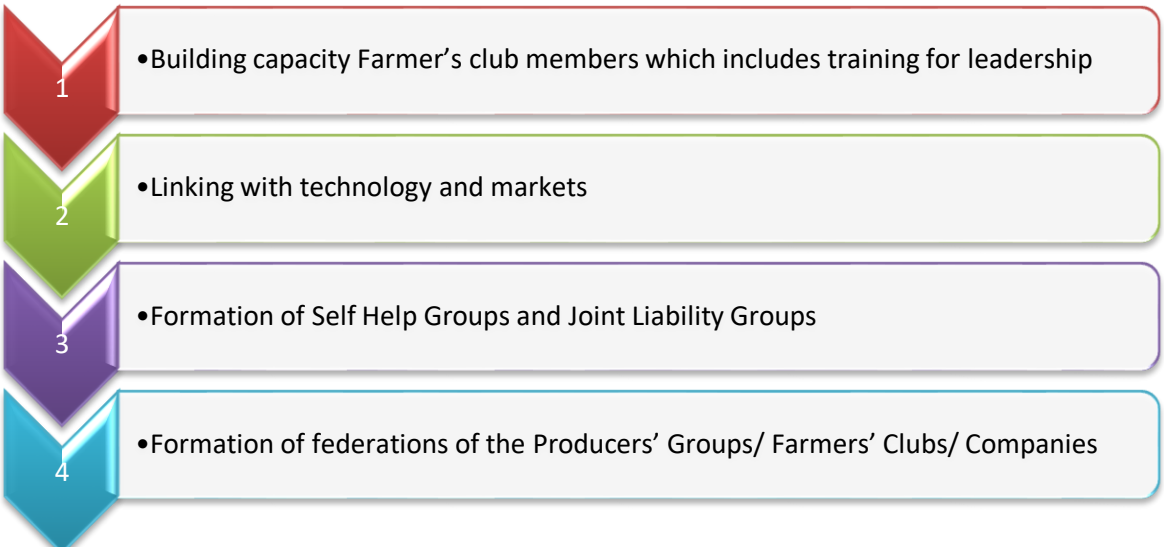

Figure 4.23 Support of NABARD to the Farmers' Club Programmes

Steps in the Formation of Farmers' Clubs

- Bank branch could promote clubs directly or engaging with the Farmers' Club promotion agencies like the Agriculture Universities, Krishi Vigyan Kendras (KVKs), Corporate, NGOs, etc.
- All grass root level organizations like NGOs, State level Agricultural Universities, KVKs, Post Office etc. are eligible for forming Farmers' Clubs
- Selecting a village or a cluster of village which is suitable for launching Clubs in operational area of bank branch.
- Identification of few progressive borrowers and farmers having a positive track record about utilization of loan properly, aptitude and also capacity for the team work.
- Encouraging members towards the selection of Chief Coordinator or Volunteer or President and also an Associate Coordinator or Volunteer or Vice President as well as a Cashier. This will be ensuring a collective leadership and also continuance of Club.
- Providing training of orientation to them through NABARD's help (Regional Office or the trained officers from bank) before the launch.
- Encouraging members for convening meetings regularly every month, guiding them in having meaningful discussion and taking the necessary follow-up action.
- Motivating the members towards identification of credit and also the non-credit needs like socio-economic, training, infrastructure of village, etc.,
- Preparing action plan and accordingly arranging counseling, expert talks, need-based activity etc. with help of the Government Department and the other concerned agencies.
- Ensuring that members maintain a membership Register, register for meeting, Minute Book and Books of account.
- Evolving performance parameters and measuring Clubs' annual contribution.

- Using the club as tool in aid by branch not only related to credit as well as recovery rather also for facilitating SHGs promotion, financial inclusion, micro credit and services convergence.

To Do Activity

Form a group of 4-5 students and prepare a presentation which explains the working of any NGO or SHG in their city. The students can also visit the concerned NGO or SHG for collecting data in more depth.

4.3. Banks Working for Rural India

A major part of our Indian population is dependent on agriculture. It is very important that we focus on the people staying in rural areas. These people have a different requirement related to financial products as their need is different, their repayment capacity, net worth etc are different. The Banks and financial institutions are required to design their products in such a way that these people are able to maintain a good standard of living.

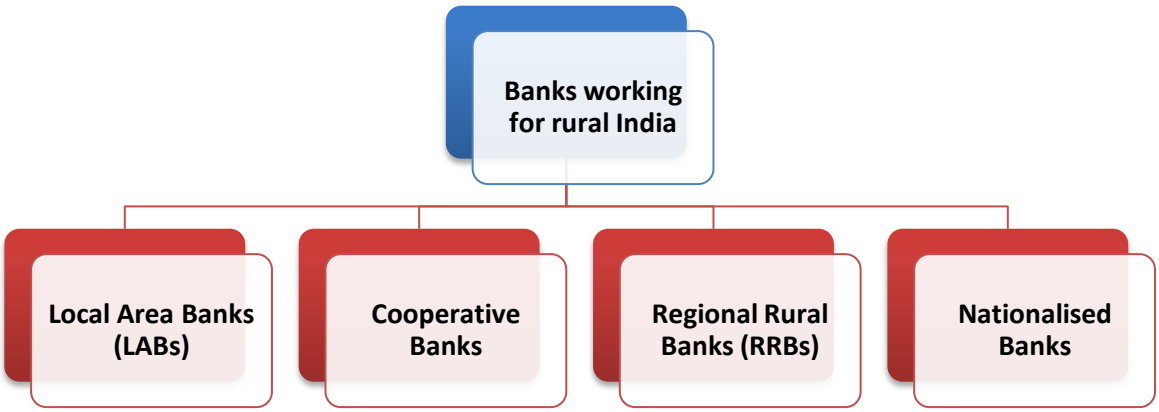

Figure 4.24 Banks working for rural India

Some banks have been set up in rural areas with a special purpose related to funding of agricultural and various other activities in rural areas. These banks and financial institutions provide loans to the small and the marginal farmers, the agricultural laborers and the rural artisans. Their saving account and other products for savings have been structured for meeting needs of these customers. They have been offering the customers a chance for saving through a regular saving account.

(A) Local Area Banks (LABs)

The LAB scheme was introduced in the month of August 1996 pursuant to announcement by the Finance Minister. In the budget speech by Finance Minister, it was referred to setting up of a new private local bank within jurisdiction over 2-3 contiguous districts. Direction for this was given so that the rural saving could be mobilized by the local institution and providing them for investment in local areas. It was expected that LABs could bridge the gap in availability of credit and strengthening framework for institutional credit in semi-urban and rural areas. With this, guidelines were given by RBI to set up LAB in private sector was announced by RBI on 24th Aug. 1996. In the initial five and half years, 227 applications were received for establishing LABs in private sector, out of which 214 application were rejected while 'in-principle' approval for the establishment was given for 10 LABs and 3 applications were kept under examination. However, 4 approvals were withdrawn because of inability of promoters in fulfilling conditions which were required for 'in-principle' approval. 5 Banks were given license under section 22 of Banking Regulation Act 1949. The policy which was laid down

in the year 1996 was not reviewed comprehensively. RBI appointed review group in the month of July 2002 for studying and making recommendations on LAB scheme.

The review group had following members

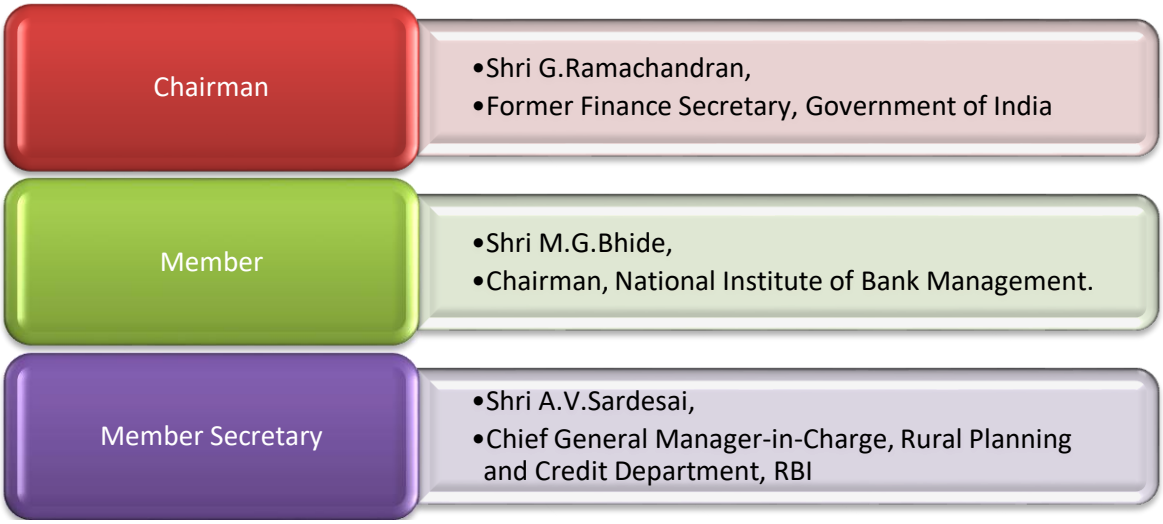

Figure 4.25 Members in review group

Terms of reference of Group were

- For examining whether LABs scheme have fulfilled the objectives and whether LABs are licensed for serving purpose for which they have been set up.
- In light of the experience till now, for examining whether scheme should be continued and whether the fresh applications for LAB setup should have been considered by Reserve Bank of India.

Figure 4.26 Features of LAB Scheme

(1) Objective of LAB Scheme

In the year 1996, decision was taken for allowing establishment of the local banks in private sector. LABs were expected for bridging gaps in availability of credit and enhancing framework of institutional credit in semi-urban and rural areas and providing competitive and efficient services of

financial intermediation in the area of operation.

(2) Capital Requirement for LAB

Minimum start-up capital for LABs has been fixed as Rs.5 crores. There was a requirement for the promoters of banks to contribute the minimum share capital up-front. Another requirement for capital was that the family among promoters group can hold equity not exceeding 40% of capital. NRI contributions to equity of bank were not exceeding 40% of paid-up capital. Entire initial capital need to be subscribed by promoters which includes their relatives/ associates/ friends) would carry lock-in-period of three years from date of licensing of bank. Further, promoters' equity should be to extent of 40% of initial paid- up capital which was locked for two years atleast beyond aforesaid period of three years subjected for reviewing before the expiry of a period of five years from date bank license.

(3) Promoters of LAB

Promoters of LAB can be societies, corporate entities and individuals. The NRI promoters should not exceed 20% of total number of promoter.

(4) Voting Rights

As per Section 12(2) of Banking Regulation Act, 1949 the voting right of Individuals need to be restricted to ceiling of 10% of total voting right.

(5) Area of Operation

LABs area of operation was restricted towards maximum of the three geographically contiguous districts. LABs activities need to focused predominantly on the local customers in semi-urban and rural areas for bridging credit gap in the areas.

(6) Scope of Activities

It was required for the LABs to finance the agricultural and the allied activities, agro-industrial activity, SSI, non-farm sectors and trading activities. Their lending towards priority sector was required to be atleast 40% of net bank credit and weaker sections lending was to be atleast 25% of their lending to priority sector i.e. 10% of the net bank credit).

(7) Registration, Licensing, Scheduling

The bank would be registered as a public limited company under the Companies Act, 1956. It would be licensed under the Banking Regulation Act, 1949 and would be eligible for inclusion in the Second Schedule of the Reserve Bank of India Act, 1934.

(8) Applicability of Statutes

The bank would be governed by the provisions of the Reserve Bank of India Act, 1934, the Banking Regulation Act, 1949 and other relevant statutes. However, in regard to liquidity requirements and interest rates, such banks would be governed by the provisions applicable to the RRBs established under the Regional Rural Banks Act, 1976.

(9) Prudential Norms

LABs should be subjected to the accounting policies, prudential norms and the other policies as laid by RBI. Banks would be required to maintain capital adequacy of 8% of the risk weighted assets and complying norms related to asset classification, provisioning and income recognition since inception.

(10) Licensing Procedure

As per the procedure which is being followed in cases RBI granted 'in- principle' approval to set up LAB which laid down terms and conditions that were needed for fulfilling by promoters before license can be granted for the commencement of the banking business. RBI could on its discretion

give instructions for providing any additional information which is required or cancel/ withdraw any 'in–principle' approval in event of the non compliance with conditions which were laid down in 'in – principle' approval.

Status of LABs Functioning

There are three LABs which are functioning currently. These are :

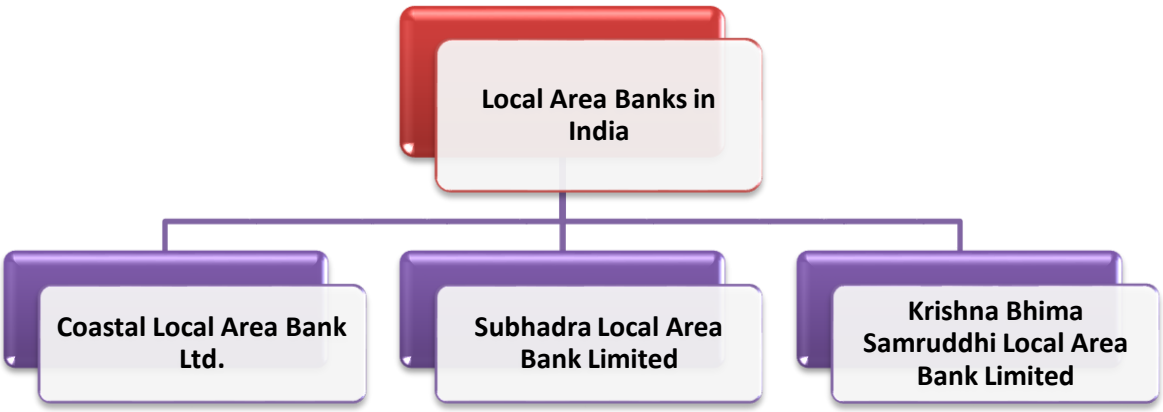

Figure 4.27 Current functioning Local Area Banks in India

(1) Coastal Local Area Bank Limited

It was the first Local Area Bank which was approved by RBI in the year 1999. This Bank is private bank which is established under Companies Act and regulated directly by RBI. This Bank has been operating in atleast one most prosperous region in India i.e. five districts in Andhra Pradesh.

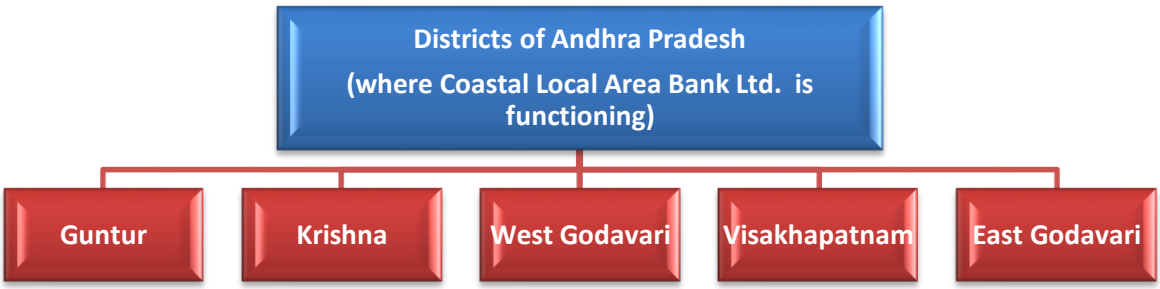

Figure 4.28 Districts where Coastal Local Area Bank Ltd. is functioning

This Bank has 50 branches in the above five districts and has its Corporate Office in Vijayawada. Coastal LAB has been profitable since its inception and all deposits upto Rs. 1 lakh was insured by the Deposit Insurance and Credit Guarantee Corporation (DICGC).

(2) Subhadra Local Area Bank Limited

Subhadra LAB was incorporated on July 10, 2003 and it received banking license from RBI for working as a LAB in five districts.

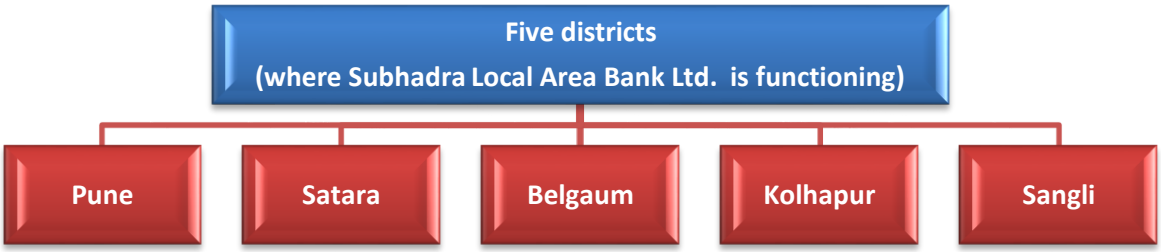

Figure 4.29 Districts where Subhadra Local Area Bank Ltd. is functioning

The Head quarter of this bank is in Kolhapur. This Bank is professionally managed by team which is well qualified which has diverse and vast experience across industry. The bank is well capitalized and surplus funds of bank have been deployed in the government deposits and securities with the reputed banks, in accordance with extant guidelines of RBI. Subhadra LAB has been deploying latest terms of technology which is available in market. This Bank has modern platform for Core Banking that provides customers best-in-class service which they deserve. This bank offers convenient service like doorstep services delivery/ cash pickup, pickup of document for banking transaction etc.

(3) Krishna Bhima Samruddhi Local Area Bank Limited

KBS Bank (Krishna Bhima Samruddhi LAB) is one of Local Area Banks which is presently operating in our country. This bank is operating in 12 districts in three states viz. Andhra Pradesh, Karnataka and Telangana. Although regulation is currently allowing LAB to operate only in 5 districts, the other districts are outcome of some administrative split of erstwhile districts of Gulbarga into Yadgir and Gulbarga and splits of Rangareddy and Mahbubnagar Districts in Telangana. Currently this bank has 29 branches and 17 Business Correspondent Outlets which are spread across districts. KBS set itself apart from other banks because of its business model. This is not the only bank in country which has business model based on core objective as financial inclusion and its delivery model is micro finance.

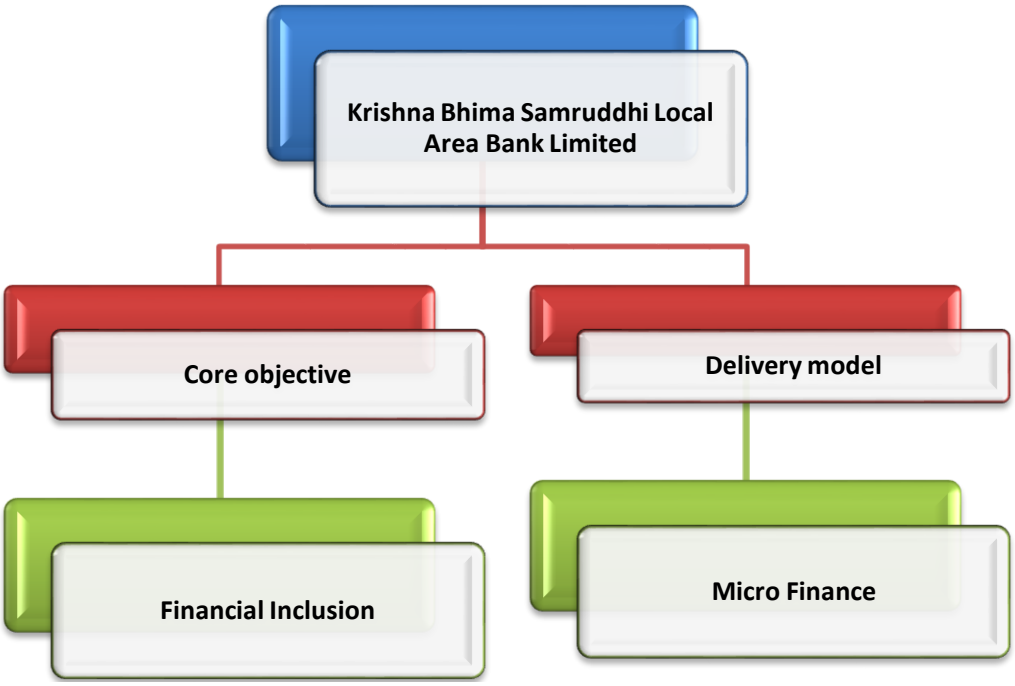

Figure 4.30 Districts where Krishna Bhima Samruddhi Local Area Bank Ltd. is functioning

Perhaps it is the only bank in the country, whose business model has been built on Financial Inclusion as its core objective and Micro Finance as its delivery model. Right in beginning Bank has adopted mission to be sustainable local community which is based institution for providing financial service for underserved. This Bank has been taking multitude initiatives with reference to its mission and objectives.

(B) Co-operative Banks

The Rural Financial System in our country calls for efficient and strong credit delivery, capable to take care of expansion and diverse credit need of rural and agricultural development. More than 50% of rural credit has been disbursed by Co-operative Banks and the Regional Rural Banks. NABARD

is responsible for regulation and supervision of functions of the Co-operative banks and Regional Rural Banks. In the direction, Department of Institutional Development of NABARD has been taking many initiatives in the association with RBI and Government of India for improving health of the Co-operative banks and RRBs.

System of Co-operative banking came into existence with aim for promotion of investment and saving habits among the people especially in rural areas of country. In India, the co-operative bank play a very crucial role in the rural financing, along with funding of the areas under livestock, agriculture, milk, self-employment, personal finance, setting up of the small-scale units amongst few focus point for rural and urban cooperative banks. They have been providing much-needed alternative of the practice of approaching village money lender, as most often people from rural areas get into debt-trap which they struggle in and find it difficult in pulling themselves out from it.

History of Cooperative Banking in India

Cooperative movement in our country started primarily to deal with problems linked with rural credit. Indian cooperative bank's history started with passing of the Cooperative Societies Act in the year 1904. The objective of the Act was establishing the cooperative credit societies for encouraging the thrift, cooperation and self-help amongst the artisans, agriculturist and people having limited means."

Cooperative credit societies have been set up in this Act. The Cooperative Societies Act, 1912 recognized need for establishment of new organizations for supervising, auditing and supplying of the cooperative credit. These organizations were:

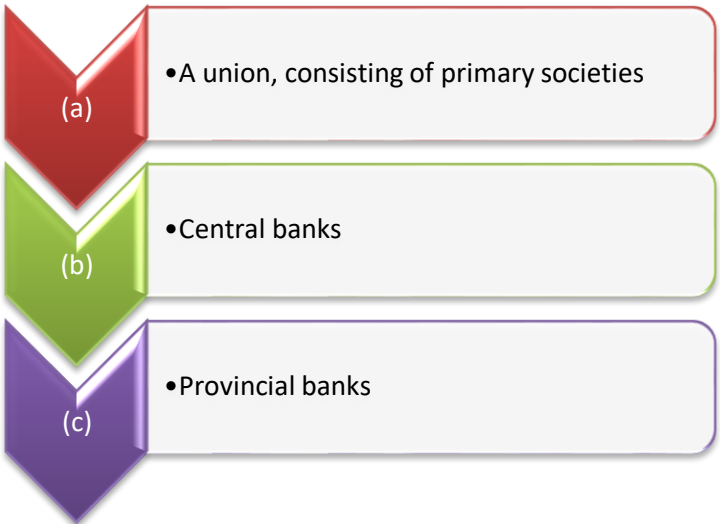

Figure 4.31 New organizations required for supervision of Co-operative credit

Although beginning was made in direction of establishment of cooperative society and extend cooperative credit but progress was unsatisfactory during period of pre-independence. Co-operative banks are the financial entities which were established on co-operative basis and belong to the members. This means that customers of co-operative bank are also owners. The Co-operative banks have been providing wide range of financial and regular banking services.

Structure of Co-operative Banks in India

Broadly, co-operative banks in India are divided into two categories - urban and rural.

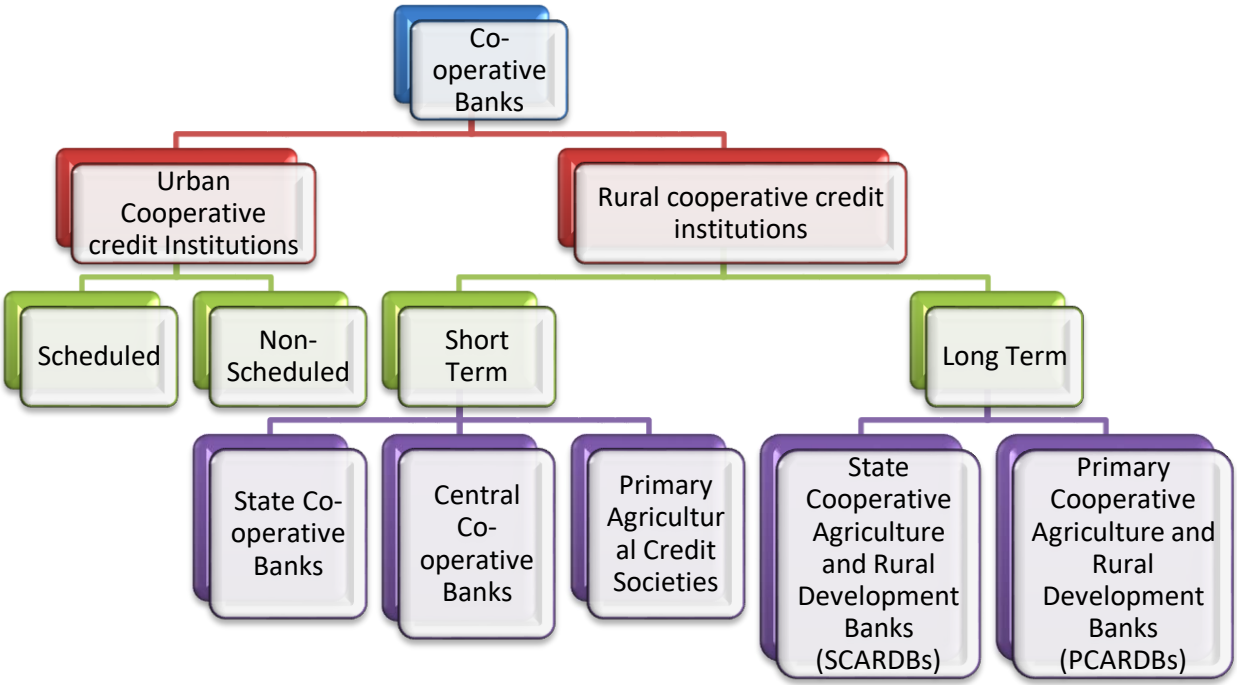

Figure 4.32 Structure of Co-operative Banks

In India, the co-operative banks have to be registered under States Cooperative Societies Act. They come under regulatory ambit of RBI under two laws i.e. Banking Regulations Act, 1949 and Banking Laws (Co-operative Societies) Act, 1955. The Co-operative banks have been brought under the supervision of RBI in the year 1966 and this was a move which also lead to dual regulation and created various problems for the Co-operative Banks.

Cooperative bank were established on cooperative basis and deals in the ordinary banking business. Like the other banks, Cooperative banks were founded by collection of funds through share; accept deposit and grant of loans. Long-term agricultural credit is provided by the land development banks. The whole structure of cooperative credit institutions is shown in the chart given. Short-term agricultural credit institution cater to financial needs which are short-term in nature have a three-tier structure.

