

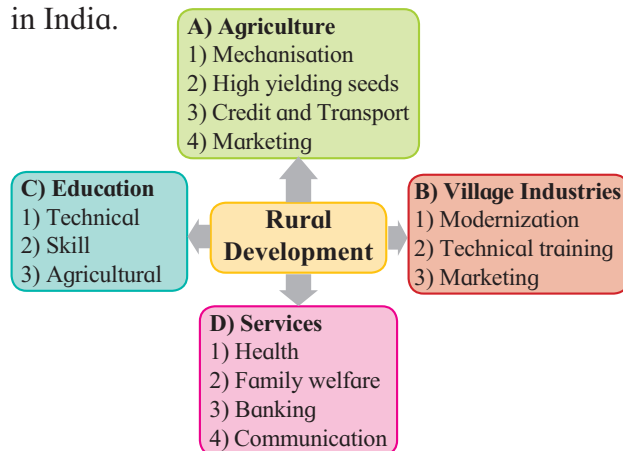
## CHAPTER - 5 : RURAL DEVELOPMENT IN INDIA

### Introduction :

Indian economy is predominantly a rural economy. Economic growth of the country is driven by its rural development. It is true that India lives in villages. The term 'rural development' is a **subset** of the broader term development. The term 'rural development' connotes overall development of rural areas with a view to improve the quality of life. According to 2011 census, the country's rural population is 83.25 crores (68.8% of total population). There has been a wide consensus that rural development should be inclusive and sustainable in order to alleviate the poverty.

### Rural Development :

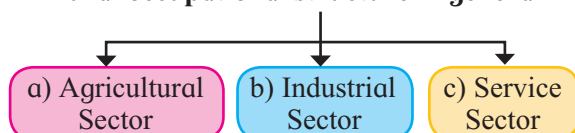
The concept of 'Rural development' was born in the context of agriculture, and it remained for a long time with agricultural development in India.



### Defination by World Bank :

“Rural development is a strategy designed to improve the economic and social life of a specific group of people - the rural poor. Rural development involves extending the benefits of development to the poorest among those who seek livelihood in the rural areas. The group includes small-scale farmers, tenants and the landless.”

#### Rural occupational structure in general



**a) Agricultural sector :** The rural population in India is classified into agricultural sector which has been subdivided as agriculture and allied activities. Agriculture consists of small, marginal and large farmers. Allied sector consists of plantation, forestry, fisheries, dairy and horticulture.

**b) Industrial Sector :** Industrial sector is defined as an economic activity concerned with the processing of raw materials and manufacture of goods in factories. This sector has been classified into the small scale, cottage and rural industries.

**c) Service Sector :** The service sector termed as 'tertiary sector' involves provision of services to businesses as well as final consumers such as accounting services, tradesman-ship (like mechanic or plumber services), computer services, restaurants, tourism etc. The service sector has been further classified into traders (wholesaler and retailer), transport operators, professional and technical.

### Rural Development in India :

Rural development in India has witnessed various plans and policies initiated by the government as well as at the non-government levels. Appropriate strategies for rural development will lead to economic growth and development of the country.

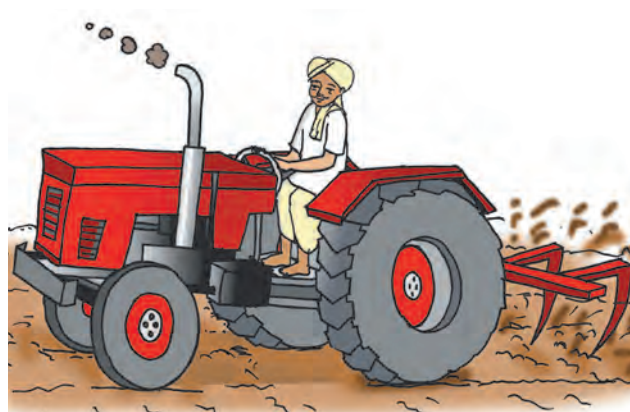
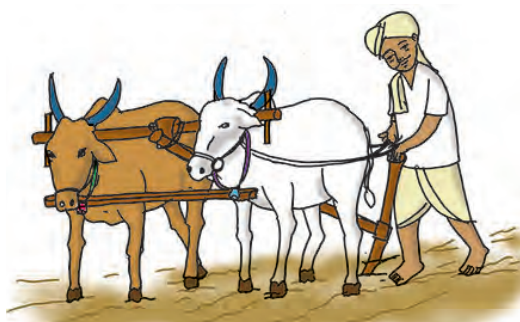
### Significance of Rural Development in India :