Tier-I includes State cooperative banks (SCBs) at state level; Tier-II includes Central Cooperative banks (CCBs) at district level and Tier- III include Primary Agricultural Credit Societies (PACSs). In 19 states, there is an existence of 3-tier short-term cooperative credit structure which comprises SCBs, CCBs and PACSs. And in 12 states, there is an existence of a 2-tier short-term cooperative structure. In north-eastern states which includes Sikkim, structure is of 2-tier, which comprises only the SCBs and the PACSs.

1. State Cooperative Banks (SCBs)

Function and Organization

SCBs are apex institution in three-tier cooperative credit structure, which operates at state level. Every state has one state cooperative bank.

State Cooperative Banks have following Important Functions

a) Providing link through which RBI provide credit to cooperatives and also participates in rural finance
b) Function as balancing center for Central cooperative bank by surplus funds available of Central cooperative bank. There is no permission for borrowing or lending to the Central cooperative

banks

c) They have been financing, supervising and controlling central cooperative bank and also through them primary credit societies.

2. Central Cooperative Banks (CCBs)

Functions and Organization

The Central cooperative banks are in middle of three-tier cooperative credit structure.

Central Cooperative Banks are of two types

(a) There could be cooperative banking union for which membership is only open to members of cooperative societies. Such co-operative banking union exists in Punjab, Haryana, Rajasthan Kerala and Orissa.

(b) There could be mixed central cooperative bank which has membership open to individuals and also cooperative societies. The Central cooperative bank in remaining state is of the mixed type.

The main function of these banks is providing loans to primary cooperative society. Some loan is given to individual and others.

3. Primary Agricultural Credit Societies (PACSs):

Functions and Organization

The PACSs form base in three-tier cooperative credit structure. It is village-level institution that directly deals with rural people. PACSs encourage saving among agriculturists, accept deposits, gives loan to needy borrower and collect repayments. They serve as last link between ultimate borrowers, i.e., rural people on one side and higher agencies, i.e., Central cooperative banks, State cooperative banks and RBI on the other side. This type of society could be started with 10 people or more in a village. Membership fee is very nominal such that any poorest agriculturist could also become member. Members of society have an unlimited liability that means each member undertakes the full responsibility of entire society's loss in case it fails. Management of society is under control of elected body.

Long Term Credit

Land Development Banks (LDBs) or the Cooperative Agricultural and Rural Development Banks (CARDBs). Agriculturists need long-term credit to make some permanent improvement in land or repaying debt or for purchasing some agricultural machinery and some other implements. In a traditional way, long-term requirement of agriculturists was mainly met by the money lenders and other agencies. But the credit source was found to be defective and was responsible for farmer's exploitation. The Cooperative banks and the commercial banks are unable to provide long-term loan as their main deposits are demand deposits of short term in nature. There was great need of having specialized institution for supply of long-term credits to the agriculturists. The establishment of CARDBs was an effort in same direction.

Structure

These CARDBs have been registered as a cooperative society, but with only a limited liability.

These banks have a two-tier structure

(a) At state level, there exists State or the central land development bank, which is known as State Cooperative Agricultural and Rural Development Banks (SCARDBs) now, which is generally one in each state. These were known as the Central land mortgage bank previously.

(b) At local level, there exist branches of State land development bank or the SCARDBs and primary land development banks that are known as Primary Cooperative Agricultural and Rural Development

Banks (PCARDBs) now. In a few states, there are no such primary land development banks, but branches of state land development bank. In Madhya Pradesh, State cooperative bank functions as state land development bank. In the other state like Kerala, Maharashtra and Andhra Pradesh there exists two or more State land development banks.

The following are factors which are responsible for unsatisfactory performance of LDBs:

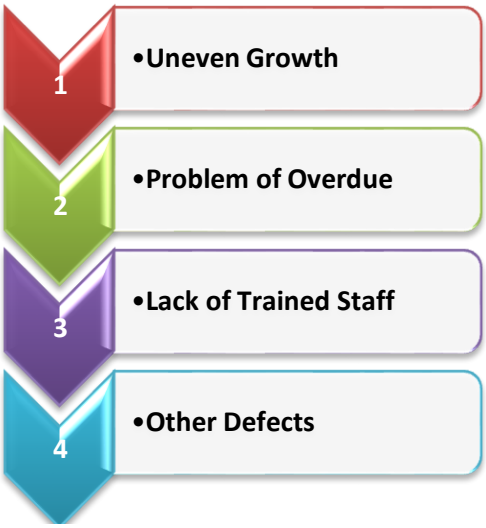

Figure 4.33 Factors responsible for Land Development Bank's unsatisfactory performance

Various advantages of the cooperative credit institutions are mentioned below:

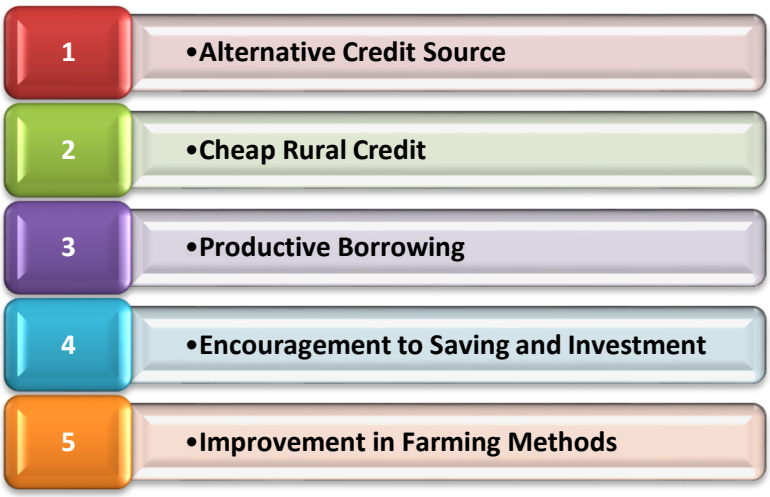

Figure 4.34 Advantages of cooperative credit institutions

(C) Regional Rural Bank (RRBs)

RRBs were established in the year 1975 under provision of Ordinance promulgated on 26 September 1975 and it was followed by RRB Act, 1976 with view for developing rural economy and creating supplementary channel to 'Cooperative Credit Structure' for enlarging institutional credit for agricultural and rural sector. Government of India, concerned State Government and bank, which sponsored Regional Rural Bank, contributes to share capital of RRBs in proportion of 50%, 15% and 35%, respectively. Area of operation of RRBs was limited to a few notified districts in each State. RRBs mobilize deposit primarily from the semi urban and rural areas and provide loan and advance mostly to the marginal and small farmers, rural artisans, agricultural laborers and the other segment of the priority sector.

Amalgamation

In the year 2001, RBI constituted Committee under Chairmanship of Dr V S Vyas on "Flow of Credit to the Agriculture and other related Activities from Banking System" which examined RRBs relevance in system of rural credit and alternatives to make it viable. Consolidation process was initiated in 2005 as per the off-shoot of Dr. Vyas Committee's recommendation. The first phase of the amalgamation was initiated Sponsor Banks-wise within State in the year 2005 and second phase was across Sponsor banks within State in the year 2012. NABARD have been involved actively in RRBs amalgamation. This process was initiated with view for providing a better customer service through better infrastructure, experienced workforce, computerization, marketing efforts, common publicity etc. The amalgamated RRBs benefitted from large area of operation, diverse banking activity and an enhanced limit for credit exposure for higher value. After the successive amalgamation, number of the RRBs in country as on 31 March 2018 stood at 56, having a network of 21,747 branches covering 683 notified districts in 27 States and UT of Puducherry. RRBs do not exist in Delhi, Goa and Sikkim. (Source www.nabard.org)

Recapitalization

During 2018-19, recapitalization assistance of Rs.108 crores were released to 4 RRBs by Indian Government viz., the details about recapitalization assistance is mentioned below :

Table 4.1 Recapitalization assistance to RRBs

Sr. no.	RRB	Recapitalization assistance
1	Madhyanchal GB	Rs.46.73 crores
2	Utkal GB	Rs.57.87 crores
3	Nagaland GB	Rs. 0.93 crores
4	Arunachal Pradesh	Rs.2.47 crores

Source: www.nabard.org

Pension benefits

NABARD have been involved actively in extending support to Government of India, Sponsor Banks and the RRBs for implementing Hon'ble Supreme Court's judgment for extending pension to the RRB staff. Draft guidelines / regulations related to pension were prepared by the NABARD and were sent to Government of India and after getting approval from GoI it was later circulated among RRBs. On 13 June 2019, 44 RRBs had implemented pension scheme for the staff members.

Review Meeting

Review meetings of RRBs have been conducted on half yearly basis which is based on the 'Performance Assessment Report' which is generated through a portal for discussing issues with a special reference to asset quality, profitability, governance issues, investment management etc.

Monitoring of the weak RRBs

Monitoring of the weak RRBs were reintroduced by changing nomenclature to the 'RRBs in Focus'. The identification criteria of RRBs for the purpose are synced with supervisory guidelines on the Prompt Correction Action of the RRBs. The RRBs meeting particular criteria related to Capital to Risk Weighted Assets Ratio (CRAR), Gross Non Performing Assets (NPA) and return on asset would be identified as the 'RRBs in Focus'. Detailed guidelines have been issued to RRBs for preparing Monitorable Action Plans.

Joint Consultative Committee (JCC) Meeting

JCC meeting is held with the RRBs association at national-level, representatives from the sponsor bank and the State Government for discussing various issues like pension parity, pay & allowance, recruitments & promotion, inclusion of the retired staff in the health insurance scheme and posting

officers from the Sponsor Banks.

(D) Nationalized Banks

The Nationalized banks are also called as Public Sector Banks (PSBs), they are major type of banks in India, in which majority stake is held by government i.e. more than 50%. Shares of these public sector banks have been listed on the stock exchanges.

Emergence of the Public sector banks

Central Government entered banking business with nationalization of Imperial Bank of India in the year 1955. RBI took 60% stake in these banks and new bank was named State Bank of India. Seven other State banks became subsidiaries of this new bank in the year 1959 when State Bank of India (Subsidiary Banks) Act, 1959 was passed under Nehru government. Later, a major government intervention took place in banking on 19 July 1969 when Indira Gandhi government nationalized additionally 14 major banks. Total deposits in banks nationalized in the year 1969 amounting Rs. 50 crores. With this move increased presence of the nationalized banks in our country, with 84% of total bank branches came under the control of government control.

The following are the reasons why nationalization of banks was necessary

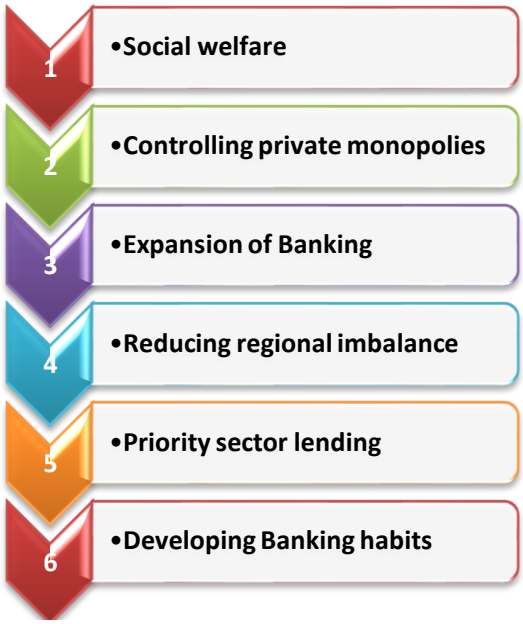

Figure 4.35 Reasons why nationalization of banks was necessary

(1) Social Welfare

Sectors like agriculture, village industries and small industries required funds for expansion and for economic development.

(2) Controlling Private Monopolies

There was a need that private monopolies are checked so as to ensure smooth credit supply to the section of society that is socially desirable.

(3) Expansion of Banking

There was a need for spreading banking throughout the country. This could have been done through expansion of banking network (through opening of newer bank branch) in un-banked areas.

(4) Reducing Regional Imbalance

The number of accounts was more in the urban areas and this represented an imbalance and because of this rural – urban divide, it was necessary that the banks go to rural areas where there

was non-availability of banking facilities.

(5) Priority Sector Lending

Nationalization was needed urgently to cater funds for agricultural sector and the allied activities.

(6) Developing Banking Habits

In India, more people were staying in the rural areas. It made development of banking habits necessary among larger section of population.

Before Economic Liberalization

Share of banking sector that was held by public banks continued growing through 1980s and by the year 1991, Public sector banks accounted 90% of banking sector. In the month of March, 1992, combined total branches which was held by these banks was 60,646 all over India and the deposits accounted for 1,10,000 crores. Majority banks were profitable and only one bank out of 21 public sector banks reported loss.

Liberalization in 2000s

Nationalized banks reported combined loss of 1160 crores. In the early 2000s, there was a trend reversal in the trend, like 2002-03 profit of 7780 crores by public sector banks. A trend continued throughout the decade having a profit of 16856 crores in the year 2008-2009.

Mergers

Consolidation of the SBI associated bank started first by the merging of State Bank of Saurashtra to it. This merger happened on 13 August 2008. Then later on 27 August 2010, State Bank of Indore was acquired by State Bank of India. Remaining 27 nationalized banks have been merged into 12 banks from the years 2017-19. The State Bank of Hyderabad, State Bank of Bikaner & Jaipur, State Bank of Mysore, State Bank of Travancore, BharatiyaMahila Bank and State Bank of Patiala were merged with State Bank of India effective from 1 April 2017. Dena Bank and Vijaya Bank were merged into Bank of Baroda in the year 2018. IDBI Bank was categorized as private bank effective from the month of January 2019.

On 30 August 2019, Finance Minister Nirmala Sitharaman announced government's plan to further consolidate public sector banks in the following way :

Table 4.2 Merger of Public Sector Banks

Merger of Banks	Anchor Bank
1) Indian Bank 2) Allahabad Bank	Indian Bank
1) Punjab National Bank 2) Oriental Bank of Commerce 3) United Bank	Punjab National Bank
1) Union Bank of India 2) Andhra Bank 3) Corporation Bank	Union Bank of India
1) Canara Bank 2) Syndicate Bank	Canara Bank

Source : Economic Times Online (April 2020)

To Do Activity

Form group of 2-3 students, select any Public Sector Bank and explain about the bank since its inception and also explain about its merger.

4.4. Loans for Farmers

A tenant farmer is a person who resides on the land owned by landlord. Tenant farming is a kind of agricultural production system wherein landowners contributes their land and generally a measure of the operating management and capital, while the tenant farmers contributes labor along with a varying amount of management and capital at times. It depends on contract wherein it is mentioned whether tenants could make payment to owner either of fixed portion of product which could be in cash or a combination. The right which the tenant has over the land, form, and the payment measures varies across the system, chronologically and geographically. In certain systems, tenant can be expelled at the urge (tenancy as per will); in the other case, landowner and the tenant sign contract for a fixed number of years. In most of the developed countries, there are some restrictions that are placed on landlord's rights for evicting tenants under the normal circumstance.

RBI have advised the banks for accepting certificates by the local administration or Panchayati Raj Institution for testifying the status as well as identity of the farmer who is applying for loan when loan is being given to tenant and oral sharecroppers. It was suggested by the Internal Working Group that when the loan amount is upto a limited amount (for example Rs. 50000/-) then in that case banks can also consider granting of loan to people on the basis of an affidavit which explains the status and identity of the borrower. In these types of loans local enquiry and field visit is done which indicate that sharecropper/ tenant has the right to usufruct the land. The Internal working group also recommended further that the farmers could form Self Help Group (SHGs) for creating social capital which could instead be further used as collateral for purpose of providing crop loan. The farmers find it difficult in getting a larger sum of money in the form of loan, since they do not have assets of their own, hence it becomes easy for them to form SHGs and then they could raise some money of SHG and this collateral could help them in getting a higher sum of money.

The Banks and other financial institutions are shying away from providing loan to the tenant farmers, there is a unique initiative being taken up by the Government of Andhra Pradesh.

Initiative by Government of Andhra Pradesh

The Government of Andhra Pradesh has begun a special drive for identifying the eligible farmers and sharing this list of farmers with the banks which are situated in vicinity. In the beginning, they have planned to issue a card which will indicate the eligibility of the farmer and this card is known as the loan eligibility card. The Government has planned to issue this card to 5.55 lacs Licensed Cultivators. The farmers having this card will not be required to seek any guarantee or security when they apply for a loan amounting upto Rs. 50000.

Source : Vikaspedia.in

These cards which were issued to the farmers, have five features of high security like watermarks that could be seen only below the ultra violet light etc. These cards will be valid for a period of one year and these cards do not provide any right to the tenant farmers on the land. After a period of one year, these cards will be required to get renewed for getting a new one.

These cards will not only make the farmers eligible for the loans, rather also help the tenant farmers in getting access for the input subsidies and also insurance claims that generally go to the landowners.

Large Loans for Fishing Business

The South Indian Federation of Fishermen Societies (SIFFS) offer loans to women those who travel in groups to various distant markets for buying larger quantities of fish for the purpose of drying them. These sell are later sold by them locally during lean season. This enterprise required larger initial

investment and returns arrive after a period of four months only. SIFFS offers loan ranging from 10000 – 20000 to a group of women. These females are required to pay the interest on the loan every month. The principle on this loan could be repaid after a period of five months, since till then they will be able to sell off the stock of dried fish.

Centrally Sponsored Scheme on Development of Inland Fisheries and Aquaculture

In India, there are vast resources as in terms of various types of water bodies.

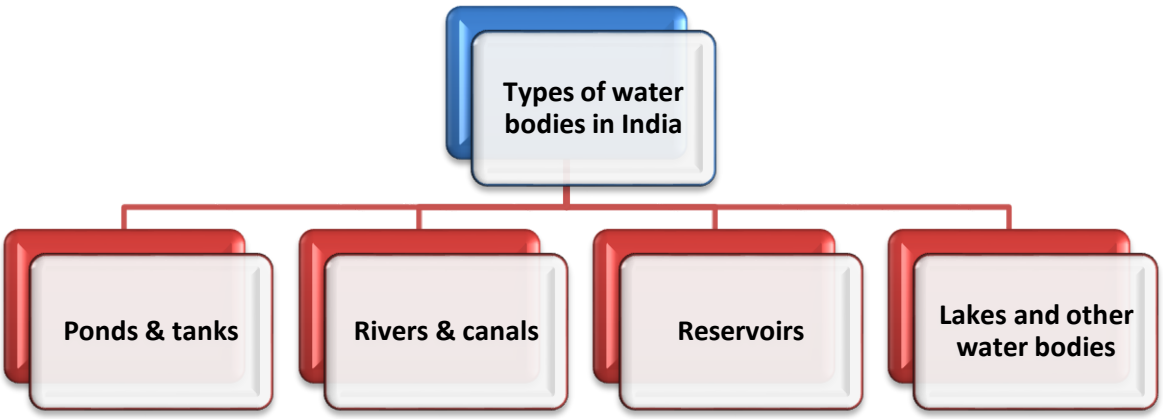

Figure 4.36 Types of water bodies

Because of the above mentioned water bodies in our country, there is an immense scope for the developing of fisheries for strengthening food security, generating employment opportunity and earning foreign exchange with ultimate objective regarding improvement in socio economic status of the fishers and even other people who are engaged in this sector. Towards this direction, the Indian government formulated and launched a Centrally Sponsored Scheme based on "Development of Inland Fisheries and Aquaculture" under the macro-management approach in the States/UT during 10th Plan. Total outlay which was approved for entire 10th Plan period was Rs 135.00 crores.

The components which were approved under this scheme are:

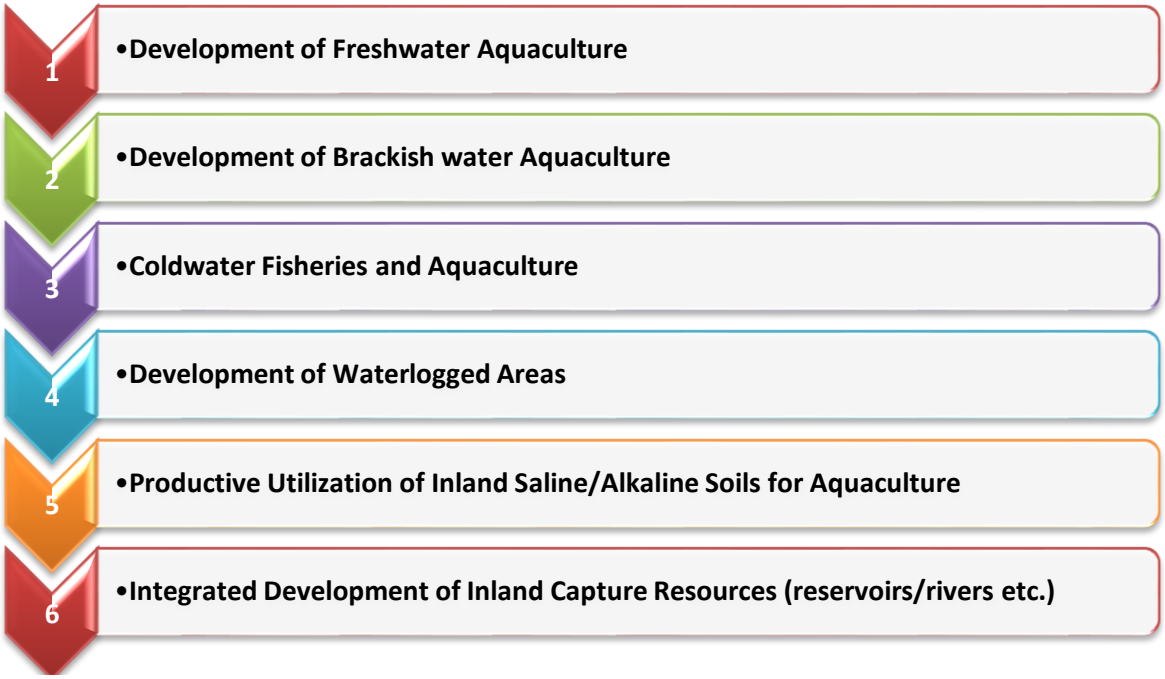

Figure 4.37 Components of Centrally Sponsored Scheme on Development of Inland Fisheries and Aquaculture

The expenses on the developmental activities would be shared on 75:25 basis by Government of India and State/UT Governments as per the above said components. Two components like Development of Freshwater Aquaculture and Brackish water Aquaculture were to be implemented by a single agency named Fish Farmer Development Agency (FFDA). The other remaining four components have to be implemented through Fisheries Department of respective States/UT's. The States/UT's are required to bear the full cost of the base and incremental salary, vehicle maintenance, office contingency and land acquisition wherever it is necessary, etc. Cost of purchasing vehicle would be borne in the ratio of 50:50 between Indian Government and State/UT Governments.

Indian Government shares in form of the grant-in-aid for all items which are given under each component as per approved norms. There is subsidy to be given only once to the beneficiary on these items. Financial assistance is given to not only individual beneficiaries rather financial assistance is also available to other groups under above components. This assistance is available for Self-Help Groups, Women Groups and Fisheries Co-operative Societies, etc. State/UT Governments on the above mentioned components need to make matching contributions. Besides there is a benefit of subsidy on approved items under scheme, balance amount for the items could be obtained as a loan which is made available to beneficiaries through FFDA's/ States/ UT's Fisheries Department from leading/participating banks. Subsidy is given for all the approved item under scheme could be given also to beneficiary, if remaining cost of the items will be contributed by the individual from her/his own resources and it is duly certified by FFDA's/ States/UT's Fishery Department.

The agencies which are dealing in implementation were required to furnish quarterly and annual progress report which indicates financial and physical achievements in a regular manner in prescribed format which is already communicated to State/UT Government. Accounts of agency would be subjected to audit by the Chartered Accountants who are appointed by agency and/or by such other officers of Indian government / State/ UTs government as there is a requirement under rules and reports are to be reported to the Ministry.

The State/ UTs government has to ensure that proposals for various components have been completed in all the aspects which are accompanied by a detailed progress report of central share which is released during years which proceed and reason for shortfall, if any, etc. Availability of the budgetary provision in State Budget should specifically be indicated in proposal. Component-wise detail about the activities which are eligible for assistance, quantum of the assistance and the other detail is mentioned Table 4.3 (A).

Expense on the items mentioned in Table 4.3 (A) would be shared in a ratio of 75:25 among the Indian government and the States. The assistance mentioned above is given only once to the beneficiary under the FFDA programme. Subsidy given for construction of a new pond and tank, reclamation/ renovation of ponds/ tanks and first year inputs given to individual beneficiary upto 5 ha is actually available with or without the institutional finance in plain areas and 1.0 ha in hilly districts/ States on a pro-rata basis.

Table 4.3 (A) Development of Freshwater Aquaculture

S No	Description of Items	Rate of assistance
1	New pond's construction	Rs 2.00 lacs/ha in plain areas. Subsidy @ 20% having a ceiling of Rs. 40,000/ha for all the farmers except ST's/SC's as it will be Rs 50, 000/ha i.e. 25% Rs 3.0 lacs/ha in hill Districts/ States and the North-Eastern region. Subsidy @ 20% having ceiling of Rs 60,000/ha for all the farmers except Scheduled Tribe (ST)/Scheduled Caste (SC) for whom ceiling will be Rs 75, 000/ha i.e. 25%.
2	Renovation of ponds or tanks/ Reclamation	Rs. 60,000/ha. Subsidy of 20% having ceiling of Rs 12, 000/ha for all the farmers except ST's/SC's for whom ceiling will be Rs 15,000/ha i.e. 25%.
3	Input's cost	a) Finfish Culture - Rs 30,000/ha Subsidy of 20% having a ceiling of Rs 6,000/ha for all the farmers except ST's/SC's for whom the ceiling will be Rs 7,500/ha i.e. 25%. b) Freshwater prawn culture having Unit cost of Rs 1.20 lacs per ha. Subsidy of 20% with ceiling of Rs 24,000/- per ha
4	Running Water fish culture in the hilly areas and plain areas	Rs 20,000 per unit of 100 sq. meter. Above cost includes Rs 4,000 towards input. Subsidy of 20% with ceiling of Rs 4,000/- per unit for all the farmers except ST's/SC's for whom it would be Rs 5,000 per unit i.e. 25%. Ceiling of 3 units per farmer in the terms of grant admissibility.
5	Integrated Fish Farming	Rs 80,000/ha. Subsidy of 20% having ceiling of Rs 16,000/ha for all the farmers except ST's/SC's for them it would be Rs 20,000/ha i.e. 25%.
6	Pumps/ Aerators	50,000/unit of two-1hp aerators/ one 5hp diesel pump. Subsidy of 25% having ceiling of Rs 12,500/- per aerator's set/ pump for all the category of farmers who have reached level of production of 3000 kg/ ha/ year. Maximum of a two-1hp aerator/one 5hp diesel pump for one hectare water area would be admissible.
7	Freshwater Fish Seed Hatchery	Rs 8 lacs for fish seed hatchery with 10 million (fried) capacities for plain areas and Rs 12 lacs with same capacity in hilly districts/ States and North eastern region. Subsidy of 10% having ceiling of Rs 80,000/- and Rs 1.20 lacs in plain and the hilly areas respective to the entrepreneurs only.
8	Fish Feed Unit	Small Unit i.e. Unit cost is Rs. 5 lacs having capacity of 1.2 quintals per day. Subsidy of 20% with ceiling of Rs 1 lacs per unit to the entrepreneurs.
9	Training of the fish farmers	Stipend of Rs 100/- every day during the training period of 10 days and lump sum of Rs 100/- toward the travel expense or field visits.
10	Transportation of prawn seed/ fish	This is applicable only for hilly districts/ States and North-Eastern Region. Subsidy of Rs. 20 for 1000 fried transported to all the FFDAs. This is not applicable to the individual fish farmers.

Source : Centrally Sponsored Scheme on Development of Inland Fisheries and Aquaculture. (n.d.)

Table 4.4 (B) Construction or renovation of brackish water fish farm and training of farmers

S. No.	Description of Items	Rate
1	Construction or renovation of brackish water fish farm	The beneficiaries of this would be the small shrimp farmers who have a land holding of 2 ha or lesser. 25% of the cost is subject to maximum of Rs 40,000/- per ha as a subsidy.
2	Training of the shrimp farmers	Training can be managed by State Government by availing of assistance under another scheme on the Fisheries Training/ Extension or providing a specific and specialized training through centers of the expertise on surveillance centers which were proposed under a programme mentioned under S. No. 5 below.
3	Establishment of the Demonstration-cum-Training center	A one-time grant by Government of India amounting to Rs 5.00 lacs.
NEW ACTIVITIES		
4	Aquatic Quarantine and Inspection Unit (AQIU)	The unit Headquarter of AQIU is in Delhi and has supporting staff at National Bureau of Fish Genetic Resources (NBFGR) (ICAR Institute) and the nodal unit one each on the east and the west coast. 100% expenditure would be incurred by Centre.
5	Network of the Diagnostic Laboratory for the health of Aquatic Animal	100% expense would be incurred by Centre.

Source : Centrally Sponsored Scheme on Development of Inland Fisheries and Aquaculture. (n.d.)

Expense on the items mentioned in table above except 4 and 5 would be shared in a ratio of 75:25 among the Indian government and the States. 100 % expenses would be borne by Government in 4 and 5.

Table 4.5 (C) Coldwater Fisheries and Aquaculture

S. No.	Description of Items	Rate
1	Preparation of the resource survey and feasibility report	Rs. 5 lacs as a one-time grant to State Government
2	Short term investigation, breed or rear	Rs. 5 lacs as a one-time grant to State Government
3	Construction, extension, renovation or remodeling of the fish farms	A one-time grant. Amount would be decided on proposal's merit
4	Farming unit for the coldwater fish species and the first year input	Cost of unit Rs 35,000/- (Rs 25,000/- plus Rs 10,000/-) for unit size - 15m x 2m x 1m. Subsidy to the beneficiaries is 20% having maximum ceiling of Rs. 7,000/- per unit.
5	Units for the running water fish culture	Unit cost which includes input of Rs 42,500/-. Subsidy to the beneficiaries is 20% having a ceiling of Rs 8,500/- per unit.
6	Feed units	Rs. 10 lacs per unit as a one-time grant to the State Governments
7	Training of the fish farmers	Stipend of Rs 100/- for each day of training (period - 10 days) and lump sum payment of Rs. 100/- toward the travel expense/field visit per trainee.
8	Vehicle purchase	This scheme is allowed for purchasing one vehicle. Expenditure needs to be shared in a ratio of 50:50 by Centre and states.

Source : Centrally Sponsored Scheme on Development of Inland Fisheries and Aquaculture. (n.d.)

Expense on the items mentioned in table above (except sr. no. 8) would be shared in a ratio of 75:25 among the Indian government and the States.

Table 4.6 (D) Productive utilization of the Inland Saline/ Alkaline water for aquaculture

Sr. No.	Description of Items	Rate
1	Construction cost	Unit cost of Rs. 2.5 lacs /ha. Subsidy of 20% with a ceiling of Rs. 50,000/- per ha
2	Input cost	Unit cost of Rs 1 lakh/ha. Subsidy of 20% with ceiling of Rs. 20,000/- per ha
3	Training	Stipend of Rs. 100/- per day during the training (maximum period - 10 days) and lump sum payment of Rs. 100/- toward travel expense/ field visit per trainee.

Source : Centrally Sponsored Scheme on Development of Inland Fisheries and Aquaculture. (n.d.)

Expense on the items mentioned in table above would be shared in a ratio of 75:25 among the Centre and States.

Specific loans from Micro Finance Institutions (MFIs)

Microfinance is a way through which access is provided to people towards loans, insurance, credit, savings accounts and transfer of money. These facilities are provided for owners of small business and the entrepreneurs in underdeveloped part of India. Beneficiaries of the microfinance are basically those who do not have access to the traditional financial resource. Interest rate on the microloans is generally high than as compared to the traditional personal loan. The working of MFIs is not standardized across the nation and MFIs in different areas might have uniquely structured loan for different purpose.

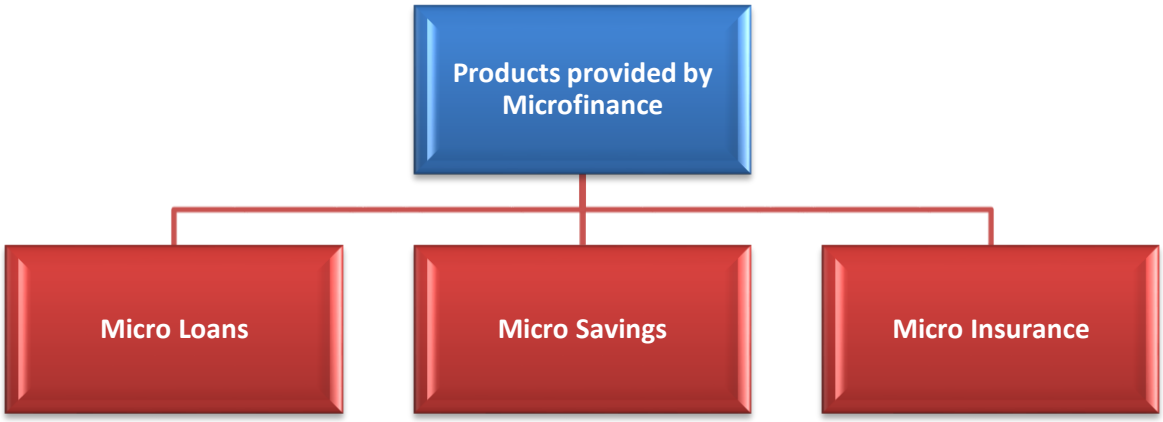

Figure 4.38 Products provided by Microfinance

Microfinance include following products:

(1) Micro Loans

Microfinance loans are provided to the borrowers without any collateral. End result of the microloans should have been the recipients to outgrow smaller loans and making them ready for the bank loans which are traditional in nature.

(2) Micro Savings

Micro savings account allows the entrepreneurs to operate the savings accounts without any minimum balance. This account helps the users in inculcating financial discipline and developing an interest in savings for future.

(3) Micro Insurance

This is a type of coverage which is provided to the borrowers of micro loans. This insurance plan has a lower premium than the traditional insurance policy.

In certain situations, the recipients of micro loans are required to undergo various training courses related to management of cash flow or book-keeping.

Importance of Microfinance

Almost half population in our country is not having even basic saving account. However, in this segment there is a requirement of financial services as there are aspirations among people related to asset building and risk protection could be fulfilled. Micro finance provides access towards capital for the individuals those who are underserved financially. It is very important that they get loans from the MFIs else they would borrow money from their family member and friends. Probability that they would opt for faster cash loans or paying of advances which bear a huge rate of interest is also high. Microfinance has been helping the groups for investing wisely in businesses owned by them and hence MFIs are aligned with vision of government towards financial inclusion of our country.

Highlights of Microfinance

1. Micro loans are in range between Rs.20,000 – Rs.30,000 which are availed by beneficiary mostly in India. Though there was a rise in the category of loans ranging between Rs.30,000 - Rs.40,000 and there was a rise of 56% between Quarter of financial year 2018 and 2019.
2. There has been growth of 44% year-on-year basis as on March 31, 2019.

Source : CRIF High Mark Report, 2019

Key Features of Microfinance

Microfinance in India primarily operates through the following two channels:

(1) SHG-Bank Linkage Programme (SBLP)

NABARD initiated this channel in 1992. This channel encourages women who are financially backward for coming together through group of 10 to 15 members. The group members contribute savings towards the group at regular interval. From the contributions, loans are given to the group members. This channel has been contributing towards women empowerment in our country. Once the self-sustaining group reaches stability, these groups function independently with a minimal support provided by SIDBI, NABARD and NGOs.

(2) Microfinance Institutions (MFIs)

The primary operation of MFIs is providing microfinance to people who are unable to avail loans from other banks and financial institutions. These Institutions lend money through JLG i.e., informal group which consists of 5-10 members which seek loans which could be either individually or jointly.

Following are some important features of microfinance:

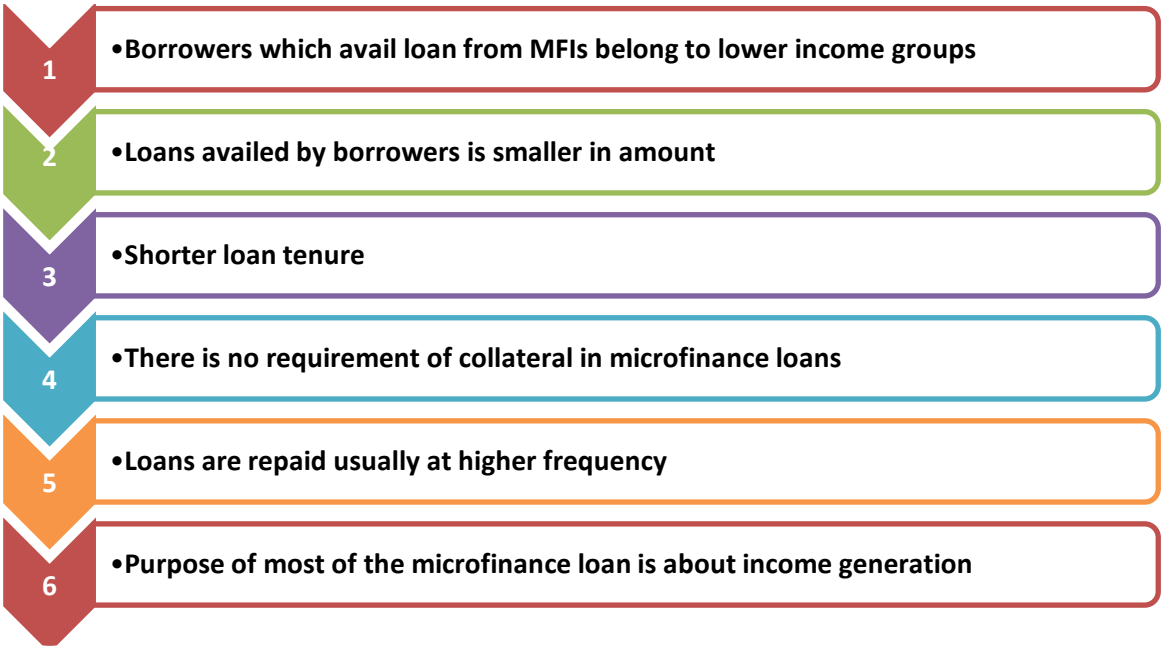

Figure 4.39 Features of Microfinance

Microfinance Channels

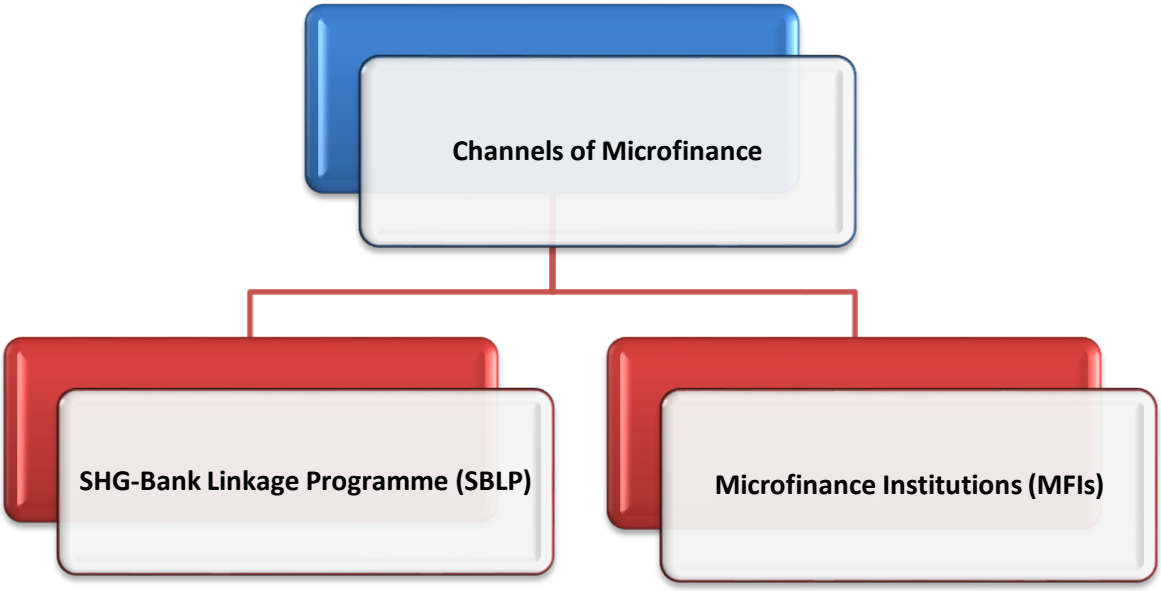

Figure 4.40 Channels of microfinance

Role of Microfinance Institutions (MFIs)

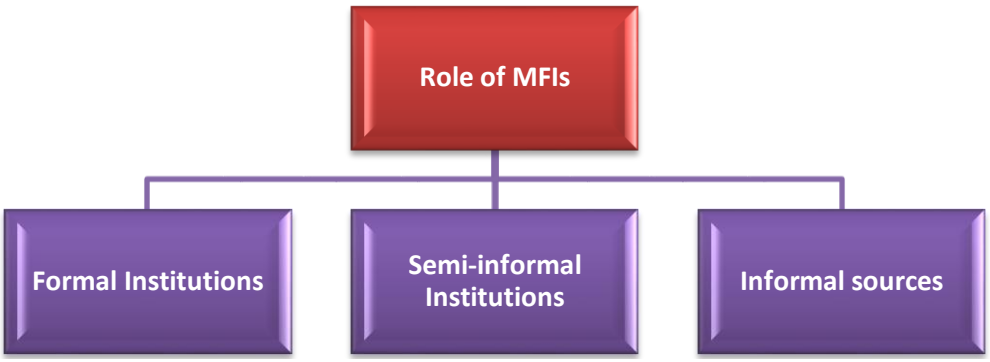

Figure 4.41 Role of MFIs

Micro finance services are being offered by following sources:

(1) Formal Institutions

There are formal institutions who provide micro finance i.e., cooperatives and the rural banks

(2) Semiformal Institutions

There are various institutions which are working as Semi formal organizations. There provide micro finance loans to the people who need loan in smaller amounts. These semi formal institutions are Non-government organizations.

(3) Informal Sources

There are certain informal sources like small scale lenders and shopkeepers which are provide micro finance to people. Institutional micro finance encompasses services provided through both formal and the semiformal institutions. A MFI specializes in the banking services for the lower income individual and group. The institutions access financial resource from the mainstream financial entity and providing support service among poor people. Micro finance institutions are emerging an effective tool for reducing poverty in our country.

Microfinance Companies in India

Some microfinance companies which offer loans to unbanked and the under-banked population in our country are mentioned below:

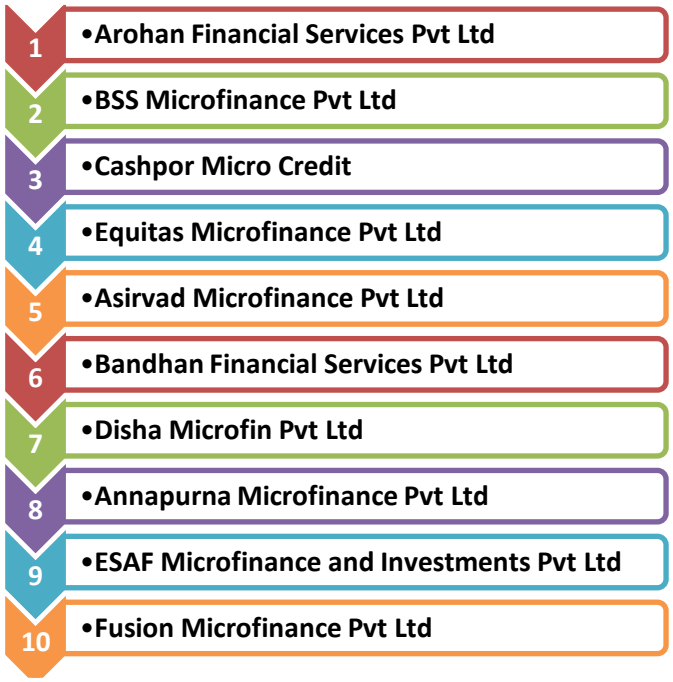

Figure 4.42 Microfinance Companies in India

Different Types of Loans which are Given through Microfinance Companies

These products cover needs of people who need cash immediately, the products also includes loans that are given to women for increasing generation of income. Different MFIs provide different loans and some of the type of loans are listed below :

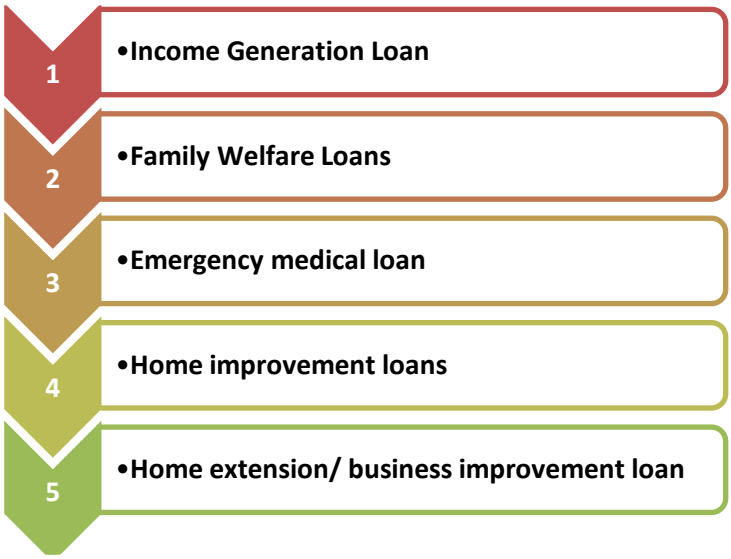

Figure 4.43 Different type of loans provided by MFIs

(1) Income Generation Loan

This loan is given for supporting business enterprises and enhancing income generation activities of clients like for purchase of fixed asset to installation of additional machine etc. Such loans help in meeting additional requirement of working capital in client's businesses. The loan tenure might range from 52 weeks to 104 weeks and this tenure is dependent on amount of loan. Individuals, those who are not having access to credit through the formal system of banking, could get help financially through this loan. The poor people those who are involved in the micro business for supporting their families are identified and are provided credit assistance. The amount of loan depends upon repaying capacity of the borrower.

(2) Family Welfare Loans

These loans provide support for all the activities which help in improving the quality of life and these include loans which are provided for genuine consumption need like purchase of cook stoves, LPG connection, bicycle, solar light, water purifier, meeting education requirement of the borrower's children, for covering medical expense and catering specific need which arise during various festivals. The amount of loans might range from Rs. 1000 to Rs. 15000. The tenure of loan varies from 12 weeks to 52 weeks and it depends upon the amount of loan.

(3) Emergency Medical Loan

These loans are given to people for meeting shorter term emergency and also shorter term cash flow constraint. Financial assistance when provided timely refrain members from resorting from any other informal source of money that are expensive. This loan amount could be upto Rs. 1000 and any individual could apply for availing the loan amount for helping them in dealing better with a sudden crisis situation. The maximum tenure could be 3 months.

(4) Home Improvement Loans

This loan is provided for funding poor people those who are interested in repairing or extending their house. In this scheme, customers could get funding of amount ranging between Rs. 20,000 to Rs. 1.5 lacs. This loan could be utilized in building a lower cost house which could be sufficient for a

comfortable living. The repayment period could be upto 48 installments. These loans could also be availed for availing water connection, construction of toilets, beside extension and improvement of the existing houses, i.e. repairing or replacing roof, monsoon proofing, addition of kitchen or room etc.

(5) Home Extension/ Business Improvement Loan

Loans that are of high amount are generally given in groups that are dependent on the micro finance company. Even various appliances like mobile phone which is essential for business has been bought through micro finance loans.

To Do Activity

Select any MFI working in the country and explain about the products which are being offered by them to rural people and also discuss its features. Students need to take up this task individually, instead of forming group.

4.5. Loans for Adolescent Girls and Consumption Loans

There are some organizations which are involved in Credit and Savings Household Enterprise (CASHE) project for offering loan to the adolescent girls. The loan is available to both the parents, which enables the girl for purchasing productive asset which would help her in earning an income, delay marriage and can bring this asset to the house of in-laws once she gets married. This loan helps in empowerment of young women, rather also try in reducing the incidence of any dowry.

Loan for adolescent girls helps in the following benefits

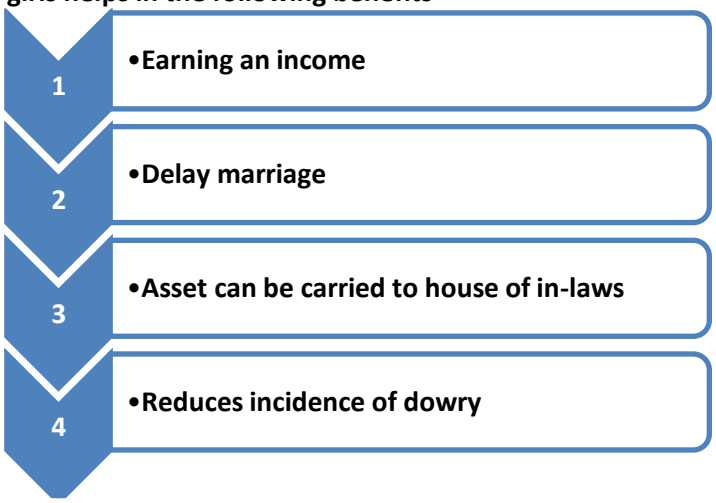

Figure 4.44 Benefits of loan for adolescent girls

It is very important that girls should find another way for savings for their future. Savings is not a limited story, the other side is related to NGOs who have been employing 'credit first' or the minimalist principles of credit. When the Savings form a part of credit basis in financial institution, there is no such institution which not has a problematic, tortured, path towards sustainability; rather it started on a path which is more naturally sustainable. NGOs have been going into micro credit with the donor's money, and aiming toward sustainability without, in many cases, enormous benefit related to voluntary saving mobilization. Sustainability in the programmes run by NGO hobbled from start. It seems that poor people want credit lesser than savings and credit is doing little for the productive creation of asset.

It is not possible to fighting with poverty through one single dose. Even a sustainable development planner cannot plan it as a single and final attack on poverty. There are many projects issued from time to time which could actually help in sustainable development of the economy. One such project is Credit and savings for Household Enterprises (CASHE) project which is actually lending programme. Unfortunately credit and the non-credit financial need of clientele community were expected that it would outlive shelf life of six years as one of most ambitious project in the micro-lending which hit the Indian shores. This flawed-in-conception status was obvious from fact that CASHE budget did not include component of income generation for skills – building. Best intentions were to give shove across poverty line without imparting financial sustainability to the households or to provide repeat finance. Incompatibility between tendency of the NGOs for up-scaling (for the sake of continuance of grant) and financial sustainability was summed up by William F. Steel, World Bank consultant, according to whom, Methodologies which are grant-based are inadequately suited for the financial intermediation and especially for providing credit fund, in which recovery is more critical as compared to disbursement. There are different types of NGOs which have turned into MFIs having credit as well as savings services do not have much success. Various studies have shown that there is not much in terms of sustainability and outreach. Many have been facing teething problem while it has been folded up by a few.

There are some dysfunctional aspects which were highlighted by Shri Karan Singh (from WISE Development Authority) during a case study sponsored by Cooperative for Assistance and Relief Everywhere (CARE) about CASHE programme.

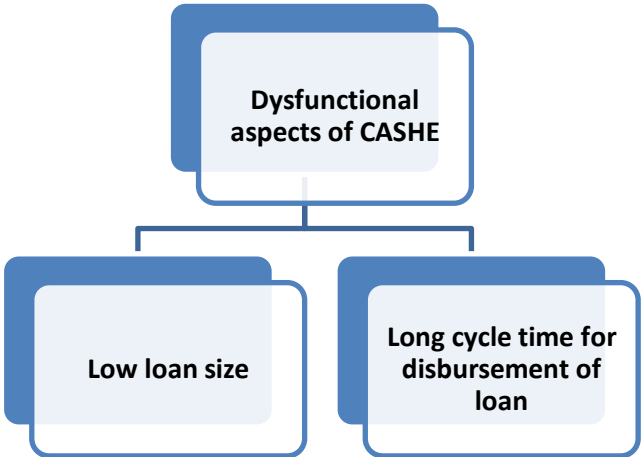

Figure 4.45 Dysfunctional aspects of CASHE programme

CASHE programme should have been implemented successfully in these dysfunctional aspects should have been resolved. The applicants for loan in this programme are the girls who would utilize the loan amount for buying of assets or some other equipment which help them in empowering themselves, increasing income and this would help her in delaying her marriage and later this asset could also be carried to the house of in-laws and this would reduce the incidence of dowry. The dysfunctional aspects that the amount of loan is low could discourage the girl who is applying for getting loan under this programme. The time of loan being disbursed is also long and this could again rather than encouragement result in discouraging the girl and her parents. There are many groups who have been managing these loans successfully in past from loosing energy when they did not get subsequent credit linkages. The girl who could become a borrower should also be aware of ways through which income could be generated.

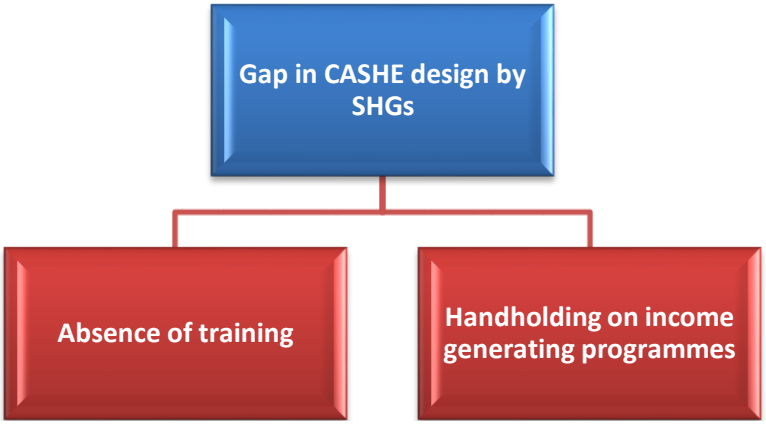

Figure 4.46 Gap in the CASHE Design by SHGs

It is very important that the borrower is given proper training so that she could actually understand the different ways of utilizing the asset which she buys through the amount of loan received. Hand holding on the income generating programme is also required for the borrower so that the main aim of CASHE programme could be achieved. The same need was also felt by various NGOs who were trying to increase demand of loan and also SHGs ability for handling larger loan. In India, demand of poor people for liquid and safe saving instruments is high. NGOs, which are more sensitive to poor and have intimacy with the individuals, overcome trepidation that the destitute and illiterate villagers have their thinking about the bank personnel. It is very important that such programmes are introduced from time to time by the government and the poor people could overcome the problem of poverty through some or the other programme. Another, aspect should be taken into consideration is that providing credit is not only enough, it is very important that the people who are actually the beneficiaries are able to utilize the funds in a proper way for which it has been provided. Training plays an important role and if the borrower is given proper training then there is a chance that the funds would be utilized properly in the right direction and also the borrower would be able to achieve his goals as well as be able to return the amount back to the lender within the right duration of time.