**1) Public health and sanitation :** Rural development helps to improve sanitation and hygiene, providing safe drinking water and affordable health facilities. This would lead to an improvement in the quality of life of the rural people.

**2) Literacy rate in rural area :** Literacy is a powerful instrument of **socio-economic change**. However there is a considerable

gap between the rural and urban literacy rates. Rural development helps to bridge this gap by making provisions for educational facilities at all levels.

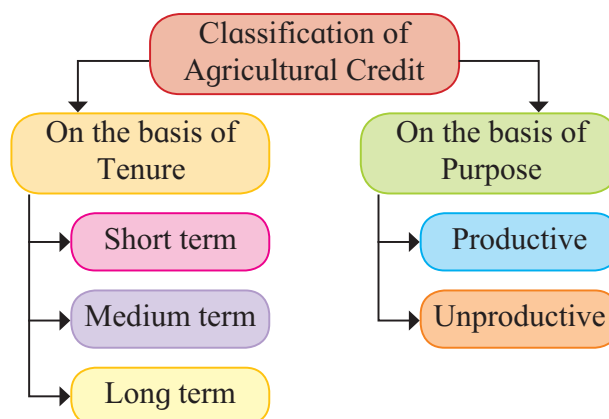
- 3) **Empowerment of women** : Rural development helps to reduce gender disparity, meet the diverse needs of rural women as well as encourage their participation in community development programmes.
- 4) **Enforcement of law and order** : Rural development helps to safeguard the rights of the socially disadvantaged groups through proper enforcement of law and order.
- 5) **Land reforms** : Rural development ensures effective implementation of land reforms such as ceiling on land holdings, regulation of rent, protection of tenancy rights etc. This leads to reduction in rural inequality.
- 6) **Infrastructure development** : Rural development leads to further progress in basic facilities such as generation of electricity, road connectivity, irrigation etc.
- 7) **Availability of credit** : Rural development also facilitates the growth of financial institutions such as primary agricultural co-operative credit societies, regional rural banks, co-operative banks. This is vital for providing subsidised credit facilities to the farmers.
- 8) **Eradication of poverty** : Rural development leads to an increase in rural incomes and standard of living. This helps in the eradication of poverty.



**Fig. 5.1 : Transformation of Agriculture**

### Agricultural Credit in India :

Agricultural credit is an important pre-requisite for agricultural growth. Agricultural policies have been reviewed from time to time to provide adequate and timely finance to this sector. Rural credit system assumes importance because for most of the Indian rural families, savings are inadequate to finance farming and other economic activities.



### Types of Agricultural Credit :

Agricultural credit can be classified on the basis of :

- 1) **Tenure** : It is credit requirement based on the time-period of loans. It is of three types:
  - a) **Short-Term Credit** : It refers to loans not exceeding two years. It is required for meeting the short-term requirements of the cultivators, e.g. loans required for the purchase of fertilizers, High Yielding Variety (HYV) seeds, for meeting expenses on religious or social ceremonies etc.

b) **Medium-Term Credit** : These loans are for a period upto 5 years. These are the financial requirements to make improvements on land, buying cattle or agricultural equipments, digging up of canals etc.

c) **Long-Term Credit** : These loans are for a period of more than 5 years and are generally required to buy tractor, making permanent improvements on land etc.

2) **Purpose** : The agricultural credit on the basis of purpose for which the credit is used can be of two types:

a) **Productive** : Productive loans are the loans that are related to agricultural production and economically justified, e.g. purchase of tractor, land, seeds etc.

b) **Unproductive** : Unproductive credit is used for personal consumption and unrelated to productive activity, e.g. loans for expenditure on marriages, religious ceremonies etc.