Consumption Loans

A study which was conducted by microfinance organization which was named SafeSave found that women need a longer-term for credit for building assets like house, for buying land and providing it on lease, either in their own name or jointly. They require funds for purchasing some 'female assets' like jewelry, or redeeming them from the pawnbrokers and also the moneylenders. The females also need credit for investing in small business venture and these may not be related to farming. In a similar way, the agricultural worker and the farmers require consumption loans for avoiding taking loan from the money lenders in the slack and the 'hungry' season. Farmers need loan during production season. They will benefit if they could get loan from the formal financial institutions, as it would actually help them in getting significant amount of money. People in the rural areas are generally dependent on money lenders for getting amount for consumption purpose also. The amount which is taken as a loan from the money lenders would be required to pay back with a high rate of interest. Sometimes, the poor people do not get loans from financial institutions for the purpose of consumption or for investment in the production. There are some other special needs for which poor people need funds like for paying children's school fee and meeting other expenses related to education, meeting social obligations which are essential to maintain social capital and wellbeing of their children, particularly their daughters after getting married.

Banks and micro finance institutions offer loans for all these purposes and more. Banks offer agriculture loans, mortgage loans, car loans, education loans, gold loans, loans for purchase of land, home loans, personal loans, business development loans and Govt. sponsored subsidy / low interest

loans. Authorized Business Correspondents (BC), sometimes called Kiosk Banks, have been set up in the rural areas to meet the needs of the local people. These offer agriculture and personal loans, amongst others. Microfinance Institutions, SHGs and Federations, Farmers Clubs, Mutually Aided Co-operative Societies, Cooperative Banks, PACS and Local Area Banks also offer loans to meet specific consumption, income generation and business needs of people in the rural areas. Most of them also offer government sponsored subsidies and low interest rate loans.

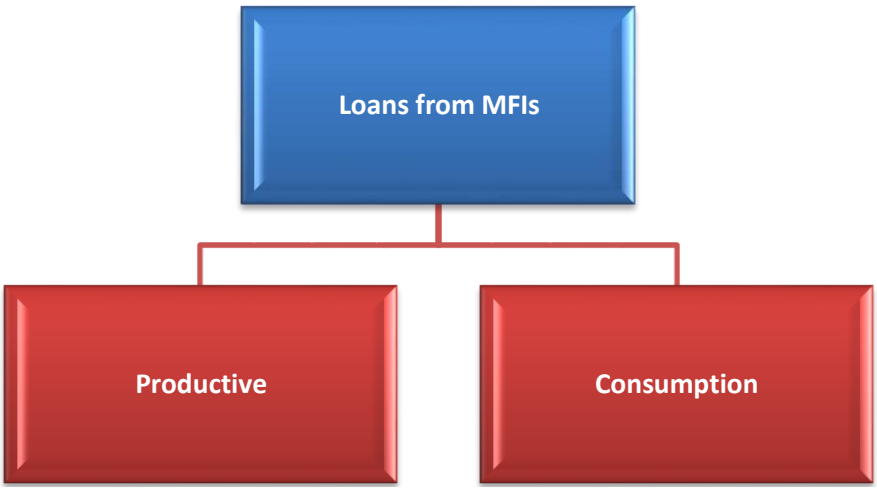

Figure 4.47 Loans from MFIs

In microfinance sector, the lenders generally are likely to divide the loans into two broader categories i.e. productive (for income-generation) and consumption (for non-productive activity). The poor people are provided loan from the MFIs and loans are provided either without any collateral security or with a little security. The lenders prefer to provide loan for some productive purpose as it is assumed that the borrower would be able to pay back the loan through generation of income through the amount of loan which is taken from MFIs. The poor people also have various reasons for taking consumption loans it is not always possible for them to find another way of generating income from the amount taken as a consumption loan. Consumption loan is generally lent with or without security and there is always a risk for the lender to provide consumption loans as there is a possibility that the borrower might end up spending the amount of loan taken for typically a non-productive and then finds it difficult to return the money back with interest. The consumption loans are also available through Area Networking and Development Initiative's (ANANDI's) saving and credit groups for men as well as women for the purpose of consumption. Families are provided loans for purchasing asset or for various non-productive expense like festival and other occasions etc. These groups ensure that household which is borrowing money has sufficient repaying capacity. This initiative is to protect the families from hands of money lenders.

Consumption Loans for females

Females have different purpose of taking consumption loans from various financial institutions. Females are sometimes unable to earn money for themselves through some or the other means. They are dependent on their family members for facing certain expenses which are related to life cycle or emergency. It is a good option for them to avail consumption loan for facing such life situations which are fixed though the exact time of expense is not known in advance.

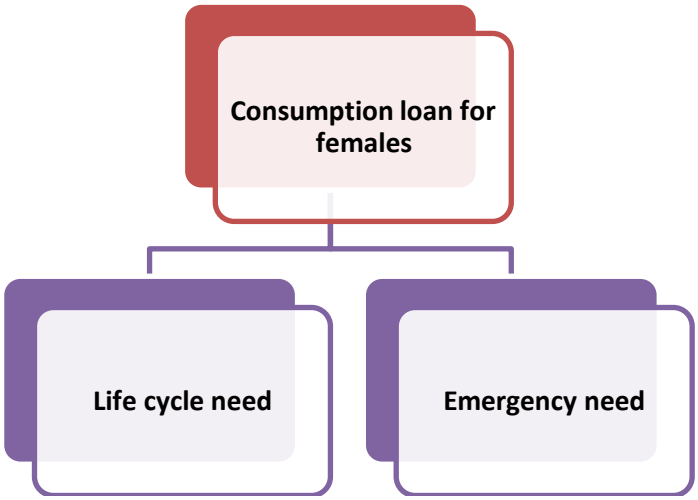

Figure 4.48 Consumption loans for females

(1) Life Cycle Need

There are various needs related to life cycle in which it becomes difficult for the females to arrange funds which would help them to face certain situations in life. There are various needs for which females would require funds. The needs related to life cycle are mentioned below:

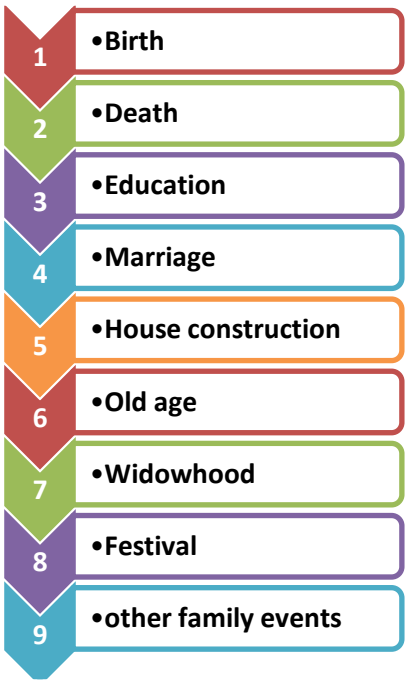

Figure 4.49 Life cycle needs of females

Females require funds during the time of birth of child. Sometimes it becomes difficult for them to arrange for funds and it becomes difficult for the poor people to find a source of fund immediately when funds are needed. At the time of death also, there are certain rituals which have to be performed and it becomes very important that this should not lead to any kind of stress among people for facing such a huge loss. For getting educated, it is not easy task to convince poor people for letting girls get more educated than boys. In case, females get sufficient funds for education, it will make their life easy to enjoy the benefits after education. For getting married also there is requirement of funds so that the tradition could be followed, as it is a grand event for any family when a daughter is getting married.

Funds are required for construction of house, as it is one of the basic needs of every family to have a house where they could protect themselves and their families from rain, storm, heat and other natural effects. Construction of house requires a large sum of money and it becomes difficult for the poor people to get loan from traditional source. During the old age, expenses are fixed and generally people do not get sufficient help for facing the old age life. The family members do not support much to people when they reach their old age and life becomes miserable, consumption loan could help in facing such issues which people face in their old age. Widowhood is another instance when people do not support much to survive. Loans which are provided during widowhood actually helps people in bearing expenses of their daily routine and also provides them support so that they could stand on their feet and face the issues which come up in future in their life. There are various festivals which are enjoyed by people and it requires funds to celebrate. In the rural areas and the urban areas there are many festivals which have specific date of celebration, though the dates are defined before itself, but sometimes people do not have funds for enjoying the festivals due to various other expenses. There are some other family events also for which people need funds.

(2) Emergency Needs

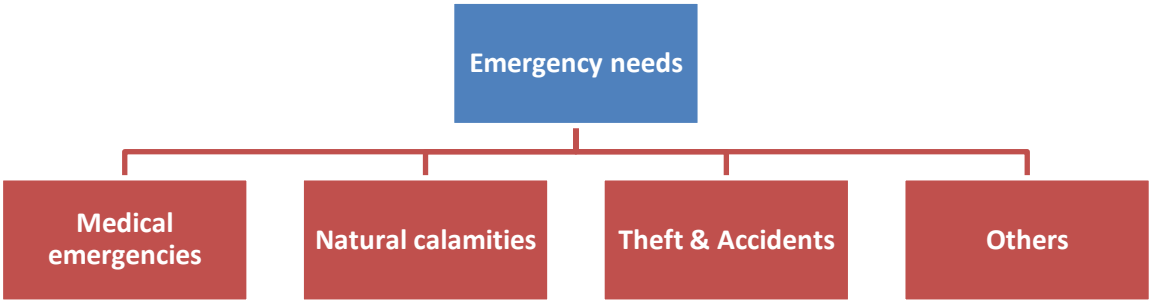

Figure 4.50 Emergency needs of females

Consumption loans are available for women to face medical emergencies. People in rural areas sometimes face emergency related to medical reasons and it becomes difficult to get themselves or their family members treated in time, due to lack of funds. Consumption loan could help women in getting medical assistance immediately as required and it makes their family live a healthy life ahead. Sometimes there are natural calamities which might affect the life, food, resources, home etc and there is no date defined for such calamities to occur. Natural calamities generally affect people on a large scale like flood, earthquake etc. The life after the natural calamity might be miserable if there are not sufficient funds available for survival. Natural calamity might create a big loss for any family, if it affects the resources as well which people store for the bad times. In case there is theft and people lose all or some valuables, it will become difficult for the people to cover up the loss immediately, as sometimes people keep their valuables at home or at business place, thinking that it is safe and in case it is lost, then it becomes difficult for them to even survive in the current scenario. Accidents could also result in heavy loss for any person in terms of life and/ or vehicle. Consumption loan helps in facing emergency situations which could be related to medical issues, natural calamity, theft, accidents etc.

Consumption Loans for Men

Males have different purpose of taking consumption loans from various financial institutions. There are many needs which could be fulfilled through loans. It is a good option for them to avail consumption loan for facing such life situations which are fixed though the exact time of expense is not known in advance.

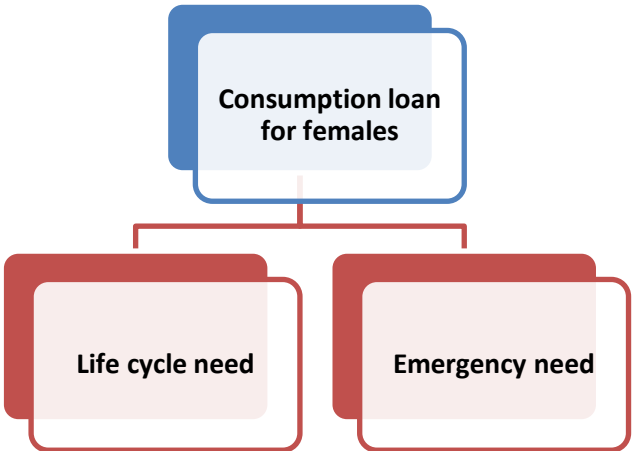

Figure 4.51 Consumption loans for Males

(1) Life Cycle Need

There are various needs related to life cycle in which it becomes difficult for the females to arrange funds which would help them to face certain situations in life. There are various needs for which females would require funds. The needs related to life cycle are mentioned below :

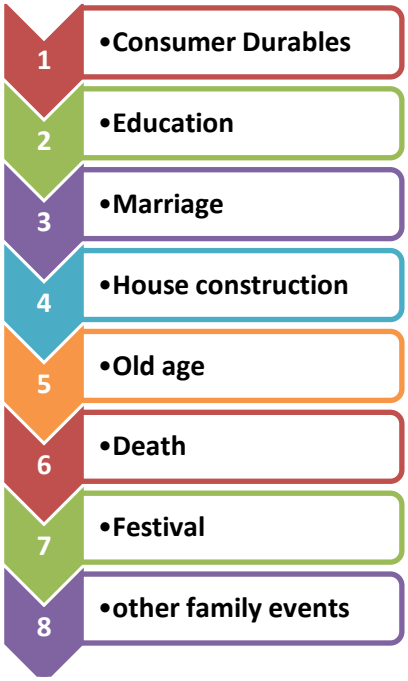

Figure 4.52 Life cycle needs of females

Males require consumption loan for buying consumer durables as from time to time various consumer durables are need to be bought for themselves and family members. Consumer durables for which loan are taken could be television, refrigerator, appliances, furniture and other electronic items. The need for these consumer durables arise with time as any person proceeds in various stages of life. People might require funds for education as sometimes people do not give importance to education due to lack of funds and it is very important that people get educated only then they will be able to manage their families in future. The expenses during marriage are high and it is very important that a person gets support through any financial institution to face these expenses. Funds are required for construction of house, as it is one of the basic needs of every family to have a house where they could protect themselves and their families from rain, storm, heat and other natural

effects. Construction of house requires a large sum of money and it becomes difficult for the poor people to get loan from traditional source. During the old age, expenses are fixed and generally people do not get sufficient help for facing the old age life. The family members do not support much to people when they reach their old age and life becomes miserable, consumption loan could help in facing such issues which people face in their old age. In the event of death of any family member, people can avail consumption loan which help them to face such a huge loss and complete the rituals which are carried out after death of a person. There are various festivals which are enjoyed by people and it requires funds to celebrate. In the rural areas and the urban areas there are many festivals which have specific date of celebration, though the dates are defined before itself, but sometimes people do not have funds for enjoying the festivals due to various other expenses. There are some other family events also for which people need funds.

(2) Emergency Needs

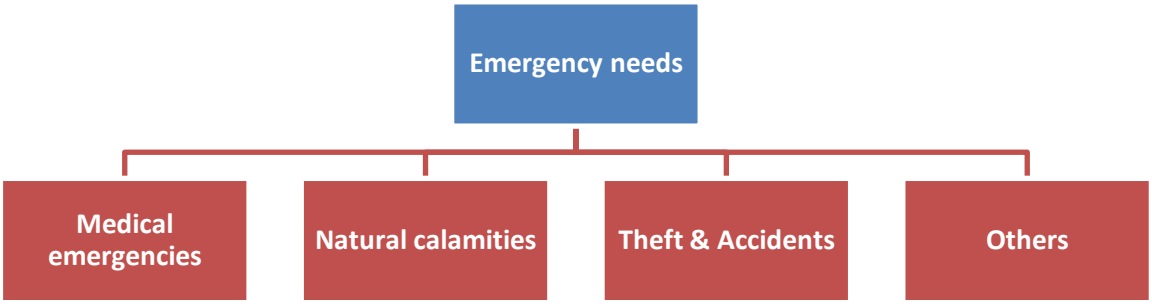

Figure 4.53 Emergency needs of females

Medical emergencies could hit any family at any point of time and in this situation when there is some medical emergency, it becomes difficult for people to get medical treatment immediately when there is lack of funds. Medical assistance is required and consumption loan helps people and their family members to overcome any kind of emergency. Sometimes there are natural calamities which might affect the life, food, resources, home etc and there is no date defined for such calamities to occur. Natural calamities generally affect people on a large scale like flood, earthquake etc. The life after the natural calamity might be miserable if there are not sufficient funds available for survival. Natural calamity might create a big loss for any family, if it affects the resources as well which people store for the bad times. In case there is theft and people lose all or some valuables, it will become difficult for the people to cover up the loss immediately, as sometimes people keep their valuables at home or at business place, thinking that it is safe and in case it is lost, then it becomes difficult for them to even survive in the current scenario. Accidents could also result in heavy loss for any person in terms of life and/ or vehicle. Consumption loans help men as well as women in facing emergency situations.

Features of Consumption Loans

There are various features of consumption loans. Consumption loans help men and women in facing various life cycle and emergency needs.

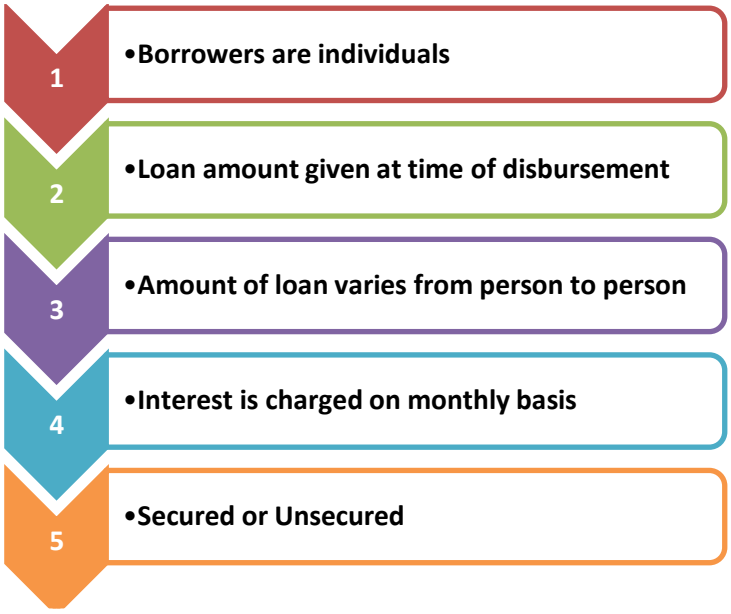

Figure 4.54 Features of Consumption loans

(1) Borrowers are Individuals

Consumption loans are given to the individuals so that they could cater to any one time need rather than borrowing on continuous basis. Loan which is taken for business is not considered as consumption loan as it cannot be onetime expense.

(2) Loan Amount Given at Time of Disbursement

The amount of loan is disbursed on one time basis and is not given partly.

(3)Amount of Loan Varies from Person to Person

The amount is limited which is disbursed as consumption loan. The limit differs among various banks. The amount of loan varies between 10 thousand to 5 lacs. The amount of loan depends upon repaying capacity of borrower and also upon borrower's credit history.

(4) Interest is Charged on Monthly Basis

Interest is charged on monthly basis and borrower could repay through EMI. The installment amount depends upon tenure, interest rate and the debt amount.

(5)Secured or Unsecured

The consumption loan could be unsecured or secured. There could be collateral given by the borrower for availing the loan or it could be without any security.

To Do Activity

Form group of 4-5 students and select any financial institution which provides consumption loans and gather the features of any two purpose for which consumption loan is given.

ANANDI : Women's leadership building

ANANDI in Gujarati signify the joyfulness. ANANDI stands for Area Networking and Development initiatives, which has been working with more than 10000 poor women from rural areas across four district in Gujarat since the year 1995. This organization is working to help the vulnerable women and also trying to work towards making world joyful place for women. Formation of women's collectives and also working toward changing nature and also direction of the systemic forces that marginalize women have been vital component of the ANANDI's work being carried out in Gujarat. Strengthening of Sangathans has been core program as well as strategy of ANANDI as they believed that change could be possible as well as sustainable when the leaders and collectives also accept the change in agenda. Over many years ANANDI have formed and build capacity of 7 collectives of women which is led by women who belong to socially and economically marginalized community. Out of these 7 collectives, three of them are registered i.e. Panam Mahila Bachatane Dhiran Mandali, Azad Mahila Machimari Sahakari Mandali and Mahila Swaraj Manch.

Panam Mahila Bachatane Dhiran Mandali each year hold a general body meeting annually in which they release the annual accounts and also report the social activities which would be undertaken. This group keeps on conducting trainings for educating people about the role played as cooperative shareholders.

Azad Mahila Machimari Sahakari Mandali is registered cooperative of females who are engaged in fish related harvesting activities particularly prawn. The women in this cooperative belong to Miyana community and they have been following Islam. The group comprises of hardworking women and they do not have control on pricing of produce. They are registered as separate cooperative and they negotiate in a better way with middlemen.

Mahila Swaraj Manch is registered organization which works for strengthening the women representatives which have been elected and ensure that needs of the marginalized community and poor women have been addressed through panchayati raj system. They address the various issues faced by women. In this group women work together for introduction of new technologies like IVRS which is a mobile based technique.

Source : Women Leadership Building (n. d.). Retrieved from http://anandi-india.techofi.com/women_leadership_building

Model Questions

- Explain various types of savings products available in Post office?
- What are the steps required for the formation of Farmer's club?
- Explain the functions of SHGs and also the common factors related to membership in SHGs.
- Discuss the history of Cooperative Banks and also discuss the functions of various Cooperative Banks operating in India.
- Explain the features, importance and channels of Micro finance?
- Discuss in detail about loan to tenant farmers and loans for fishing business?
- What are the purposes for which consumption loans is provided to men and women?
- Explain the features of loan to adolescent girls and how does it help in fighting from poverty?

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Chapter 5 – Integration of Rural Markets

Introduction

Rural marketing has become very important as it will lead to development of the rural areas. It refers to framing and application of marketing strategies and principles with marketing mix. Rural marketing is two-way marketing process. There are many products being produced in the rural market and the development of rural market is possible when these products reach the urban areas. As per the requirements of the rural market and the urban market, there is an inflow of products from urban areas to the rural market for consumption or production and there could be outflow of various products from the rural areas to urban areas. The people in the rural areas are not only accepting products which are being produced in the urban areas, they are also providing products to the urban areas which are generally the agricultural products. The people in rural areas should focus on their agricultural produce so that they could market their products in the urban market. Identification of the needs of potential customers in the urban area is very important so that changes could be made in the products and services to be supplied from the rural areas to the urban areas. There are well defined processes which are being followed in the rural areas for producing the agricultural products. Changes have come up in the process and even techniques being used in the agricultural sector, though there is a need to create awareness among the people in the rural areas, so that all the people who are a part of this sector could contribute towards the best produce and accordingly could focus on marketing of their agricultural products among the urban areas.

Majority population in the rural areas is dependent upon agriculture and other related activities for livelihood. In the urban areas, people require various products from agriculture like food, fibre and other raw materials which are further processed into different products by the people in urban areas. Rural Marketing starts with the decision for producing saleable farm commodities, and this involves all aspects of market system or structure. Rural marketing includes pre-harvest and post harvest operations.

The people in the rural areas require agricultural credit for bringing improvement in the agricultural production and also for their livelihood, as their household is dependent on the income from the agricultural produce. The agricultural produce is dependent upon climate and many other conditions, so it becomes difficult sometimes for the farmers to predict about the quality and quantity of their agricultural produce. Even due to bad climatic conditions, the farmers sometimes face huge losses and it becomes difficult for them to cover it up. Agricultural credit plays a very important role in the development of rural areas.

There is a need of providing cheaper credit to people in the rural areas for boosting the agricultural production. It is possible that the rural poor can be brought within mainstream of economic development through various supervised credit programmes. There are many credit institutions which believe in offering credit for meeting farmer's needs related to credit. The rural financial market has taken a different shape now and the formal financial institutions are actively working towards reduction of credit burden among farmers. The performance of financial market in rural areas is improving the range and quality of the financial services which are being offered to the lower income farmers. It reflects a new thinking on administration, evaluation, policy framework and design of rural finance and credit programmes which decides the status of rural areas.

Objectives of the Chapter

- To understand the features and strategies of Rural marketing
- To understand the structure of rural financial market
- To recognize the concept of industry analysis
- To know the concept of market integration
- To understand the marketing of financial products and services

Chapter Structure

5.1 Rural Marketing

Rural marketing refer to framing and application of marketing strategies and principles with marketing mix. Rural marketing is two-way marketing process. There is an inflow of products from urban areas to the rural market for consumption or production and there could be outflow of various products from the rural areas to urban areas. A larger part of the Indian population lives in the villages and the people who are staying in the rural areas are not only accepting the products being produced by the people in urban areas, rather than they are providing agricultural products to urban areas. The people in rural areas should focus on their agricultural produce so that they could market their products in the urban market. It is very important to identify needs of potential customers, products and services should be able to satisfy these needs and efficient process and system for delivering the product or service should be developed.

A larger part of our population in India lives in the rural areas and they are dependent upon agriculture and other related activities for livelihood. In the urban areas, people require various products from agriculture like food, fibre and other raw materials which are further processed into different products by the people in urban areas. Rural Marketing is process that starts with decision for producing saleable farm commodities, and this involves all aspects of market system or structure. Rural marketing includes pre-harvest and post harvest operations.

Figure 5.1 Classification of rural marketing

(1) Urban to Rural Areas

The flow from urban to rural areas includes Fast Moving Consumer Goods (FMCG), fertilizers, pesticides, tractor, consumer durables etc. The need of the consumers in rural areas is different and accordingly people in the urban areas produce goods which are required by the rural people.

(2) Rural to Urban Areas

The flow from rural to urban consists of the agricultural produce like wheat, rice, cotton, sugar etc. The people in urban areas are dependent on rural areas for agricultural goods, pottery items, handicrafts etc.

Rule of Marketing

There is a rule of marketing which has been described below :

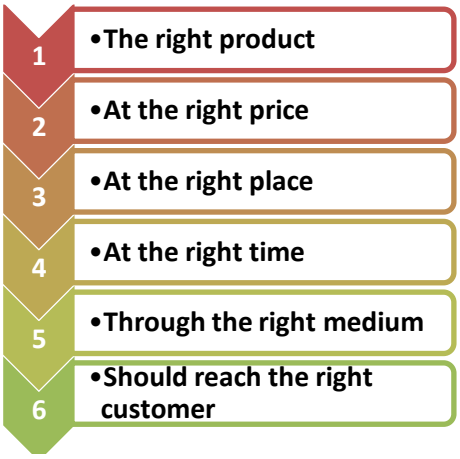

Figure 5.2 Rule of Marketing

There is a rule of marketing that product should be right, it should have the right price, it should be launched at the right place, the timing should be right, the medium through which it is launched should be right and it should reach through right medium to right customer. The same rule applies for rural marketing. There should be proper research to be made by the people in the rural areas so that agricultural products are produced as per the requirement of the people in urban areas. Some of the agricultural product is also consumed by the people in rural areas and the remaining produce is sent to urban areas. Some of the agricultural products are perishable in nature and they should be provided to the urban population through the right medium.

Importance of Marketing for Agricultural Products

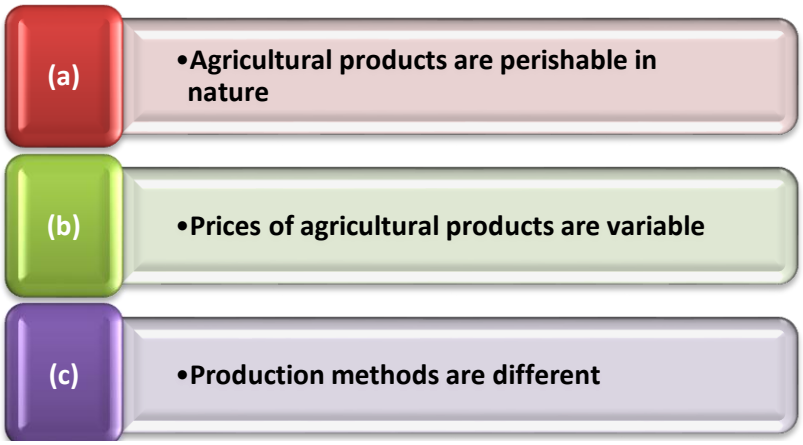

Figure 5.3 Importance of marketing for agricultural products

(a) Agricultural Products are Perishable in Nature
Agricultural products are perishable and in case a farmer fails to sell the produce in time, there are chances of wastage of harvest. All the wasted harvest represent land cost, labor, storage, water etc, hence it is very important that agricultural products are sold at the right time.

(b) Prices of Agricultural Products are Variable
The prices of agricultural products vary a lot as they are impacted by change in weather conditions and harvests in different corners of world.

(c) Production Methods are Different
The production method would be different for different products. All the agricultural products require different weather conditions, different amount of agricultural inputs, land type etc.

Characteristics of Agricultural Commodities

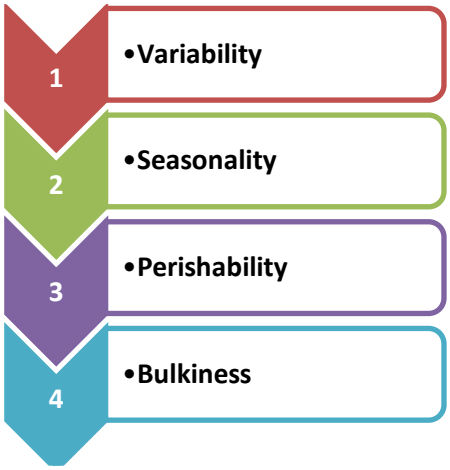

Figure 5.4 Characteristics of agricultural commodities

The agricultural commodities have various characteristics:

1) Variability
The agricultural commodities vary from each other as the produce is dependent upon various inputs like the soil, seeds and pesticides which have been used for the agricultural produce. The quality and quantity could vary with a farmer to another farmer, from region to region etc.

2) Seasonality
The agricultural produce also depends upon different seasons. All the agricultural products are not available always as different season is required for different product. This sector is dependent upon a particular season for produce.

3) Perishability
The products from the agricultural sector are perishable in nature. There are some products which are required to be consumed immediately within even few hours or days from the time it has been produced. Some products are required to be stored in a safe place with proper temperature and proper ventilation in order to keep them safely.

4) Bulkiness
Some agricultural products are also bulky. And it becomes difficult to transport these products from the place of production to the place of storage or even the place of selling. It is not an easy task for

the bulky products to be measured and kept with the warehouse in proper quantities as are required by the consumers.

The characteristics of agricultural produce makes agricultural marketing system very complicated. Generally, farmers sell the agricultural produce as soon as possible after the harvesting in raw form i.e. without any kind of processing. Since, the farmers sell raw produces there is requirement of intermediaries for operating between producers and consumers.

Rural Marketing Channel and Marketing Operations

The path that goods take from the producer to the final consumer can be referred to as marketing channel. The complexity and type of marketing channel vary with different type of commodities. Road side market is simple form of marketing channel from producer or farmers directly to the consumers which is generally visible in urban areas for agricultural produce like vegetables and fruits. There are many products which move through different levels of processing before it reaches the final consumer. Rural marketing of agricultural products comprises of various functions which are required to be performed for movement of raw materials and goods from field to final consumer.

Marketing Operations

The following are a part of marketing operations which a farmer needs to perform to make agricultural products available for the final consumers:

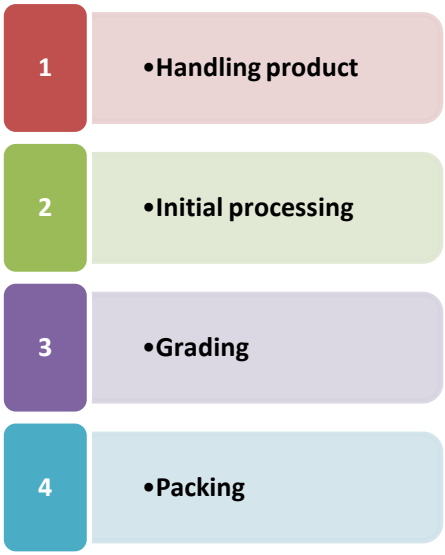

Figure 5.5 Marketing operations

(1) Handling Product

The agricultural products are required to be handled with care as they are perishable in nature and also the timing of making the produce ready for harvest also has to be kept in mind. The farmer has to ensure that the produce is ready during the right season as the agricultural goods are dependent on weather conditions.

(2) Initial Processing

The agricultural products are to be processed initially by the farmers. For certain agricultural products they could be sold further with lesser processing and for some there are many processes which are involved in further processing of product as the price which the farmers would receive for the produce is dependent upon on the finishing in the product like its color, taste, dryness etc.

(3) Grading

Sometimes due to weather conditions or due to some other factors the agricultural produce is of different grades and accordingly the price varies with the quality that the produce has. Proper bifurcation is required to be done by the farmers so that they could create a special price for their produce as the same product might have been produced by so many other farmers and due to changes in the agricultural inputs the price and quality might have changed as compared to other farmers.

(4) Packing

The agricultural products are required to be packed as per different weights as the price varies with the weight of the product, some products are available at low cost, if they are bought in bulk and for some agricultural products the price remains the same irrespective of the weight. Marketing of agricultural products involves all the above. There exist certain defects in the current system of marketing of agricultural products. Government has recognized the relationship between farming i.e. agricultural production, agricultural finance or credit and rural marketing.

Examples of Agricultural Products

There are many products which are produced by farmer. Some of the agricultural products are mentioned below:

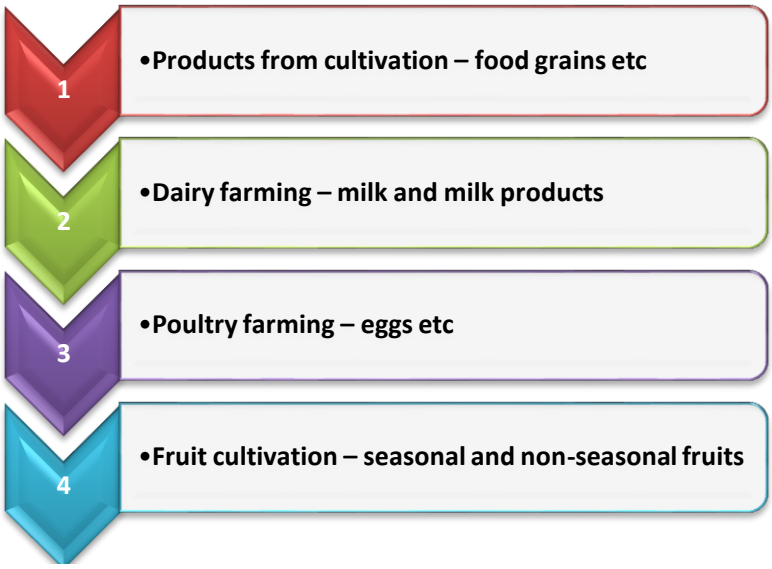

Figure 5.6 Examples of agricultural products

Important Types of Agricultural Markets in India

There are different markets which are feasible for different agricultural products. The following are important types of agricultural markets in India

Figure 5.7 Types of Agricultural markets in India

(1) Primary or Local Markets

Primary markets also known as Shandies or Hatts are held by people in a group of villages which are in neighborhood. There are many such markets which exist in India. Most agriculturists have been selling their farm product in such markets. Majority portion of their farms produce is sold in this market.

(2) Secondary Markets

Such markets are also known as 'wholesale' or 'assembling' market which is also called 'mandis'. There are many such markets which are functioning in India. These type of markets are permanent and business is transacted in these markets regularly during the year.

(3) Terminal Markets

Such market performs function of carrying the goods to the consumers, final buyers or to various places where further processing would be taking place. These types of markets are found in bigger cities or at various ports. The main area of operation extends over state.

(4)Fairs

In India, fairs are organized during some religious occasions at various pilgrim centres are important source of marketing agricultural produce. Such types of fairs are held annually and organized by the district officer, private agencies or local bodies.

(5) Regulated Markets

These types of markets are set up by Government for purpose of keeping a check on fraudulent practices that are generally practiced by the traders in primary and the secondary markets. The rule and regulations which are required to be followed in this market are defined by the government marketing practice.

(6) Co-operative Marketing

Such markets functions on basis of the principles of cooperation. Cooperative marketing societies carry agricultural produce directly to consumers and thus have eliminated large army intermediaries and middlemen.

(7) State Trading

In India, state trading in the agricultural produce has become a very important element in agricultural marketing. State agencies like Food Corporation of India setup their exclusive centre around the mandis and villages during the harvest time for procuring produce from the peasants to the Government at fixed price.

Basic Facilities for the Farmers

There should be certain facilities which should be provided to the farmers so that there could be some improvement in marketing of the agricultural products:

i. Farmers should get proper information regarding future demand of particular commodity in market, so it could be easier for him to plan earlier for sowing seeds of such crops which could help him in getting fair return
ii. Mostly villages are not connected with mandi or various business centres, which function as only means of transport for farmers. There is a requirement of a proper rural network having all-weather roads for developing rural areas.
iii. Small/ remote village farmers are actually dependent on the other smaller towns or cities for selling and purchasing inputs or outputs. Efficient transport system by road is necessary for all the farmers.
iv. Farmers must have proper facilities for storage of agricultural produce.

v. The farmers should have a holding capacity so that he could wait for the right time when he can sell his produce at better prices instead of disposing off his stock immediately once it is harvested.
vi. The farmers should get clear information related to market conditions and about ruling prices so that he does not gets cheated.
vii. The number of regulated and organized markets should be more, so that farmers are not cheated by intermediaries and middlemen.
viii. The intermediaries should be lesser so that the profit is not shared and the farmers could get more profit from him agricultural produce.
ix. The farmers could easily get credit from financial institutions for agricultural and allied activity.
x. In case, there is failure of crop because of any natural calamity, then farmers should be given crop insurance and financial security for his crop.

Pre-requisites for Effective Agricultural Marketing

The following the pre-requisites which could make agricultural marketing effective :

Figure 5.8 Pre-requisites for effective agricultural marketing

1. Storage

There should be sufficient storage facility available with the farmers so that they can keep their agricultural produce safely and do not bear a loss due to its damage or wastage. Development of warehouses is essential.

2. Finance

Farmers should have sufficient funds so that they are not forced to sell the produce at an unfavorable price. Credit through any financial institution could help the farmers in resolving this issue of finance.

3. Information

There should be proper and timely information available for the farmers which are up to date and the information are based on demand, supply and prices. Only the co-operative society and the regulated markets could supply the market intelligence service.

4. Co-Operatives

The co-operatives should try to reduce the number of middlemen between consumer and farmers.

5. Transport

Marketing of agricultural products is dependent upon transport. There is a requirement of an economical and efficient network of transport which could be based on road or rail transport. Cheaper and adequate transport could widen the agricultural markets and offer of products at remunerative prices.

Defects in Rural Marketing

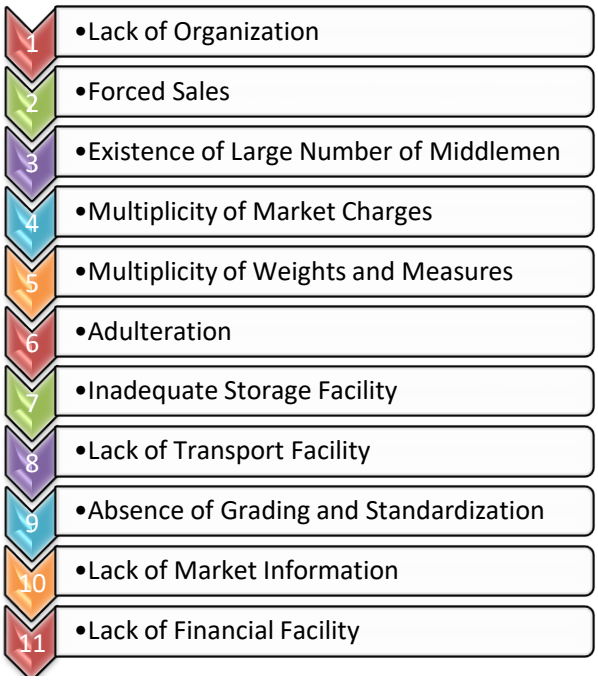

Figure 5.9 Defects in rural marketing

1. Lack of Organization

There exists lack in organization among the producers. Producers of agricultural products are smaller and scattered. There is no such collective organization which could help them in protecting their interest.

2. Forced Sales

Many a times, the farmers are forced towards selling their products, because of the following:

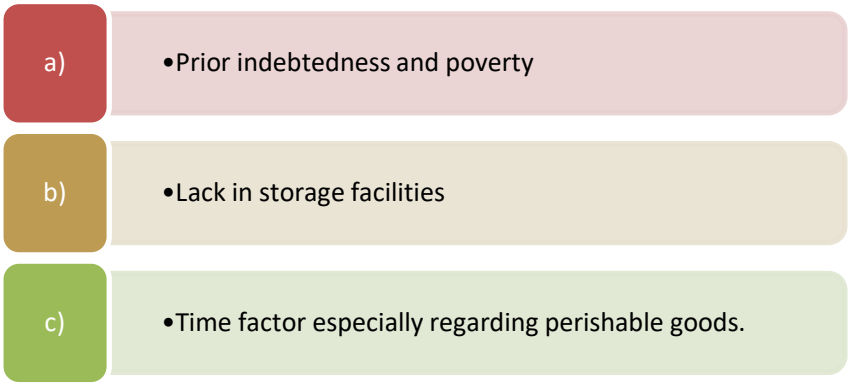

Figure 5.10 Reasons for forced sales by farmers

Sometimes due to certain reasons farmers are forced to sell their produce at whatever price is available in the market.

3. Existence of Large Number of Middlemen

There are many middlemen between producers and consumers. The middlemen sell agricultural products to consumers at higher price and give them lower returns to producers. Approximately 50% of price which is paid consumers, half of them is generally gone to the middlemen.

4. Multiplicity of Market Charges

The producers need to pay various and numerous marketing charges. These charges are even more than 20% income of produce. They pay charges at various levels like brokerage, weigh men charges, charges paid to labour for loading and unloading of a product.

5. Multiplicity of Weights and Measures

There is actually lack of standard measures and weights. In villages the weights which are used are not proper and some other regular items like sticks, stones, iron etc are used in markets and villages.

6. Adulteration

Adulteration reduces quality of produce. The goods which are produced are subjected to usual inclusion of various impurities. Adulterants like papaya seed is sometimes mixed with pepper, red brick powder is mixed with chili powder. Even medicines being produced are adulterated.

7. Inadequate Storage Facility

The storage facility for agricultural produce is very less in urban and rural areas. There is loss because of inadequate storage and this loss is estimated at 5-15% in quality and weight. Some food grains lose weight because of weather changes. There are some crops like pulses, maize and jowar, which are sometimes found to be infected by insects even before harvesting.

8. Lack of Transport Facility

The roads are not of good quality and this leads to loss while the products are being transported. Freight policy being followed by Indian railways is not satisfactory. Railways are not having facility for safe and quick transport of the perishable products.

9. Absence of Grading and Standardization

In India, for some commodities like wheat and rice, there is no such standard grade. The agricultural products are being sold at lower prices which are mixed in quality.

10. Lack of Market Information

Mostly farmers are illiterate and are ignorant of accurate price which is ruling in market. Farmers are dependent upon the inaccurate information.

11. Lack of Financial Facility

Farmers are not getting enough financial support and they are dependent upon the moneylenders for getting financial assistance. Moneylenders come forward and they purchase agricultural produce by payment of lower prices under loan agreement; then loans are issued to them for cultivation or to meet their family needs. Loans are advanced on condition that produce would be sold through them or to them.

To Do Activity

Discuss any one strategy of rural marketing and share any two real examples for the strategy with the entire class.

5.2. Rural Financial Markets

Agricultural credit is being used as a tool for development of the rural areas. There have been many studies related to rural financial market and the studies indicated that volume of cheaper credit is necessary for boosting the agricultural production. It is possible that the rural poor can be brought within mainstream of economic development through various supervised credit programmes. There are various credit institutions which believe in offering credit for meeting farmer's needs related to credit. The experience being faced by people in industrialized country with the cooperatives and the specialized agricultural financial institutions could effectively transplant to the lower-income or developing countries. The rural financial market has taken a different shape now and the formal financial institutions are actively working to reduce the credit burden among farmers. The performance of the financial market in the rural areas is now improving the range and quality of the financial services which are being offered to the lower income farmers. It reflect a new thinking on administration, evaluation, policy framework and design of rural finance and credit programmes which decides the status of rural areas.

Structure of Rural Financial Market

The Rural Finance Market comprises of the following :

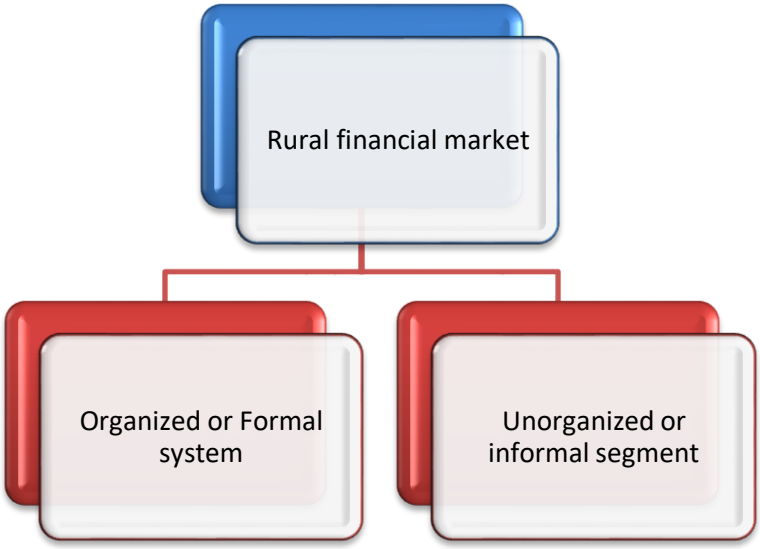

Figure 5.11 Structure of Rural financial market

The rural financial market comprise of the formal system and the informal segment.

(i) Organized or Formal System

Formal segment caters to borrowings having lesser risk as compared to the informal segment and they serve a purpose. The formal segment provides various benefits due to which it has been popular and attractive i.e. high reserve ratio, directed credit, branch licensing, ceiling in interest rate etc. Perhaps, one way of reconciling the conflicting views on usefulness of informal credit is to recognize some emerging realities of both formal and informal markets.

Sources of Rural Credit in the Formal Segment in India

It is very important to provide sufficient credit to people in the rural areas. They require credit for production and consumption needs. It is very important as if they will be provided credit; even they could contribute towards growth of the economy. The following could be considered as the major source credit in rural areas

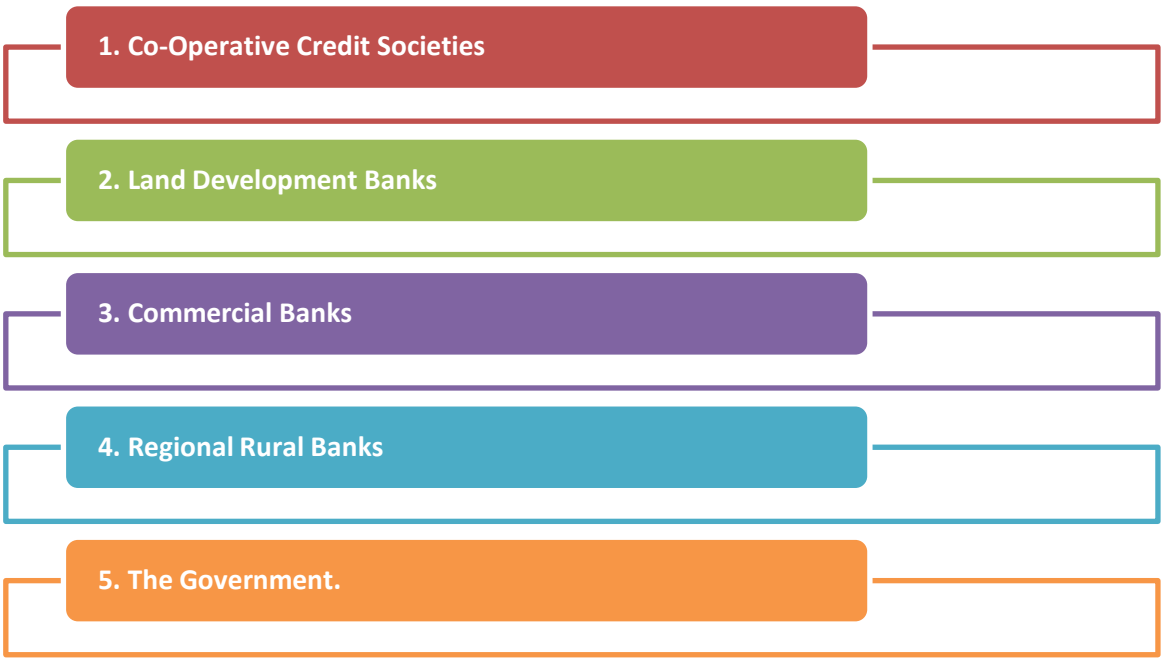

Figure 5.12 Major source of Rural credit in the formal segment

1. Co-operative Credit Societies

They are regarded as the cheapest as well as an important source of credit in rural areas. When co-operatives were firstly setup it was a notion that they will meet needs of entire credit among the numerous medium and small farmers. It was planned that the money lenders would recede in background. This did not happen really and till 1950-51, they actually played an important role in rural credit area. Co-operative societies have made a steady progress and also succeeded in some extent in promotion of thriftiness and also self-help to farmers. Increasing reliance has been placed by Government on the co-operatives as most important institutions to meet credit need of farmers. Due to assistance and encouragement being provided by Government also by NABARD, a notable progress has been made by the co-operatives in certain States i.e. Andhra Pradesh, Tamil Nadu, Punjab, Himachal Pradesh and Karnataka.

2. Land Development Banks

Land development bank which was formerly known as the Land mortgage bank have been providing long-term loan to farmer against their land mortgage at lower interest rate over period of 15-20 years. The farmers find borrowings from these banks attractive in case costly land improvement programmes like deepening or digging of wells etc has to be undertaken, or when additional land has to be acquired through an outright purchase or when previous debts need to be repaid. There have been progress in such Banks during last few years, but contribution has been insignificant still. These Banks have not yet reached the root of credit problem in rural areas.

3. Commercial Banks

Before nationalization of the top 14 commercial banks in the month of June 1969, these banks had urban bias. These banks were accepting deposits from people in urban areas and providing loans to industry and trade. The industries in rural areas and agriculture were being neglected. Agriculture was being considered as risky venture and the private commercial bank turned far away from the rural areas.

4. Regional Rural Banks (RRBs)

In the year 1975, Government setup network of RRBs for looking into special needs of marginal and small farmers, rural artisans, poor in rural areas and landless workers. Unique feature of 196 RRBs

which were operating since the month of September 1990, they cater exclusively to weaker section of rural community through around 14,800 branches which are spread throughout India. Almost all tribal districts were covered. However, credit amount which was disbursed by the RRBs was smaller as compared to loan issued by the other institutional agency.

5. The Government

Government has provided long term and short-term loan to farmers during emergency situations like famine or floods. These loans are known as Taccavi loans and are offered at concessional interest rate i.e. 6% and repayment mode is very convenient. It could be repaid in the form of several installments when land tax is paid. Such loans could not assume significance during last few years. There are certain factors which resulted in unsatisfactory state of loans from the government i.e. delay in sanctioning and disbursement of loans, time required for visiting government offices more frequently, itching palms of officials who are engaged in sanctioning of loans.

(ii) Unorganized or Informal Segment

Informal finance market is legal but is not unrecorded officially is comprised of the unregulated financial activity i.e., activities which are outside orbit of the officially regulated financial intermediary. Informal financial transactions could include the lending and borrowing among relatives and friends as occasional and this is not a part of informal market.

Members have a special bond between then which is based on caste, status, religion, neighborhood, etc. Such arrangements which are a part of the well-defined group, though they are important, should not as be included in the informal financial market. There has been a lot of efforts in providing bridge between the formal financial market and such well-defined group in form of initiatives toward 'micro-finance'. These initiatives do not comprise of marketization of well-defined group's activities. Thus, Informal financial markets include the Institutions who are outside orbit of the officially regulated. The informal debt transaction could involve tied and untied.

Informal sector usually has three facets:

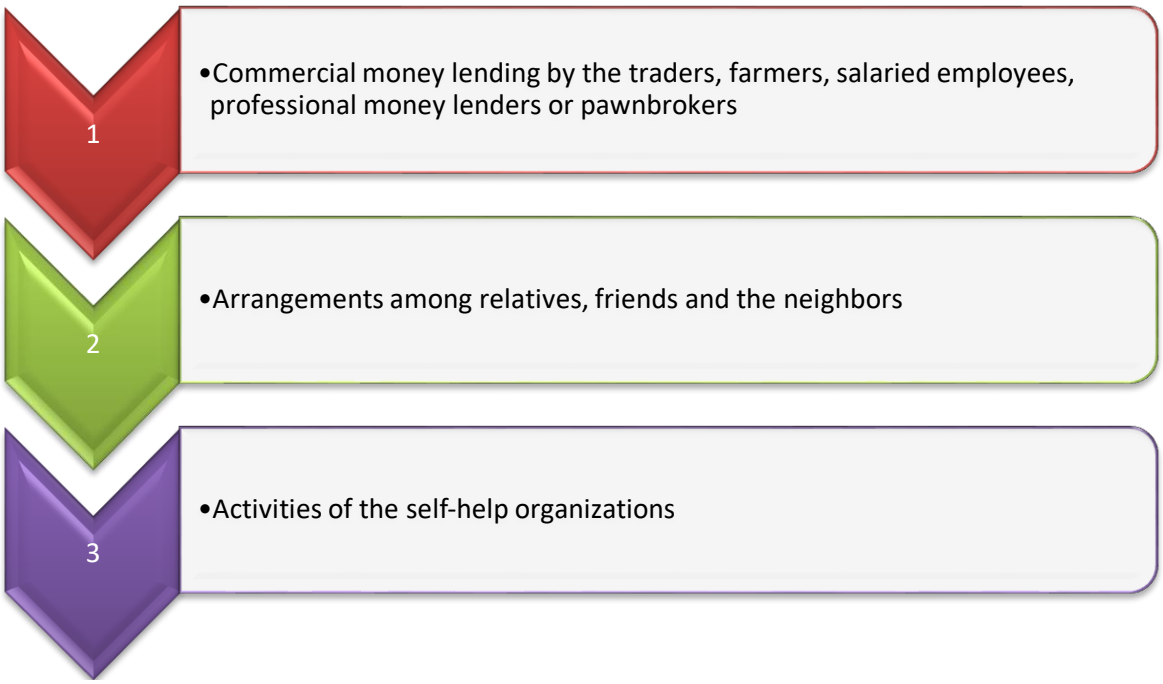

Figure 5.13 Facets of Informal sector

(1) Commercial money lending by the traders, farmers, salaried employees, professional money lenders or pawnbrokers

The people in the rural areas approach someone from whom loan could be received as early as possible with lesser formalities. People approach people around them instead of visiting any formal financial institution for availing loans. There are people who are not registered for granting loans but still they lend money to people who are in urgent need of funds and without much documentation. The people of rural areas are sometimes afraid of contacting any formal institution as they feel that they are not having collateral for applying for a loan, are also not having proper documents and this could result in loans from informal sector.