### Source of Agricultural Credit in India :

1) Non-Institutional Sources

2) Institutional Sources

1) **Non-Institutional Sources** : The non-institutional finance forms an important source of rural credit in India, constituting around 40 percent of total credit in India. The interest charged by the non-institutional lenders is usually very high. The land or other assets are kept as collateral security. The important sources of non-institutional credit are as follows :

i) **Money-Lenders** : Money-lending has been a widely prevalent profession in the rural areas. The money-lenders charge huge rate of interest and mortgage the property of the cultivators.

ii) **Other Private Sources** :

a) Traders, landlords, Commission agents, etc.

b) Credit from relatives, friends, etc.

2) **Institutional Sources** : The general policy on agricultural credit has been one of progressive institutionalization aimed at providing timely and adequate credit to farmers for increasing agricultural production and productivity. Providing better access to institutional credit for the small and marginal farmers and other weaker sections to enable them to adopt modern technology and improved agricultural practices has been a major part of the policy.

Following are some of the institutional sources of agricultural credit in India.

i) **National Bank for Agriculture and Rural Development (NABARD)** :

It is the apex banking institution to provide finance for agriculture and rural development. National Bank for Agriculture and Rural Development (NABARD) was established on **July 12, 1982** with a paid up capital of ₹ 100 crores by 50:50 contribution of Government of India and Reserve bank of India. NABARD is an apex institution in rural credit structure for providing credit for promotion of agriculture, small scale industries, cottage and village industries, handicrafts etc.

The paid up capital stood at ₹ 10,580 crores as on 31<sup>st</sup> March 2018. Consequent to the revision in the composition of share capital between Government of India and RBI, NABARD today is fully owned by Government of India.

ii) **Rural Co-operative Credit Institutions** :

The rural credit co-operatives may be further divided into short-term credit co-operatives and long-term credit co-operatives.

A) **Short-term credit co-operatives** : It provides short-term rural credit and are based on a three-tier structure as follows

- Primary Agricultural Credit Societies (PACS)
- District Central Co-operative Banks (DCCB)
- State Co-Operative Banks (SCB)

**B) Long-term credit Co-operatives :** These co-operatives meet long-term credit requirements of the farmers and are organized at two levels:

- **Primary Co-operative Agriculture and Rural Development Banks :** These banks operate at the village level as an independent unit.
- **State Co-operative Agriculture and Rural Development Banks :** These banks operate at state level through their branches in different villages.

**iii) Commercial Banks :** Commercial Banks (CBs) provide rural credit by establishing their branches in the rural areas.

**iv) Regional Rural Banks (RRBs) :** Regional Rural Banks (RRBs) are the specialised banks established under RRB Act, 1976, to

cater to the needs of the rural poor. RRBs are set-up as rural-oriented commercial banks with the low cost profile of co-operatives but with the professional discipline and modern outlook of commercial banks.

**v) Micro Finance Institutions (MFIs) :** Banks offer concessional interest rates for the rural credit. However, small farmers are unable to access them because of borrower-unfriendly products and procedures, inflexibility and delay, and high transaction costs, both legitimate and illegal. Thus, Non-Government Organisations (NGOs) are providing alternative means to enhance access to credit by the poor since mid-70's.

**Find out :**

Information about the latest achievements of NABARD.

**EXERCISE**

**Q. 1. Complete the following statements :**

- 1) **Rural credit system assumes importance because .....**
  - a) It leads to an increase in the rural income.
  - b) Savings are inadequate to finance farming and other economic activities.
  - c) It leads to overall development of the rural areas.
  - d) It leads to reduction in rural inequality.
- 2) **Productive loans are economically justified because .....**
  - a) They are related to agricultural production.
  - b) They are used for personal consumption.
  - c) They help in eradication of poverty
  - d) They improve the quality of life of the people
- 3) **Small farmers are unable to access rural credit provided by banks due to .....**
  - a) Presence of money lenders.
  - b) No branches in rural areas
  - c) High transaction costs
  - d) Preference given to large farmers.
- 4) **The rights of socially disadvantaged groups can be safe guarded through .....**
  - a) empowerment of women

- b) proper enforcement of law and order.
- c) infrastructural development
- d) improvement in quality of life.