(2) Arrangements among relatives, friends and the neighbors

People in the rural areas prefer to take loans from friends, relatives or neighbors. Loan is available from these lenders generally at zero rate of interest. The relatives of the people in the rural areas sometimes lend money to them and as such there is not documentation required for completing this transaction.

(3) Activities of the self-help organizations, such as rotating savings and credit associations

The Self – Help organizations also help in providing savings on rotation basis as loans. An amount is collected from all the members of the Self-help organizations on a regular basis and it is further lent to any one of the members who require funds. Proper records are maintained by the people of Self Help groups so that the borrower makes repayment in time.

Availability of an affordable capital has been recognized since a long time as a very important factor for economic development and there are other factors as well which should be considered for progress in the rural structure. Rural financial market has been at centre in policy intervention in the developing countries during past few decades. There are many agencies which are supported by governments, bilateral and multilateral aid agency, have devoted a considerable resource for supplying cheaper credit to the farmers in myriad of the institutional settings. There have been many problems which have come in the way of providing credit. Large subsidies are required for these programmes and recovery of loan has been very disappointing. People in the rural areas have been facing difficulties in getting cheaper loans. The financial intermediaries which have been conducting various credit programmes are themselves not self sustaining.

Role of Financial markets

There is a necessity to have a system of financial intermediaries which is efficient and a sufficient condition toward growth of financial liabilities and assets towards development of the economy. The financial market contributes towards the economic development in following ways:

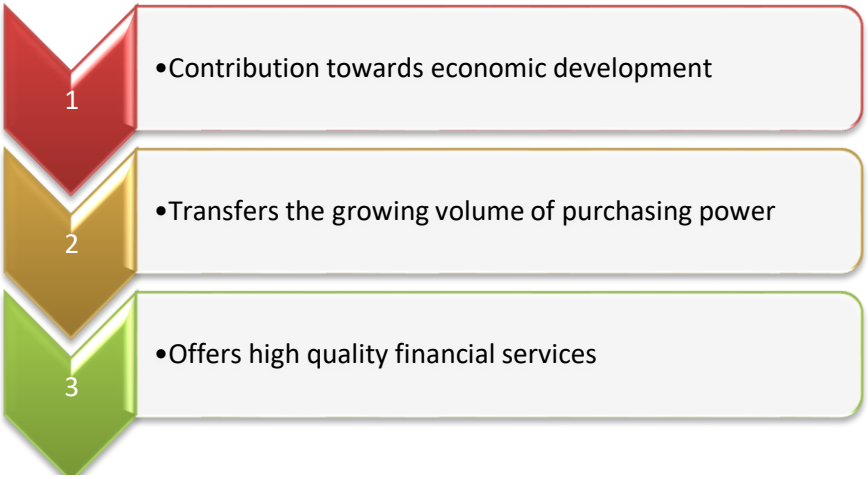

Figure 5.14 Role of financial market towards economic development

(1)Contribution towards Economic Development

Financial system has been contributing towards the economic development to a great extent for providing access towards wide collection of financial service for wider population range. The contribution rests on provision of growing services range which includes loans for various purposes and deposit facilities, funds transfer mechanism and also currency exchanges and other specialized services once size of market grows sufficiently.

(2) Transfers the Growing Volume of Purchasing Power

Financial system has been transferring rowing volume of purchasing power from the depositors having a limited opportunity for deposit to the borrowers having better productive option. The financial intermediation contributes to the economic development and it consists of resources transfer from lesser productive use to the activities which could be more profitable. The deposit substitutes for lesser attractive use of funds, while loan makes better use possible. The resources' productivity improves consequently.

(3)Offers High Quality Financial Services

Financial services of high quality should be offered by financial system. A farmer has certain expectations from the credit being provided by the financial system.

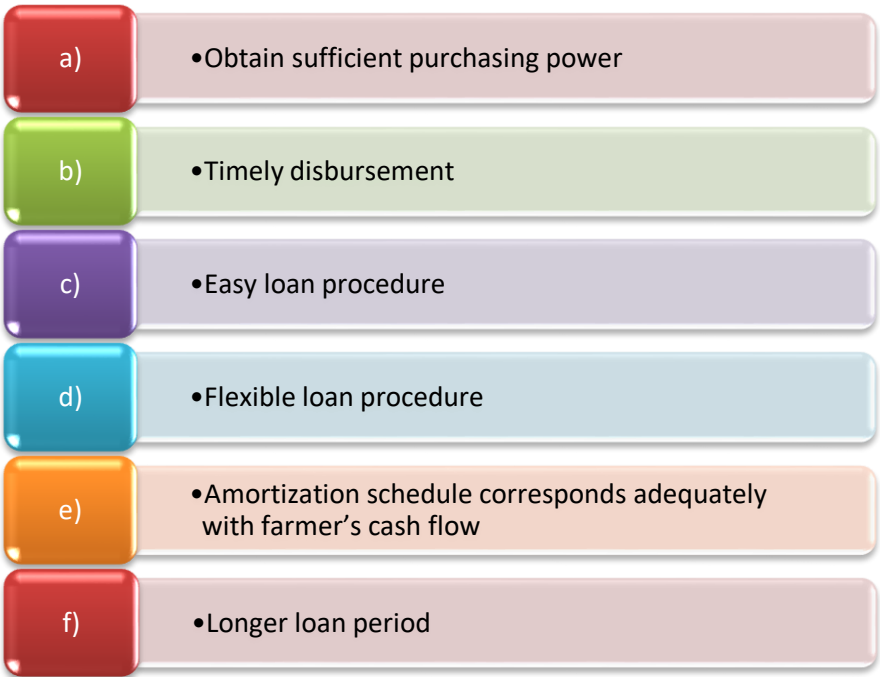

Figure 5.15 Farmers expectations from the financial system

There are many things which a farmer expects from the financial system. The quality of services being provided could be evaluated through these features.

a) Obtain sufficient purchasing power

The loan helps in increasing the purchasing power of the farmers. The farmers are in need of funds for fulfilling their requirements for purchasing equipment, seeds, other inputs required in farming etc. The farmers sometimes find it difficult to get loan from the formal financial institutions.

b) Timely disbursement

The loan should be disbursed to the farmers within sufficient time. There is a possibility that the need of funds is urgent and in case the loan is not disbursed within time, the opportunity related to agriculture might be lost as in agricultural sector the output depends upon the climatic conditions also.

c) Easy Loan Procedure

The procedure for applying for loan should be simple and easy only then the farmers will be encouraged to apply for loan and there should be lesser documentation. These features will encourage farmers towards more investment in their farms.

d) Flexible Loan Procedure

The loan procedure should be flexible so that people of the rural areas could plan to invest in the farm and non-farm activities.

e) Amortization Schedule Corresponds Adequately with Farmer's Cash Flow

The repayment term and amount should match with the cash flow of the farmers. The amount of EMI should be such that the farmer is able to generate that much amount of income monthly so that the amount could be paid in time and the chances of NPA could be reduced.

f) Longer Loan Period

The period of loan should be longer, so that the farmers could get some extra time for earning through the amount of loan and due to longer period the amount of EMI would also be less.

Approaches towards Rural Finance

The financial market could be promoted through any one of the following ways :

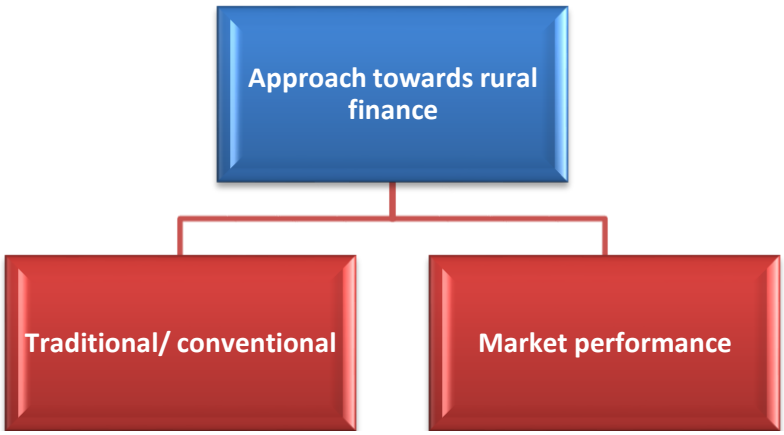

Figure 5.16 Approach towards rural finance

(1) Traditional/conventional view

There are certain assumptions in this view. These assumptions could be further divided into two categories.

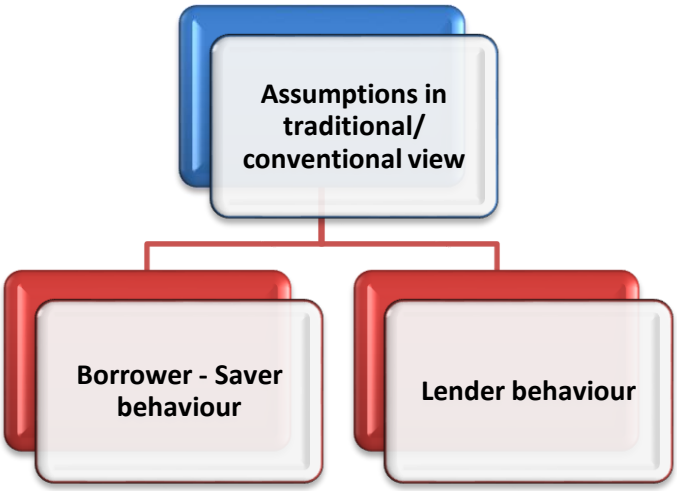

Figure 5.17 Assumptions in the traditional/ conventional view

(1) Borrower – Saver Behavior

A common assumption is that the people in the rural areas are unable to save and there would not give response to opportunities or incentives for savings. Most of the farmers require cheap loans and also supervision before they would adopt latest technologies and making major investment in farms and that the loans are utilized in form which is granted.

(2) Lender Behavior

Common assumption among the informal lenders is that they are exploitative and they charge such interest rate which results in larger monopoly profit, which rural poor are not given formal loans as the formal financial institutions are risk averse. The nationalized financial institutions could be forced by the government for ignoring own profit and loss for servicing the risky customers. The formal lenders could be induced by the government for following the rules and regulations related to service allocation.

Features of Traditional/Conventional View of Credit

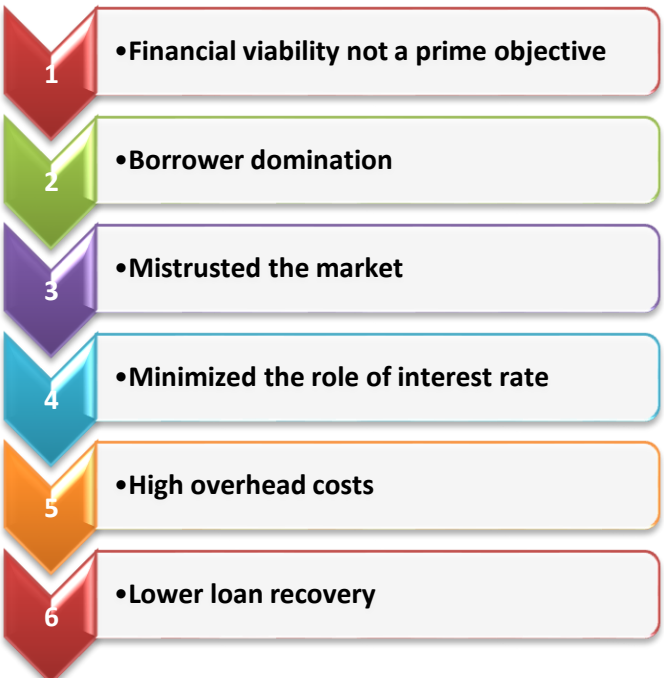

Figure 5.18 Features of traditional/conventional view of credit

(1) Financial Viability not a Prime Objective

In design of specialized financial institutions, financial viability has not been regarded as prime objective. These schemes help in evaluating the performance in accordance with number of loan and speed through which loan is disbursed to the targeted clients. There could be some other factors which are required to be considered like speed of loan disbursement, input which is financed, fund is allocated within project. The technology adopted and also increase in output and employment are other factors.

(2) Borrower Domination

It is characterized by the borrower's domination. All the operational procedures and practices are required to be geared towards borrower's interest. The depositor's interest or of the institution there is lesser or little attention. The institutions that are lesser dominated and they have characterized by absence of clear risk concept in the operations. They have made an attempt

towards channelizing funds towards target clientele, for the specific purposes, instead of evaluating borrower's capacity of repayment and degree of risk which is taken in every case.

(3) Mistrusted the Market

The people in the rural areas require funds so that they could invest in their agricultural and non – agricultural activities. There is a requirement that the product for credit is designed in such a way that farmers are able to apply and get loans timely so that all their requirements could be fulfilled.

(4) Minimized the Role of Interest Rate

The interest rate of loan in agricultural sector is required to be kept low so that investment in agricultural sector is encouraged. Lower rate of interest will lead to development in the rural areas and also increase assistance to the people in the rural areas. The interest rate can even be 0% and does not exceed beyond 12% often.

(5) High Overhead Costs

These credit programmes which are supply-led and the specialized institution has not been viable financially as the overhead cost is high. There is high transaction cost in the loans being provided to the people in rural areas. These costs not only include monetary, but it is also non-monetary. These expenses sometimes even exceed the interest which is received on loans.

(6) Lower Loan Recovery

The recovery of loan is lower in the rural areas. The income of the rural poor is dependent upon their output from agriculture and sometimes due to certain conditions there is a chance that the farmer is unable to recover sufficient amount from the loans which would help them to repay the loans.

Market Performance

As compared to traditional credit view, market performance view regards a good recovery of loan, lower transaction costs in deposit mobilization and lending, increase in number of people who are having ready access towards financial services (both in deposits and loans) and proportion of the total funding which comes from the locally mobilized deposit as the main success criteria. The main characteristic of the market performance view are discussed below:

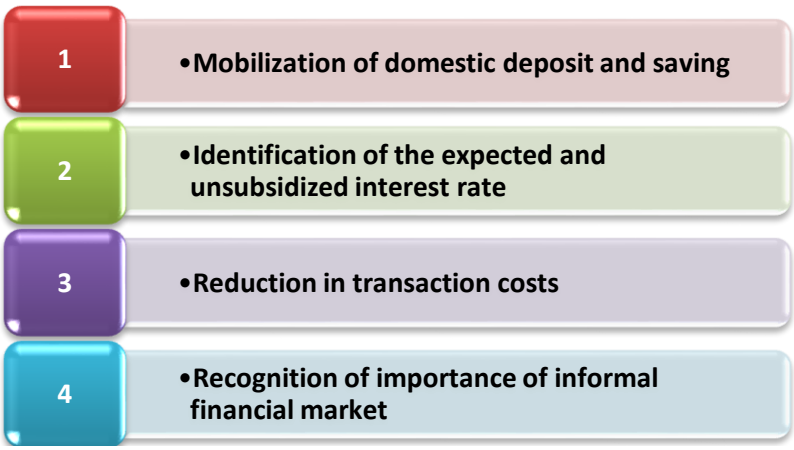

Figure 5.19 Characteristics of market performance view

(1) Mobilization of Domestic Deposit and Saving

This view emphasized mobilization of deposits and savings as strategic ingredient for building a healthy financial market. It regarded local deposit mobilization as powerful tool which ensures viability of the financial institutions. The accumulation of the local savings contributes towards

resource creation for self-financing on one hand and lending to other people. The savings mobilization could involve rural community in the financial operations and could also educate them so as to create a sense that the local saving can be used for lending money to people. Competitively and smoothly the functioning lending and savings institutions would reduce the rate of interest spread between loans and savings. The interest rate which the rural poor will be receiving is higher and rate of lending decreases.

(2)Identification of the Expected and Unsubsidized Interest Rate

The expected rate of interest is required to be identified. The unsubsidized interest rate is a major determinant of the saver, lender and borrower behaviour. The real rate strongly influences overall performance of financial markets.

(3) Reduction in Transaction Costs

The approach emphasizes reduction of the transaction cost and using cost and risk reducing innovation as a means for supporting a sustainable flow of the untargeted financial service.

(4)Recognition of Importance of Informal Financial Market

The informal financial market has different features and it is very important to recognize importance of informal financial market. It argue against the packaging loans and usage of the other similar non-market rationing device, since they diminish most attractive and a useful property of finance.

To Do Activity

Form group of 4-5 students, select any one financial institution which forms a part of the rural financial market and explain the ways this institution helps the people in rural areas.

5.3. Industry analysis

Industries

Industry is group of firms which have similar technological production structure and they produce similar products. The companies are classified in a distinct manner for giving clear picture about manufacturing products and process. Industry analysis is business function which is completed by the owners of business and the other individuals for assessing current environment of business. Analysis helps business in understanding different economic pieces of marketplace and how the pieces could be used for gaining competitive advantage. The owners of business might conduct industry analysis according to specific needs, few basic standard exist for conducting this very important function of business.

Classification of Industries

The industries could be classified based on business cycle i.e. classification according to industry's reaction towards different phase of business cycle.

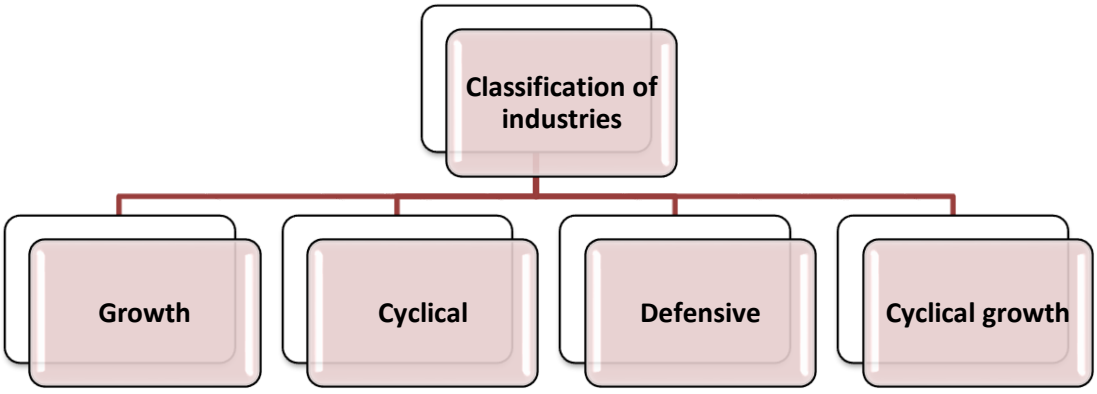

Figure 5.20 Classification of industries

(1) Growth Industry
Growth industry has some special features like high earnings rate and growth expansion, this is independent of business cycle. Expansion of industries mainly depends on technological changes.

(2) Cyclical Industry
The profitability and growth of this industry moves along with business cycle. During boom period this industry enjoys growth and during the depression, they suffer set back.

(3) Defensive Industry
The defensive industry defies business cycle movement. This industry expands and earns income in the period of depression too, under government's umbrella related to protection and it is counter cyclical as in nature.

(4) Cyclical Growth
This type of industry is cyclical and growing also at same time. Technological change and introduction of a new model helps this industry to be cyclical as well as growing at the same time.

Industry Life Cycle
Life cycle of an industry is separated into four defined stages. These stages are mentioned below :

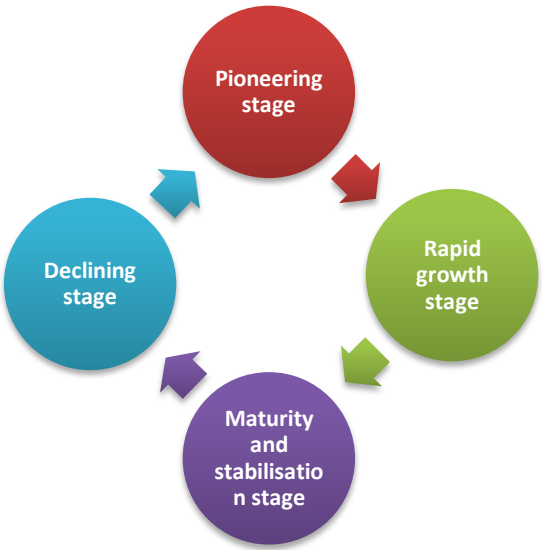

Figure 5.21 Industry life cycle

(1) Pioneering Stage
Demand for a product is much promising in this particular stage and technology of product is lower. Product's demand attracts producers for producing a particular product. The competition is high and the company which is the fittest among all survives in this stage. The producers are trying to develop a brand name for their product, differentiate product and creation of product image. There is an existence of competition which is non-price in nature.

(2) Rapid Growth Stage
In this stage, there is appearance of the surviving firms from pioneering stage. Companies which withstood competition grow very strongly among market share and the financial performance. Production technology improves which results in lower cost of production and also good quality product. Companies have a stable growth in rapid growth stage and dividend is also declared to shareholders.

(3) Maturity and Stabilization Stage

The growth is moderate and the growth rate will be almost equal to industrial growth or GDP's growth. There are symptoms about obsolescence which would appear in technology. For moving ahead, technological innovation in production process and also products should be introduced. Investors keep a close watch during this stage of industry.

(4) Declining Stage

Demand for particular product as well earnings of companies decline in this stage of industry. When there are changes in technology and consumer preference changes then the industry reaches this stage. A special feature of this stage is that the decline in the industry could be at a very high or high rate during this stage.

Factors to be Considered in Industry Analysis

While analyzing a particular industry following factors should be taken into consideration

Figure 5.22 Factors to be considered in industry analysis

(1) Growth of Industry

Industry's historical performance as in growth terms must be analyzed. The growth of all industries is regularly published by various research agencies. The variability in past growth and return in the reaction to economic factors provides insight into future. The history may or may not repeat itself, still the past performance could predict something about future.

(2) Profitability and Cost Structure

The structure of cost effects profitability of every firm. The fixed cost component in the cost structure determines the volume of sales which is required for reaching breakeven point by the firm. After reaching the break-even point and production is right on track, profitability could be increased through utilization of the capacity of the business. Once maximum capacity is reached, more capital is required to be invested.

(3) Nature of Product

The products being produced by various industries are required by consumers and also by other industries. The investor is required to analyze condition of the related industries which are engaged

in goods production and also end user's industry for finding out demand for the industrial goods.

(4) Nature of Competition

This factor determines demand for a particular product, profitability and price of concerned scrips of company. Supply might arise from the multinationals and indigenous producers. Multinationals are entering into field with a sophisticated process of product and product of better quality. It is very important that the companies could face the competition from local companies as well as multinationals.

(5) Government Policy

Government policies related to the industry affects nerve of industry and these effects differs amongst industries. Government imposes regulations related to production size and products pricing. When industry is selected, government policy about a particular industry should be evaluated by the investors before making any kind of investment. In certain industries there are entry barriers which have been placed by government.

(6) Labour

The labour available in a particular industry plays an important role. The trade unions which are operating in that particular industry and the operating mode of these unions impact the productivity of labour and also the modernization of industry. In any industry in which the fixed cost is high, there could be a high impact on the profitability in case stoppage in production. When the trade unions opposes introducing automation, in a product market, company might stand losing higher production cost.

(7) Research and Development

For various industries, for surviving competition in national as well as international markets, production and product process are required to be competitive technically. It is possible to obtain new market and economy of scale through research and development. Expenditure percentage is required to be studied in a diligent way before making investment.

Purpose of Industry Analysis

Industry analysis as well the associated skills which are used for carrying out the industry analysis are absolutely critical for any business since they help in gaining an intimate understanding of environment within which the industry is operating.

Figure 5.23 Purpose of Industry Analysis

(1) Industry Analysis could be used for Predicting Performance

One greatest indicator about understanding the performance of business is based on the industry which is working as a whole. If industry does well, this will also impact the business of every

company which is a part of that industry, depending upon the actual operations of the business. A study of the industrial performance will help people doing business to understand the direction towards the industry would move towards. Any changes which are expected in industry will help the businessmen to understand future opportunities in strategic manner.

(2) Positioning of Business

During planning phase in business, the businessmen would be able to position themselves in market if they understand the working of market. If a businessmen understands the types of product which are being sold in market and understand the position of saturation in the market, he will be able to understand how can he beat the competition and how can his product be different as compared to the other products available in the market.

(3) Identification of Opportunities and Threats

During analysis of industry there would be many opportunities that would be known and many threats that are related to the business a person is doing. Opportunities could actually a person in planning for a new process, product or service and it depends upon the businessmen to do some research over the opportunities and then take wise decision. Threats in an industry could actually help a person owning a business related to that industry to take extra precautions while taking into consideration the threats in that particular industry before moving ahead in business.

Types of Industry Analyses

There are three ways in which industry analysis could be performed. They are mentioned below:

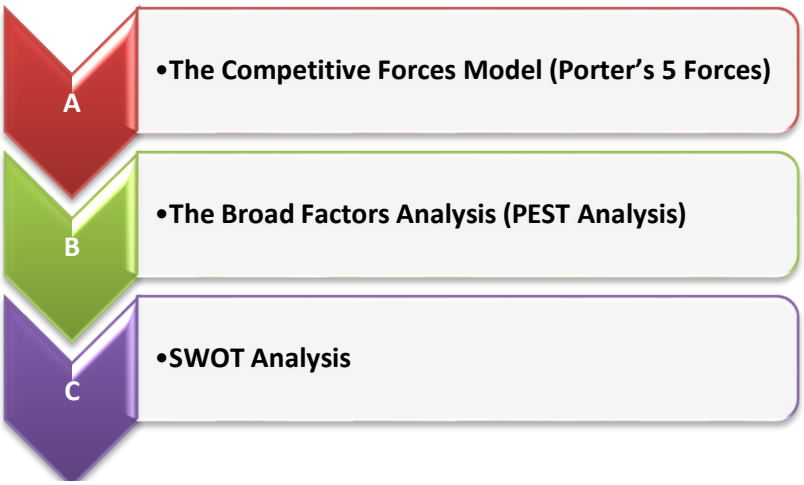

Figure 5.24 Types of Industry Analyses

(A) The Competitive Forces Model (Porter's 5 Forces)

This is most famous model for industry analysis. This was used firstly by Michael Porter in one of his books. He lays down that there are five forces and their analysis would give any business, proper impression regarding the functioning within industry.

The five forces have been mentioned below:

Figure 5.25 Porter's five forces

(1) The Intensity of Rivalry in the Industry

Intensity of the rivalry in any industry affects the competitive environment and also influences ability of the existing firms in achieving profitability. For example, higher intensity of rivalry indicates that the competitors are targeting aggressively for each other's market and are aggressively pricing their products. This represents the potential cost to all the competitors in the industry. Higher intensity of competitive rivalry could make any industry more competitive and also decrease the profit potential in existing firms. In comparison, low intensity of competitive rivalry makes an industry less competitive. It also increases profit potential for the existing firms.

(2) The Threat of New Entrants to the Industry

There always remains a threat about a new entrant entering the industry. It depends whether it is easy to enter an industry or not. In case, it is easier for new business for entering market and setting up of shop, then players that exist in the market are actually facing threat regarding new competition, additionally to competition they have been facing from the existing players. If the entry cost is especially high and it is difficult for any new players to enter the market, then whichever company is currently enjoying a competitive advantage gets to enjoy competitive advantage for some more time. Longer the difficulty in entering market, the company player faces the same competitors' through-out.

(3) The Bargaining Power Enjoyed by Suppliers

In case, the industry has limited number of suppliers in the market, then the suppliers would have lots of bargaining power, since these suppliers enjoy oligopoly. In the presence of many suppliers, bargaining power would be shifted to business. This could be crucial for small businesses because the dealing with the difficult suppliers could have direct influence on product price and the final quality.

(4) The Bargaining Power Enjoyed by Buyers

It's a little different when we consider the kind of bargaining power that buyers have. If the buyer enjoys most of the power in the market, then that buyer can demand lower prices on products, as well as better quality products and discounts, or after-sales services on those products. Typically, this is what happens in industries where there are a few buyers but a lot of businesses offering the same product. The few buyers will have the bargaining power in that industry.

(5) The Threat of Substitute Goods and Services

There is not only competition within the industry; there is also competition with the other industries as well. There is a competition of one industry with another industry which is providing substitute good or service. By extending, all companies within industry will be competing with the other

companies that are competing with it. The profitability would be affected by the competition, as there exists glass ceiling on prices which they could charge for the product and services which are being manufactured or produced by this industry.

Generally, there are two kinds of the substitutes. These kinds are mentioned below:

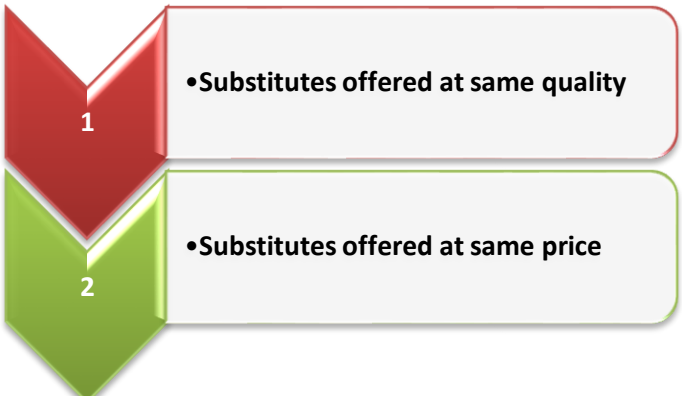

Figure 5.26 Kinds of substitutes as against any other goods

(1) Substitutes Offered at Same Quality
The first type of substitute is that product which has same function or quality as another product which is in question. These substitutes are actually offered at low price. Sometimes when the substitute is of same quality and is being provided at a lower price, many people prefer to buy these substitutes since the price is low and such products could be actually used as a substitute by those people for whom brand does not matter much.

(2) Substitutes Offered at Same Price
The other type of substitutes is those which are of greater utility or higher quality and they are being provided at the same price. There is also a possibility that people might buy the substitute since its utility is more or it is of high quality.

(B) The Broad Factors Analysis (PEST Analysis)
This analysis is also said to be PEST analysis. It is framework which is highly useful with which one could gain understanding of environment within that operations are being performed. For performing PEST analysis, it is required to analyze the following four factors:

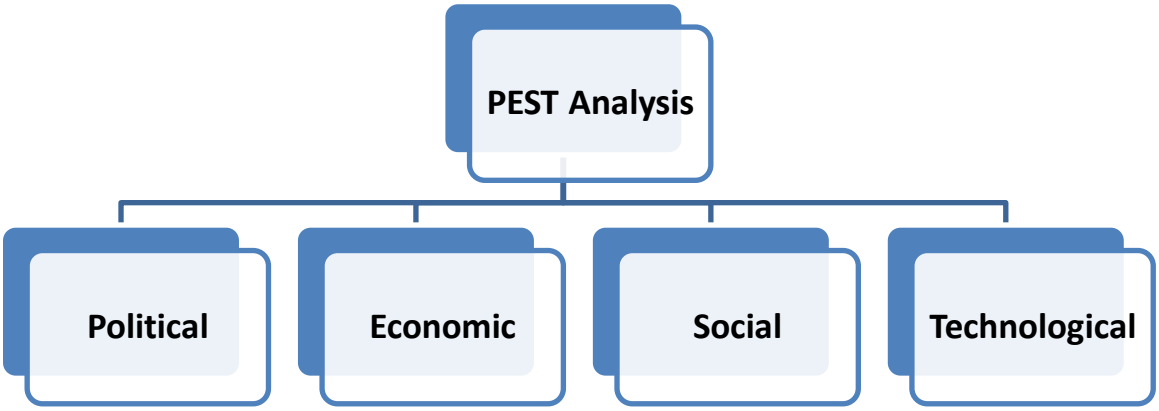

Figure 5.27 Factors of PEST analysis

(1) Political factors

This factor affects an industry that is determined by authorities. These factors include policies and regulations which affects industry either indirectly or directly.

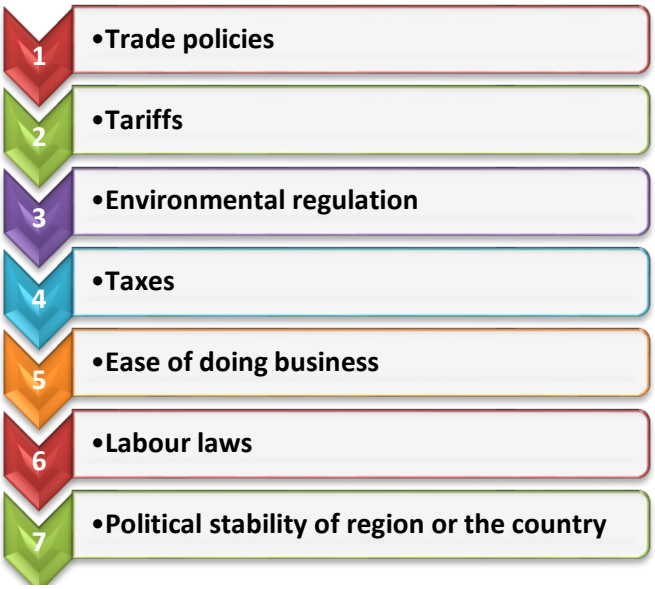

Figure 5.28 Political factors in PEST analysis

Political factors could be restricted to a particular region or industry or business or within country.

(2) Economic factors

Economic factors which govern industry and country in which business operates. Some economic factors are mentioned below:

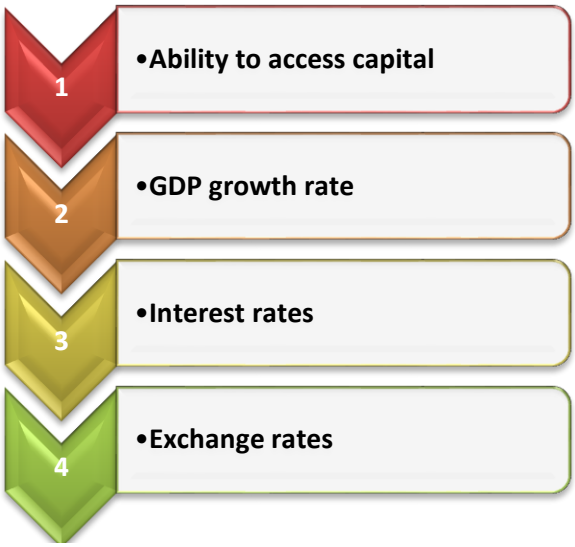

Figure 5.29 Economic factors in PEST analysis

(3) Social factors

There are some social factors which exist in society within which industry and business operates. These factors include aspects of the society like social movements, health, fashion, population and demographics.

(4) Technological factors
These factors include all the factors which deal with various advancements or developments in technology which could change operation mode of business or industry, or even disrupts industry entirely.

(C) SWOT Analysis
SWOT is an acronym. It represents a framework which helps an industry to evaluate overall performance of an organization. The past, current and future performance could be evaluated through SWOT analysis. Through SWOT analysis, any business could figure out their strengths, what could be the weaknesses, what are the opportunities which are present in the environment and the threats that are required to be dealt with.

Figure 5.30 SWOT analysis

(1) Strengths
Strengths represent the characteristics of a business which gives it some advantage over the competitors.

(2) Weaknesses
Weaknesses represent the characteristics of a business which gives it some disadvantage relative to the competitors.

(3) Opportunities
Opportunities represent those elements of an environment which is external to business; this allows a business official in forming and implementing strategies for making business a more profitable venture.

(4) Threats
Threats represent those elements of an environment which are external to business, and which could potentially harm integrity or the profitability of business.

Key developments and investments in India's banking industry

In the month of October 2019, mobile banking facility was launched by the Department of Post for all the post office saving account holders who have accounts in the CBS post office.

Deposits under PMJDY i.e. Pradhan Mantri Jan Dhan Yojana stood at Rs 1.06 lacs crores (US$ 15.17 billion). In the month of October 2019, Government e-Marketplace (GeM) signed Memorandum of Understanding (MoU) with the Union Bank of India for facilitating paperless, transparent and cashless payment system for array of various services. Transactions through Unified Payments Interface (UPI) were 1.15 billion in the month of October 2019 worth Rs 1.91 lakh crores (US$ 27.33 billion). In the month of August 2019, government has announced major mergers among public sector banks. The NPAs (Non-Performing Assets) in the commercial banks have recorded recovery of Rs 400,000 crores (US$ 57.23 billion) in the last four years which includes a record recovery of Rs 156,746 crores (US$ 22.42 billion) in financial year 2019. In the month of September 2018, Government of India launched India Post Payments Bank (IPPB) and it has opened many branches across 650 districts for achieving objective of financial inclusion.

To Do Activity

Select any two companies from a particular sector and discuss its various stages of business cycle.

5.4. Market integration

It occurs when the prices among of related goods in different locations follow a similar pattern over longer time period. Group of goods very often move in a proportional way towards each other and when the relation becomes very clear in different markets, the markets are said to be integrated. Market integration can be said to be an indicator which explains how much various markets are actually related among themselves. The marketer play an integrator's role in a way that feedback is collected and vital information is taken from other members of various channels and the consumers. It provides solutions to the customers related to a product through coordination among multiple function of the organization.

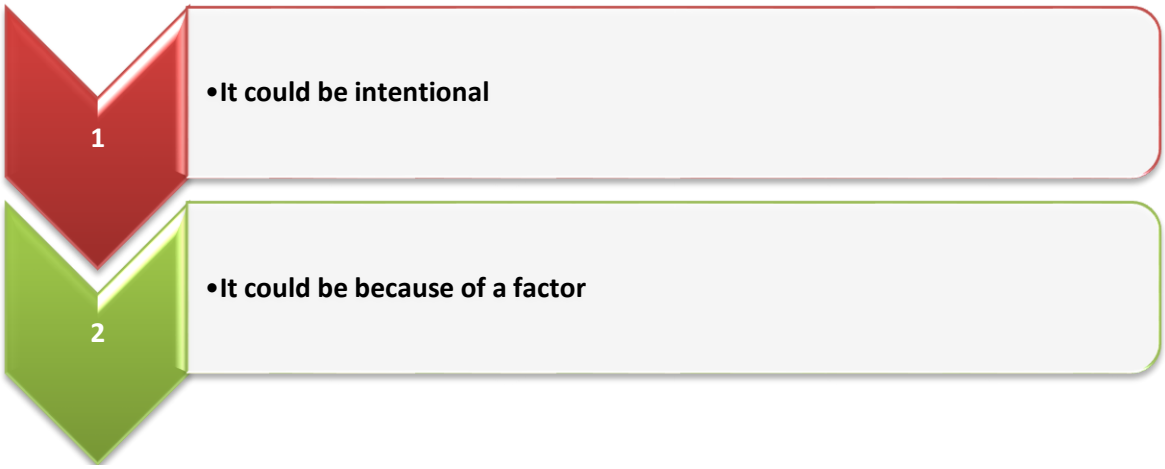

Figure 5.31 Market integration

(1) Market integration could be intentional

This could be when government implements various strategies as way of controlling economy's direction.

2) Market Integration could because of a Factor

When market integration could be because of a factor like shift in demand and supply which has spillover effect over several markets.

When the market integration exists, events which occur within two or even more markets have exerting effect which also prompts some similar changes or even shifts in the other markets which focus on various related goods.

Agricultural Market Integration in India

For understanding the working of market, it is very important to know the way market integration could be measured. The agricultural produce market which is established under the market regulation programme has been playing a very important role for providing market places to farmers for disposing their produce. The markets provide institutional environment and physical facilities to processors, traders and the other functionaries in market for conducting their activities of trading.

The spatial and the seasonal characteristic of agricultural produce market are actually significant because of the cost for domestic transport and regional trades. This may be related to location of the specification of maximum crop in a particular region and some of them are spread evenly in the entire country. Costs of the agricultural storage matters as they are having a very strong influence over the prices and also over quantity which are produced, then consumed or stored and then they are traded. These are the hidden causes of the future of the agricultural market. There are many economies which are developing in nature have implemented structural adjustment and also market reform programmes. A very important component in the programme is liberalization in the food markets. The process of liberalization, globalization and privatization is required to achieve the allocated efficiency and also growth in agriculture which is long term in nature. Marketing system could be seen as an efficient system, if goods movement from producers to the consumers happens at lowest cost which is consistent with service provisions and also facilities that the consumers have the ability to pay and also have a strong desire to buy the said product or avail the service. Improving the marketing system efficiency is actually not a very easy task.

There is a requirement of a multi-disciplinary, holistic, coordinated and also a multi-level systematic approach in analysis and identification of constraints in marketing, production and consumption sector which could hamper the development of marketing system. It can be noticed that current structure of agricultural marketing system which is prevailing in India may not lead towards efficient marketing. Market integration which is poor is actually uncompetitive. Small and fragmented farm size having low volume in marketable surplus makes performance of functions of marketing more expensive and difficult. Management practices which are poor and also lack of the operating capital amongst the others could affect quality of produce and also price. Poor information technology and infrastructure acts as main barrier for a better market integration in the agricultural markets.

Types of market integration

Market integration is of three types. The types are mentioned below:

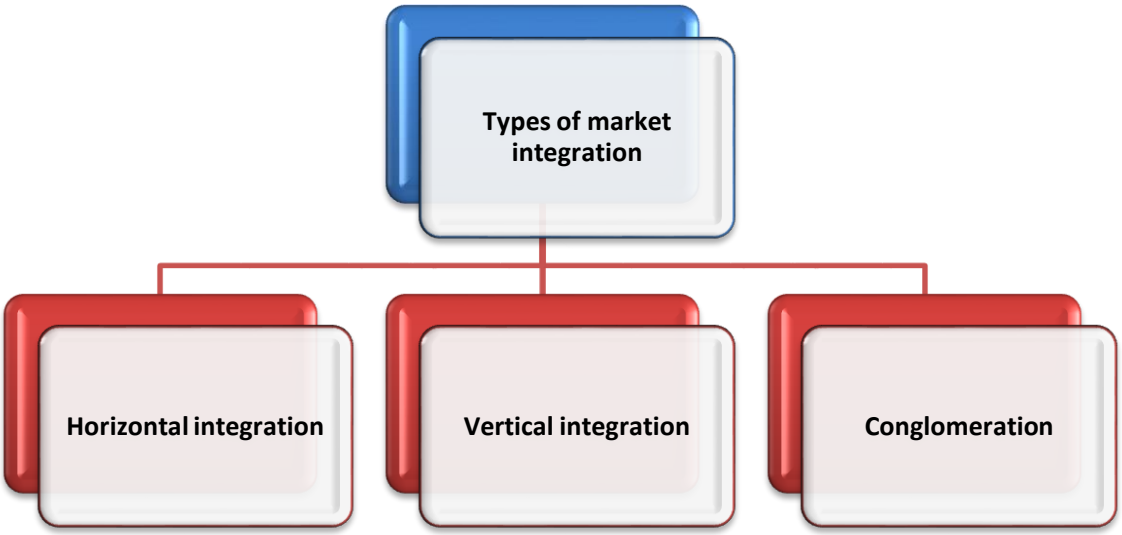

Figure 5.32 Types of market integration

1. Horizontal Integration

This type of market integration means that the prices in one market respond to changes in price of the same commodity in the other markets. Horizontal integration occurs when an agency or firm gains proper control on other agencies or firms which are performing a similar marketing function at same level in marketing sequence. In such integration type, there are some marketing agency which combine together to form union with an intention to reduce the effective number and extent to which there is actual competition in market. This type of integration is helpful for members who joined the group.

2. Vertical Integration

This type of market integration occurs when firm performs more than a single activity in sequence of marketing process. This type of integration links together two or even more functions in marketing process within single firm or firms under single ownership. In this type of integration, there is a possibility of exercising control on quantity and quality of product from beginning of production process till product is complete to be supplied to consumer. This type of integration reduces number of the middle men who are there in marketing channel.

The vertical integration could be of any two of the following types:

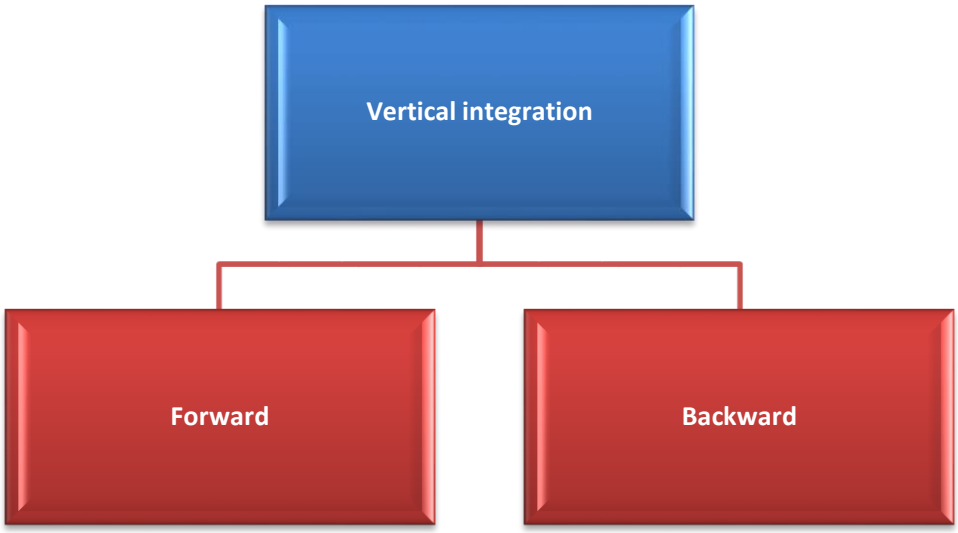

Figure 5.33 Vertical integration

a) Forward Integration

If firm assumes another marketing function which is closer to consumption function, this is said to be as forward integration. Example: When a wholesaler assumes the retailing function.

b) Backward Integration

This integration involves the ownership or sources combination of the suppliers. Example: when processing firm assume the assembling or function of purchasing produce from villages.

3. Conglomeration

Combination of various agencies or activities which are related directly to each other might operate in a unified management, be termed a conglomeration.

Range of Market Integration

The range of market integration depends on various factors. The factors could be listed below :

Figure 5.34 Factors affecting range of market integration

The range of market integration ranges between 0 and 1. When market integration is near zero, this indicates market segmentation. If the value of market integration is closer to one then markets are having nearly perfect competition. Marketing integration could be defined as situation in which the arbitrage cause prices in the different markets to come together. More specifically there could be two markets which could be said to be integrated spatially whenever any trade takes place between these markets, if price differential for homogeneous commodity is equal to transfer costs which are involved in moving commodity between them. However, the imperfections in market, especially those which are arising from the trader's activities are generally taken as an important cause for existence of differential price movement in the different markets.

Financial market Integration

Financial market integration is process of unifying various markets and enable convergence of the risk adjusted return on assets of having maturity across markets. The integration process is facilitated by unrestricted participant's access for towards various markets segments. All the financial markets throughout the world have witnessed a growing integration within boundaries, which was spurred by the deregulation, advances in the information technology and globalization. The Central banks in various parts in world have put in efforts for developing financial markets. At same time, deregulation of the Emerging Market Economies (EMEs) has led towards removal of the restrictions on financial asset's pricing. Capital has become a mobile across the national boundaries as the nations are relying increasingly on the savings of the other nations for supplementing domestic savings. Developments in technology in communication and electronic payment system have reduced arbitrage opportunities across the financial centres and thereby they aid cross border mobility of the funds. Changes in operating framework of the monetary policy, with shift in the emphasis from quantitative control to the price-based instruments like short-term policy rate of interest brought changes in terms of the structure of rate of interests.

Assessment of Financial market integration

Financial market integration encompasses complex interplay of many like policy initiatives, growth and structure of financial markets/ intermediaries, organic linkage amongst the participants of market and preference of investors and savers for the financial instruments. While assessment of financial market integration, it might be useful to view the following:

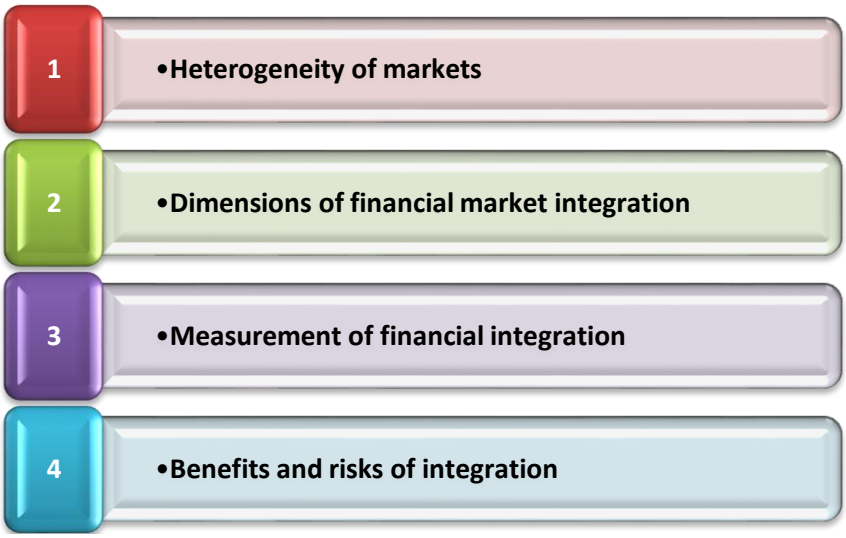

Figure 5.35 Assessment of Financial market integration

(1) Heterogeneity of Markets

There are various segments of financial market segments which are not uniform since they trade in variety of instruments, which differ in liquidity and risk.

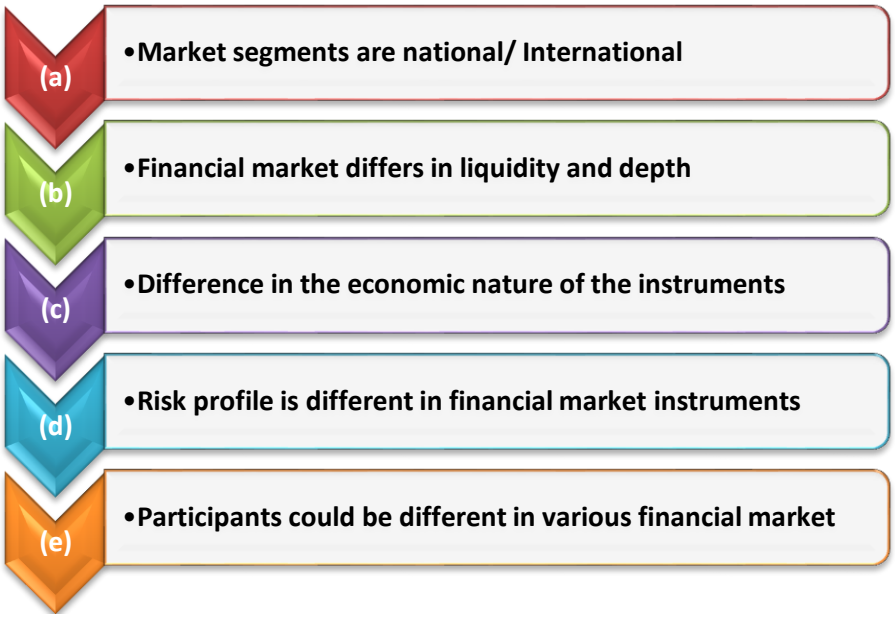

Figure 5.36 Heterogeneity of Markets

(a) Market Segments are National/ International

Market segments could be national or International, this depends on the occurrence of the financial transactions amongst the participants within country's geographical boundaries or across border. Credit and money market segments involve participation of various banks and the other financial institutions which are operating within the boundary of a country is national in its character. The market of foreign exchange deals with transactions which are cross-border in nature and the stock markets which have cross listing among securities and in which there is participation from foreign institutional investors; such market becomes international in its nature.

(b) Financial Market Differs in Liquidity and Depth

The financial instruments have a different depth as well liquidity. The money market instruments have more liquidity as compared to the instruments which are a part of capital market.

(c) Difference in the Economic Nature of the Instruments

There is a difference in the economic nature of the instruments which cater to the various needs of the economic agents. The economic nature differs among various instruments like savings, credit, investments and derivative instruments.

(d) Risk Profile is Different in Financial Market Instruments

The financial markets differ in the terms of instrument's risk profile like government bonds does not involves any kind of credit and default risk. The corporate bonds involve relatively more risk as compared to government bonds. Market segment integration reflects the attitude of investor's toward risk and trade-off between risk as well as return on the assets.

(e) Participants could be Different in Various Financial Markets

The participants in different markets could be different like Banks, Non-Banking Financial Institutions (NBFI), Asset management companies which provide mutual funds, mortgage institutions, insurance companies and other financial institutions which are specialized in long term.

(2) Dimensions of Financial Market Integration

Financial market integration could occur in two dimensions i.e. vertically and horizontally.

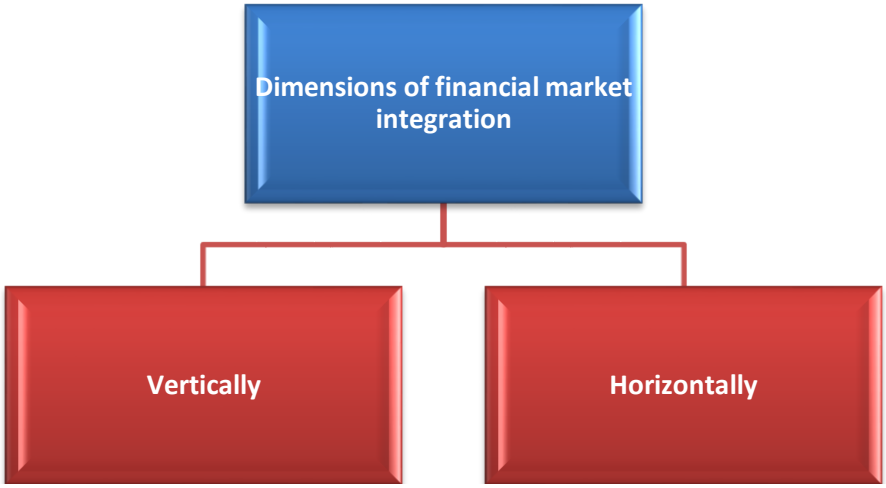

Figure 5.37 Dimensions of Financial Market Integration

In horizontal integration, the inter-linkage occurs amongst the segments of domestic financial market, while the vertical integration occurs between the domestic markets and the international or regional financial markets.