**5) The quality of life of the rural people can be improved by .....**

- a) Providing safe drinking water, health and hygiene facilities.
- b) Effective implementation of land reforms
- c) Providing subsidized credit facilities
- d) Reducing rural inequality.

**Q. 2. Choose the wrong pair :**

i)	<b>'A'</b>	<b>'B'</b>
	<b>Agricultural Credit</b>	<b>Requirement</b>
	1) Short-term	Purchase of fertilizers
	2) Medium-term	to meet expenditure on marriages
	3) Long-term	to buy tractor
ii)	<b>'A'</b>	<b>'B'</b>
	<b>Rural occupational structure</b>	<b>Activity</b>
	1) Agricultural sector	Banking and Insurance
	2) Industrial sector	Processing of raw materials
	3) Service sector	Computer related service

### Q. 3. Assertion and Reasoning questions :

- 1) **Assertion (A)** : Indian economy is pre-dominantly rural economy

**Reasoning (R)** : As per 2011 census, the country's rural population is almost 83.25 crore (68.8% of total population)

**Options** : 1) (A) is True but (R) is False

- 2) (A) is False but (R) is True  
3) Both (A) and (R) are True and (R) is the correct explanation of A.  
4) Both (A) and (R) are True but (R) is not the correct explanation of (A)

- 2) **Assertion (A)** : Literacy is a powerful instrument of socio-economic change.

**Reasoning (R)** : Empowerment of women helps to reduce gender disparity.

**Options** : 1) (A) is True, but (R) is False

- 2) (A) is False, but (R) is True  
3) Both (A) and (R) are True and (R) is the correct explanation of (A)  
4) Both (A) and (R) are True but (R) is not the correct explanation of (A)

- 3) **Assertion (A)** : Agricultural credit is mostly for unproductive purposes.

**Reasoning (R)** : Agricultural credit is an important pre-requisite for agricultural growth.

**Options** : 1) (A) is true, but (R) is false

- 2) (A) is False, but (R) is True  
3) Both (A) and (R) are True but (R) is the correct explanation of (A)  
4) Both (A) and (R) are True but (R) is not the correct explanation of (A)

- 4) **Assertion (A)** : Non-institutional finance forms an important part of rural credit.

**Reasoning (R)** : Small farmers are unable to access bank credit because of borrower unfriendly products.

**Options** : 1) (A) is True, but (R) is False

- 2) (A) is False, but (R) is True  
3) Both (A) and (R) are True and (R) is the correct explanation of A  
4) Both (A) and (R) are True, but (R) is not the correct explanation of A

### Q. 4. Identify and explain the concepts from the given illustrations :

- 1) Kusumtai knowingly set up her business enterprise in the rural area so that people living there could be gainfully employed.
- 2) Raoji purchased a new tractor for his farm by taking a loan.
- 3) Subsidized credit is provided by banks to small farmers for purchase of high yielding variety (HYV) seeds.
- 4) Damaji borrows loan from a credit society established in the village this season rather than taking it from a moneylender.
- 5) Ramraoji takes a loan from the bank for a period of ten years subject to terms and conditions for the purpose of irrigated farming.

### Q. 5. Read the following passage carefully and answer the questions given below :

Rural development is one of the thrust areas of administration. As Mahatma Gandhi rightly said, "India lives in villages and the development of the nation cannot be achieved without the development of the villages". The need of the hour is the convergence of all development interventions, at the grassroot level which can be possible through effective governance at the village level. The movement towards decentralization of the National and State governments through the Panchayati Raj system needs to be strengthened through lessons learned from the successful stories of 'Model villages' around India. Though India is progressing in the right direction in reducing education inequalities and increasing literacy levels, there is still a lot that needs to be done. An understanding of social issues is important for effective planning and policy development. Self-governance ensures that Indian citizens, even the previously marginalized, can participate in decision-making.

- 1) Explain in short Mahatma Gandhi's views on rural development.
- 2) Highlight the role of the government in achieving rural development.
- 3) What measures have been suggested to achieve rural development.
- 4) Express your idea of a 'Model Village'.