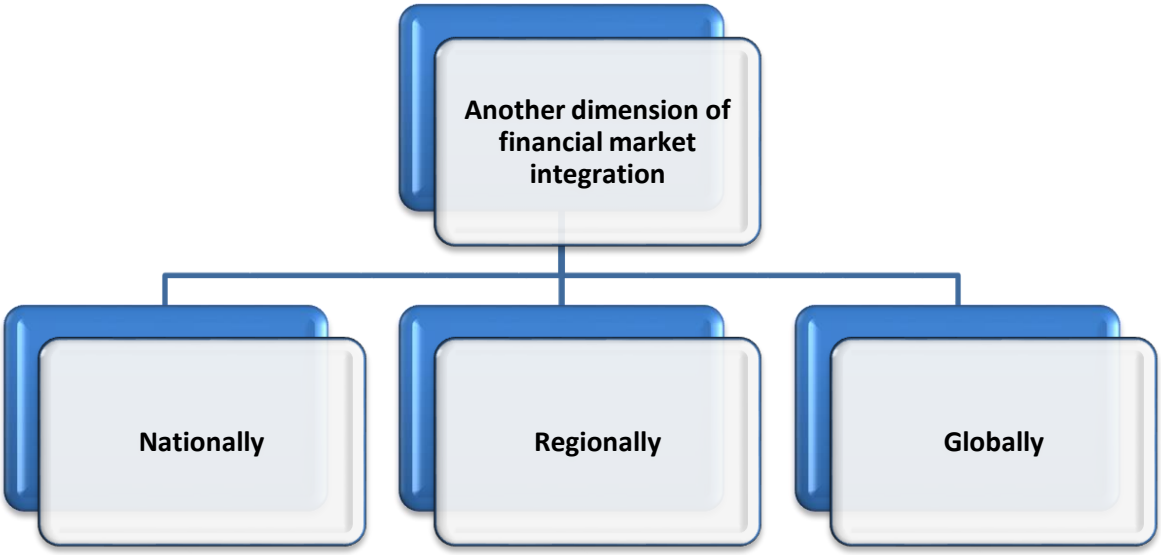

Figure 5.38 Another dimension of financial market integration based

Another perspective i.e. another dimension of financial market integration is nationally, regionally and globally.

(a) Nationally

In the domestic financial markets integration horizontal linkages exist among various segments, which reflects portfolio diversification by the investors, savers and the intermediaries. Under the horizontal integration, market rate of interest revolves around basic reference rate, which could be

defined as price of financial instrument which is short-term and low risk in nature; in liquid and competitive. This provides basic liquidity for formal financial system and the central bank often used it for gauging tightness in the monetary policy. The domestic market may closely be integrated as the intermediaries have been operating simultaneously in many market segments. Commercial banks could operate in both saving and loan market.

(b) Regionally

This type of integration occurs when there is a tie between a given region and major financial centre which is serving that particular region. The economic integration would be easier for achieving at regional level because of network externalities and tendency of the market makers for concentrating in various geographical centres. The gravity models, that takes into account economic size and the distance between the two countries, explains bilateral investment and trade flows. Regional financial integration could be important means for developing the local financial market through the peer pressure for strengthening the institutions and upgrading the local practices.

(c) Globally

Global integration refer to opening of domestic market as well as institutions to free cross border capital flow and the financial services through removal of barriers like control of capital and withholding tax. Deeper dimension in global integration entail removal of obstacles for movement of people, market participants and technology across border. This type of integration has been promoted through the harmonization of the national laws and standards, either through adoption of minimum standards or mutual recognition of the standards.

(3) Measures of Financial Integration

The progress of global, regional and domestic of financial integration can be measured through various approaches. These measures can be divided into three categories. The categories are mentioned below:

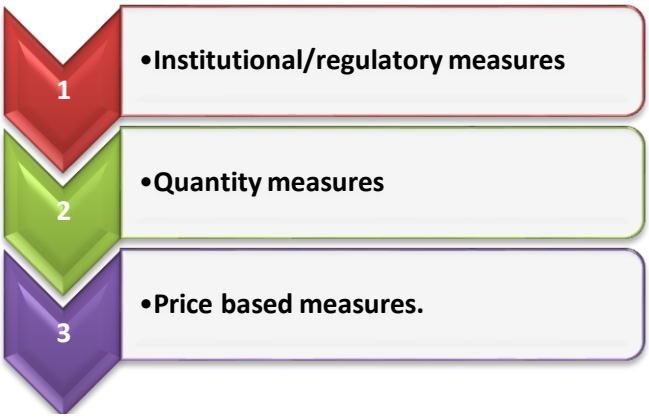

Figure 5.39 Measures of financial integration

From policy perspective, the specific indicators of financial can be classified into *de jure* and *de facto* measures. There is existence of some legal restrictions related to capital and trade flows across border and market segments can be said to be the most frequently used *de jure* indicator. The indicator has several shortcomings as the restrictions could not be binding or they are not given respected as capital flow which does not exists somehow. In practice, *de jure* indicator adopts dichotomous scheme related to absence or existence of restrictions which may not reveal the actual openness degree of the countries to the capital flows.

De facto indicator of financial integration is usually based on quantities or prices. Commonly used measure based on price to gauge price equalization and the convergence of the market segments

includes cross-market spread, correlation among various rates of interest, test of common trends in terms of interest rate and volatility transmission.

(4) Benefits and Risks of Financial Integration

Financial integration provides many benefits, but there are some risks associated with it. Benefits and the costs of financial market integration depend on degree of domestic integration in financial market, international integration and also financial development. Evaluation of benefits as well as risks of financial market integration is complex and in an economy with open capital account. The cost and benefit of financial integration could be viewed from different perspective of individuals, sovereigns, and financial institutions and corporate. Development of the local financial market reduces risks associated with the excessive reliance on the foreign capital which includes maturity and currency mismatches. Benefits from global integration depend on the composition, size and quality of the capital flows. Benefits from global integration involve direct, indirect or some collateral benefits.

To Do Activity

Form group of 4-5 students and select any one of the following topics and prepare a presentation to be presented before the class:

1) Types of market integration
2) Agricultural market integration
3) Financial market integration
4) Heterogeneity of markets
5) Measures of financial market integration
6) Benefits of financial market integration
7) Risks of financial market integration

5.5. Marketing of Financial Products and Services

Marketing is mainly understood as the selling of product or service. Some people also consider that advertising or promotion of a product is marketing. Marketing is broader than this. It is related to customer. The earlier attempts towards marketing could be traced back to barter system. This system can be seen as reflection of realization that exchanges add value to both parties who are a part of the transaction. This marked the beginning of marketing. Since that time, evolution of commerce has led towards development of marketing into a business philosophy and this happened through many stages. Marketing is a concept and practice. Marketing could be understood in reference to marketing mix and the strategies which have been applied. There is a requirement that marketing is seen from customer's angle for making product successful in market.

Marketing concept has been developed over period of many centuries. Need of a human being is state of deprivation related to basic satisfaction and this results in the desire for satisfiers of needs which could be named as want.

Figure 5.40 Wants conversion to demand

The concept of Marketing has become more widespread – movement from the assessment and fulfilling of consumer demands for identification of need and want for determination of product and services. Indeed in current scenario marketing include not only anticipation of the needs of consumer but the kindling needs and providing newer product and service for fulfilling them.

Concept of Market

The word "market" refers to a place where the goods could be bought and sold. Market consist of potential customers who share a particular want or need who might engage themselves in some kind of exchange for satisfying the want or need.

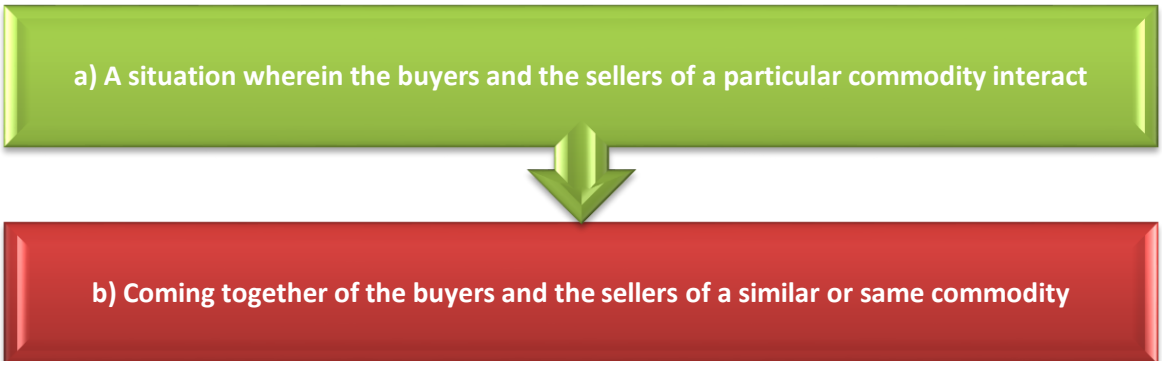

Figure 5.41 Description about market

Market Implies:

a) A situation wherein the buyers and the sellers of a particular commodity interact

There could be few or many buyers of a particular commodity and it is very important that they interact at a particular place. The sellers or buyers could be lesser or more. The requirement of buyers and sellers could be achieved only when they interact with each other. The terms and conditions could be different among the buyers and sellers like price, quality, availability of quantity etc. Market is required to easily find the right person for the right product.

b) Coming together of the buyers and the sellers of a similar or same commodity
It becomes difficult to find a buyer of a particular commodity or a seller for it. Market plays an important role and helps people in buying the exact item which is required and for the sellers; he or she could get a reasonable price for the product with him or her. There is a possibility that the sellers are dealing with a single variety of product and buyers need another variety. In such a case, when the demand of the buyer is not being fulfilled by the product which is available with the seller, then the buyer could substitute the required product with the one which is available.

Market is necessarily not represented as geographical area. The group of the buyers and the sellers could be located in different parts of the country. There has been advancement in the communication and the transportation facilities, buyers and the sellers could easily contact among themselves even if there is a lot of distance between them. Market could comprise any one of the below mentioned situations related to any product or service :

Figure 5.42 Situations in a market

Different situations give rise to various types of market, different ways of marketing and varied strategies. The marketing style and strategy change with a change in situation of the market.

Products and services

Product

Philip Kotler defined product as “anything that can be offered to a market for attention, acquisition, use or consumption. It includes physical objects, services, personalities, places, organizations and ideas.” The products could be goods or service.

Characteristics of Physical products
The products has following features:

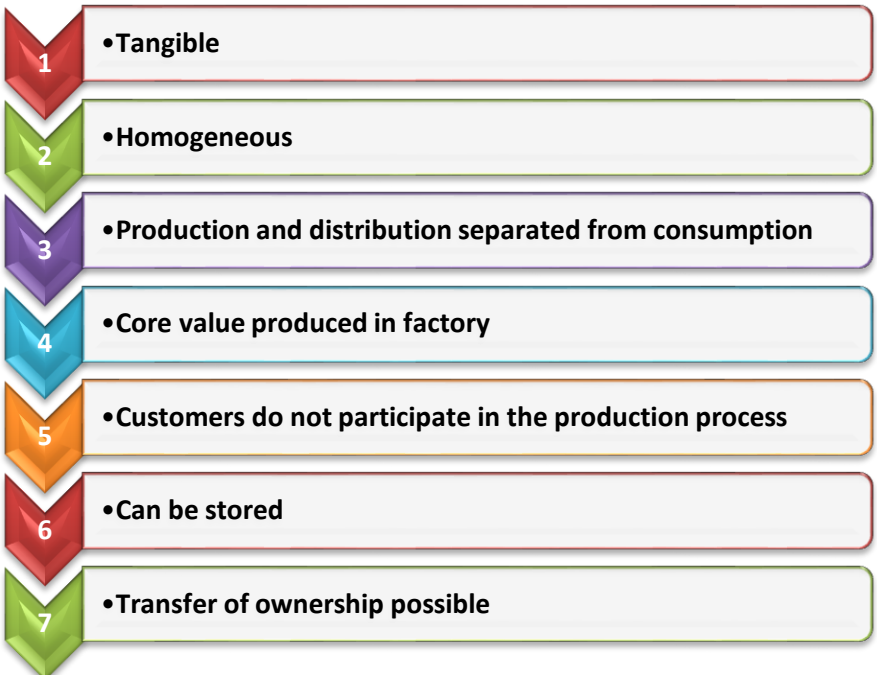

Figure 5.43 Characteristics of physical products

(1) Tangible
The physical products are tangible in nature. They could be seen, touched or felt.

(2) Homogeneous
The physical goods have identical features and most of them have the same touch and feel. In case the product is edible, then it is same in taste.

(3) Production and Distribution Separated from Consumption
The physical good is produced and distributed at the separate place and later it is consumed by the consumer.

(4) Core Value Produced in Factory
The core value of the product is produced in the factory or plant where a particular process is followed which leads to manufacturing of a particular product.

(5) Customers do not Participate in the Production Process
The production of goods takes place at a different place and the customers are not a part of process where production of the goods is being done.

(6) Can be Stored
The physical product could be stored and as such there is not a major change in the product in case it is stored in a correct position, place, temperature and other conditions.

(7) Transfer of Ownership Possible
The ownership gets transferred from the producer to the consumer. There is also a possibility that an agent buys the product from the manufacturer and further sells it to different people.

Service
Kotler and Bloom defined service as "A service is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production

may or may not be tied to a physical product."

Features of Services

Services are different from products and they have the following features.

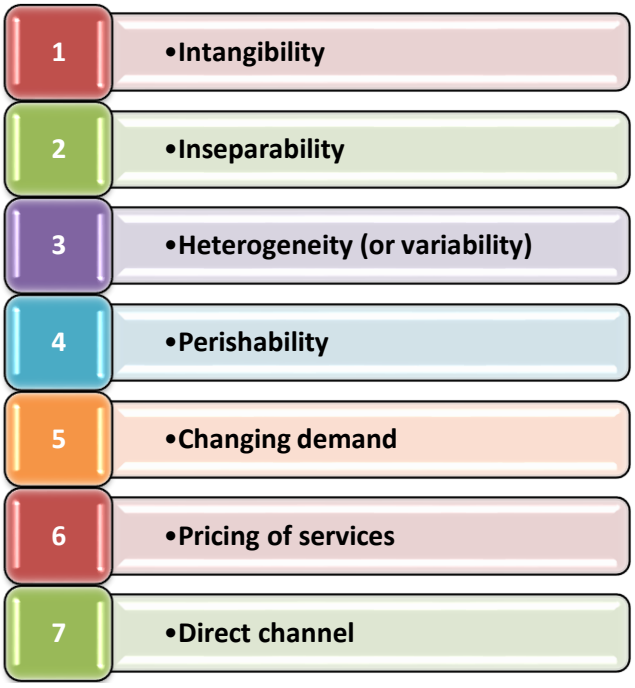

Figure 5.44 Features of Services

1. Intangibility

Services are intangible in nature. Services cannot be viewed or touched, so it becomes difficult for the clients for telling in advance, what they would get. For example, banks could promote credit card sale through emphasis on conveniences and the advantages which have been derived from possession of credit card.

2. Inseparability

Services could not be separated from individuals. Services are actually created and also consumed simultaneously. Services are being produced at same time when it is received by client. For example, when a person is searching online or during legal consultation, the service gets consumed immediately when it is being provided. People like dentists, dancers, musicians, etc. create as well as offer services at same time.

3. Heterogeneity

The services are provided by people and the people are different. There is strong possibility that same enquiry can get answered in slightly different way as compared to someone else. It is very important that the difference in the performance should be minimized. The heterogeneity could be reduced through standard setting, quality assurance and training. Quality of the services which are being offered by various firms could not be standardized.

4. Perishability

The degree of Perishability in the services is high. It is not possible to store the unused capacity to be used in future. If the services are not being used the same day, it will be lost forever. For example, the spare seats in aeroplane could not be transferred in some other flight. In a similar way, there are certain examples like rooms in a five-star hotel and credit which is not utilized will lead to economic loss. The services are activity which is performed for consuming simultaneously and they perish if they are not consumed.

5. Changing Demand

Demand for the services have wide fluctuation and could be seasonal in nature. Tourism industry is seasonal in nature. Various other services like public transportation, demand for cricket fields and golf course fluctuate in demand.

6. Pricing of Services

The service quality could not be standardized. Pricing of the services have usually determined based on competition and demand. For example, rent of rooms in various tourist spots fluctuate since their demand is different in different seasons and many service providers offer discount during off season.

7. Direct Channel

Services are provided directly to customers. Customers go directly to service providers for getting services like bank, doctor, hotel and many others. The service providers believe in franchise model so that they could reach to masses.

Definition of Service Marketing

Service marketing is based on value and relationship. It could be used for marketing a product or a service. With increase in prominence of services in global economy, the services marketing have become an important area of study. Marketing of services becomes different from marketing of goods as services have unique characteristics. In most of the countries, the services have been adding more value economically than agriculture, manufacturing sector and raw materials combined together. In the developed economies, the employment is being dominated by the service job and most of the new growth in jobs has come from the service industry. The jobs in service industry ranges from highly paid professionals and the technicians to the minimum wage positions. The service organizations could be of any size ranging between huge corporations working globally to small businesses. Most of the activities by non-profit organizations and government agencies involve services.

Importance of Marketing for Indian Banks

The Banking organizations have started marketing their products so that more and more customers could be a part of the banking system. There have been many transformations in the banking sector during twentieth century. Marketing plays a very important role for the Indian Banks.

Figure 5.45 Importance of Marketing for Indian Banks

(1) Transformation in Banking from Class to Mass Banking

The Banking system in India transformed from class to mass banking. There were many people in the rural areas and even in the urban areas who were not a part of the banking system. It became very important to include the excluded people in to the banking system. After nationalization of Banks, it was understood that customers who have been away from banking are having different needs and accordingly a new range of products and services were designed and offered so that more people could be a part of the banking system.

(2) Inculcating Banking Habits amongst People

Banks promoted banking products and services so that people get into the habit of saving money in banks, open various types of deposit accounts for future savings, avail the loan facility from banks. There are basically two categories of people, one those who have excess money and the other are those who need money. Banking system has products for both these kind of customers. The amount which is deposited in the form of any kind of liability product in banks is further lent in the form of loans to people and this helps further in the growth and development of the economy.

(3) Competitive Forces in Banking in Urban Areas

Banks felt competitive forces in the urban areas. There were many other products besides banking which entered the urban market like small saving instrument, even the corporate sector introduced public deposits, debentures and equity shares. There was a lot of competition on the asset as well as the liabilities side. There was a need that the banking sector also introduces some new form of products and services so as to attract the investors.

(4) Emergence of Liberalization

There has been emergence of liberalization in banks. Regulatory framework for the banks, which were highly restrictive, changed into broader and rigorous control system. Banking sector respond to private sector. While banks got more freedom, they have new forces for reckoning with.

(5) Profitability in the Banks

A major concern for banks is their profitability. Customer orientation has been an important marketing concept. It was discussed at a larger stage; bank management also displayed a marketing acumen in the banking practices. Bank Management evolved suitable strategies to improve profitability, especially in the liberalized and deregulated was a major challenge.

(6) Social Responsibility towards People in Rural Areas

Banks have social responsibility towards people of rural areas. It has become very important for the bankers to extend bank's network in the rural areas rendering bank branch non-viable, affecting their bottom line adversely.

(7) Entry of New Generation Private Sector Banks

Private sector banks have entered the Indian market and have brought in two main aspects. One aspect is using information technology to deliver banking services, that have affected not only banking products but have also facilitated new outlet like Internet, ATM etc. The second aspect is that banks have renewed their focus on High Net worth customers and this has created private banking of different type among Indian banks. This has become a medium that brought rapid reaction among entire banking industry. Computerization of the bank branches is speeding up at very fast pace which is not only among public sector bank, rather even amongst older private sector bank and cooperative bank. Banks are conscious about not only customer's needs but focused on customer relationship management.

Marketing of Financial Services

The characteristic of services i.e. viz. inseparability, intangibility, perishability and heterogeneity are present in the financial services. Some assume special meaning in the context of financial services. There are two aspects of intangibility. One aspect is that the services are imaginary since they do not have a physical form and the second aspect is that services are not defined easily and they might be difficult in understanding them. Inseparability indicates that consumers play significant role for producing services. There is another feature that affects marketing process i.e. fiduciary responsibility. This refers to implicit responsibility that all organizations dealing in financial services have related to funds management and financial advice which is given by these organizations. Every business has responsibility towards its customers related to quality, safety and reliability of products which are supplied by then and this responsibility becomes much greater when it is related to financial service organizations.

Marketing Mix in Banking Sector

Figure 5.46 Marketing mix in the banking sector

(1) Service

Services in banking are about money in various forms and different attributes like depositing, transferring and lending procedure. The intangible service forms contracts. Structure of the banking service affects success of the institution for long term. Besides basic attributes such as security, ease and speed in the banking services, rights like service consultancy for compounding is also preferred.

(2) Price

The banks should carefully determine price and also price policies. In case there is any mistake while pricing can cause the customers get shifted towards other rivals who are offering similar services. There are different methods which are being used by banks for pricing services which are being offered by the banks.

(3) Promotion

Another important element of marketing mix is promotion and this consists of public relations, advertising, selling promotional tools and personal selling. Personal Selling is generally preferred in the banking sector and this was realized because of characteristics of the banking services. Most of

the banks prefer to expand selling and also using them.

(4) Advertising
Banks have also preferred advertising channels and media.

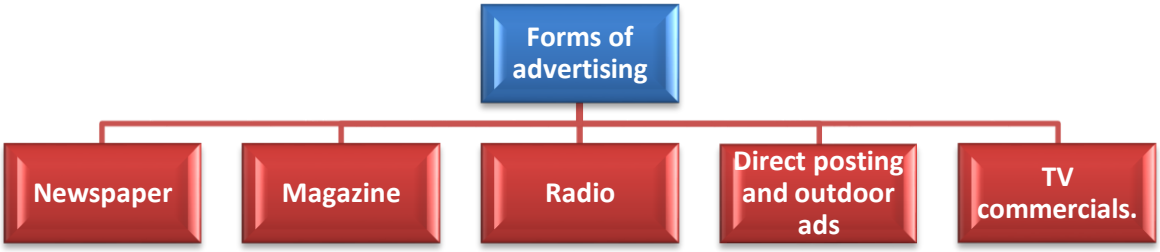

Figure 5.47 Forms of advertising of bank services

Media selection and target markets need to be determined and media which reaches its target cheaply and easily must be given preference.

(5) Selling Promotional Tools
This is another element in promotion mix of banks. This implies improvement in selling. There are some selling tools which are used for improvement like rewarding personnel, premiums, premiums and contests.

To Do Activity
Form group of 2-3 students and select any one financial product or service and discuss the techniques which are being used to market that product or service in the financial market.

Model Questions

- Explain the features of rural marketing.
- Describe the major opportunities available in the rural markets.
- Discuss the role of financial market towards economic development.
- Explain the structure of rural financial markets in detail.
- Discuss the various types of industries based on business cycle.
- What are the factors which are to be considered in industry analysis?
- What do you understand by market integration? Explain its various types.
- Explain various dimensions of financial market integration.
- Discuss marketing mix in banking sector.
- Explain the features of services. Discuss any three banking services.

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Editors' Profile

Dr W G Prasanna Kumar

Dr. W G Prasanna Kumar, Chairman, Mahatma Gandhi National Council of Rural Education (MGNCRE) prides in calling himself a *Public Servant* working for Climate Change. His expertise in Disaster Management has him in the advisory panels of several state and national level departments. He is also an expert advisor for the government of Telangana in its Disaster Response Force endeavour. A master trainer for Civil Services candidates, he conducts intensive training programs periodically at the behest of nationally recognized training institutes. He is currently actively involved in promoting higher education curriculum addressing rural concerns in India. **"Villagers to be producers not just consumers"** is his conviction that drives him to work for rural challenges. He aspires for an adaptive disaster risk resilient and eco-responsible India. The Curriculum on MBA in Waste Management and Social Entrepreneurship, and BBA and MBA in Rural Management are his major academic achievements dedicated to India's rural concerns. This has culminated in several collaboration MOUs for introduction of MBA/BBA Rural Management in Higher Education Institutions across India.

Dr. Prasanna Kumar excels in taking a vision and making it a reality and a plan into action, driven by a strong motive to achieve. He has translated positive intentions into tangible results. Being clear on the vision, defining a pathway, setting of the track with a clear destination point and quickly taking corrective actions as and when needed – are his prime qualities that make him an Achiever.

Under Dr. W G Prasanna Kumar's leadership MGNCRE has done nationally recognized instrumental work in building rural resilience including rural community engagement and Nai Talim - Experiential Learning. He has guided and helped MGNCRE in making key decisions and implementing agenda in several areas including Nai Talim (Experiential Learning), Community Engagement, Rural Immersion Programmes, Swachhta Action Plan activities, Industry-Academia Meets and Exhibitions on Waste Management, Comprehensive Sanitation Management in villages by working with Higher Educational Institutions, making curricular interventions in Waste Management and Rural Management, compiling Text Books on Waste Management and Rural Management, UNICEF (WASH) activities and several other related impactful activities. MGNCRE has become an interface for Government of India for promoting academic activity focusing on the rural concerns, being an advisor and a curriculum development agency for the Government of India. The Council is also now an RCI for Unnat Bharat Abhiyan.

Another pathbreaking achievement has been the formation of **Cells** through online workshops for institutionalising the efforts of MGNCRE. Vocational Education-Nai Talim-Experiential Learning (VENTEL) discuss MGNCRE's interventions in HEIs and making Vocational Education as a Teaching Methodology; Workshops on Social Entrepreneurship, Swachhta and Rural Engagement related activities in Higher Education Institutions has paid dividends and the key roles of the HEIs is highly appreciated by the Ministry. Building continuity and sustainability is being done through Social Entrepreneurship, Swachhta & Rural Engagement Cells (SES REC). Institutional level Rural

Entrepreneurship Development Cells (REDC) Workshops/ FPO/FPC-Business Schools Connect Cells (FBSC) are organized with the objectives of Functionality of RED Cell; Preparation and Implementation of Business Plan and grooming students to be Rural Entrepreneurs.

A man with many firsts to his credit, and an incredible record of accomplishments, Dr. W G Prasanna Kumar is currently guiding MGNCRE in building a resilient rural India.

Dr K N Rekha

Dr K N Rekha, is a PhD Graduate from IIT Madras. She has 14 years of experience in training and education Industry. She works at Mahatma Gandhi National Council of Rural Education (MGNCRE), Hyderabad as Senior Faculty. She is involved in curriculum development on Rural Management and Waste Management. Prior to this, she worked as a researcher at Indian School of Business, Hyderabad, a short stint at Centre for Organisation Development (COD), Hyderabad. She has co-authored a book on "Introduction to Mentoring", written book chapters, peer reviewed research papers, book reviews, Case studies, and caselets in the area of HR/OB. She also presented papers in various national and international conferences. Her research areas include Mentoring, Leadership, Change Management, and Coaching. She was also invited as a guest speaker at prominent institutions like IIT Hyderabad.

Author's Profile

Dr Meghna Jain

Dr Meghna Jain is having 6 years experience in Banking and 7 years experience in teaching in Management. She has completed certifications in Banking i.e. JAIIB and CAIIB from Indian Institute of Banking and Finance (IIBF). She is Financial Education Trainer with Securities and Exchange Board of India (SEBI). She is also Banking trainer with Bajaj Finserv. She is currently working as Assistant Professor in Gyan Ganga Institute of Technology and Sciences, Jabalpur. She is teaching Finance and General Management subjects. She has worked with Diebold Systems Private Limited, Yes Bank Ltd., Indusind Bank Ltd., and various others Financial Institutions. She has attended various conferences and seminars, presented papers on various topics related to General Management and Finance. She has taken 70+ sessions related to Financial Education among different target segments including School children, house wife, School teachers, Executives and other groups.

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Mahatma Gandhi National Council of Rural Education (MGNCRE)

Department of Higher Education
Ministry of Education, Government of India

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there is Universal Prosperity

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