



ACADEMIC YEAR 2024-2025, SEMESTER – VI  
STUDY MATERIAL FOR B.COM  
RURAL BANKING AND FINANCIAL INCLUSION



STUDY MATERIAL FOR B.COM BANKING AND FINANCE

RURAL BANKING AND FINANCIAL INCLUSION

SEMESTER – VI



ACADEMIC YEAR 2024-25

PREPARED BY

COMMERCE DEPARTMENT



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**Unit - 1:**

Rural India demographic feature – Economic features – Rural poverty – main causes and methods of measuring rural poverty – Rural Infrastructure – Rural Development Policy – Government policies and programmes – Economic Reforms and its impact on rural economy.

**Unit - 2:**

Financing Rural Development: Functions and Policies of RBI and NABARD: Rural credit Institution Role and Function – Role of information and communication technologies in rural banking – regulation of rural financial services.

**Unit - 3:**

Financial inclusion: concepts and its role in inclusive growth – Micro credit, micro insurance scheme – business facilitators and business correspondence in rural financing – SHGs/NGOs. Linkage with banking, latest guidelines of GOI and RBI.

**Unit - 4:**

Poverty sectors financing and Government initiatives: Compounding of priority sectors – RBI guidelines; Government initiatives: Poverty alleviation programmes/employment programmes/production orientation programmes – Rural housing and Urban Housing Scheme under priority sector – Educational loan

**Unit - 5:**

Problems and Prospects of rural banking: Problems of Rural branches commercial banks and Regional rural banks – Emerging Trends in Rural Banking – Financing poor as bankable opportunity.



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**UNIT - I**

**RURAL INDIA:**

Rural areas are also known as the 'countryside' or a 'village' in India. It has a very low population density. In rural a panchayat. The National Sample Survey Organization (NSSO) defines 'rural' as follows: areas, agriculture is the chief source of livelihood along with fishing, cottage industries, pottery etc.

Almost every Indian economic agency today has its own definition of rural India, some of which follow: According to the Planning Commission, a town with a maximum population of 15,000 is considered rural in nature. In these areas the panchayat makes all the decisions. There are five people in the

- An area with a population density of up to 400 per square kilometer,
- Villages with clear surveyed boundaries but no municipal board,
- A minimum of 75% of male working population involved in agriculture and allied activities.

RBI defines rural areas as those areas with a population of less than 49,000 (tier -3 to tier-6 cities).

It is generally said that the rural areas house up to 70% of India's population. Rural India contributes a large chunk to India's GDP by way of agriculture, self-employment, services, construction etc. As per a strict measure used by the National Sample Survey in its 63rd round, called monthly per capita expenditure, rural expenditure accounts for 55% of total national monthly expenditure. The rural population currently accounts for one-third of the total Indian FMCG sales.

**DEMOGRAPHIC FEATURES:**

India has a number of demographic features, including:

- **Population:** India's population is young, with a median age of 28.7 years. The population is growing, and the share of the population in urban areas is increasing.
- **Sex ratio:** The sex ratio in India is 940 females per 1,000 males.
- **Ethnic groups:** India's population includes all five major racial types: Australoid, Mongoloid, Europoid, Caucasian, and Negroid.
- **Religions:** The majority of India's population is Hindu, followed by Muslim, Christian, Sikh, Buddhist, and Jain.
- **Labour force participation:** India has a high labour force participation rate, and female labour force participation is increasing.



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- **Literacy rate:** India's literacy rate is around 74%.
- **Age distribution:** The age distribution of India's population is expected to change significantly over the next two decades. The share of the population under 14 is expected to decrease, while the share of the population 60 and over is expected to increase.

**ECONOMIC FEATURES:**

Rural India has a number of economic features, including:

- **Population:** Around 65% of India's population lives in rural areas. The Reserve Bank of India defines rural areas as those with a population of less than 49,000.
- **Agriculture:** Agriculture is the cornerstone of the rural economy, with 47% of the rural population depending on it for a livelihood.
- **Poverty:** The rural poverty level is 25.7%.
- **Land ownership:** One in three rural households is landless.
- **Employment:** 90% of rural households do not have salaried jobs.
- **Gender:** The proportion of male population joining the labor force remained almost unchanged at 55% between 2004-05 and 2011-12. However, female labor-force participation declined significantly from 33% in 2004-05 to 25% in 2011-12.
- **Religion:** More than 80% of the rural population in India is Hindu.
- **Caste:** The caste and kinship systems regulate economic and social life, especially at the village level.
- **Quality of life:** The government has focused on improving the quality of life in rural areas, including access to electricity, improved drinking water sources, and health insurance schemes.

**RURAL POVERTY:**

Rural poverty refers to poverty in rural areas, including factors of rural society. Rural economy and political systems that give rise to the poverty found there. The main reason for low level of income of the majority of Indian people is unemployment and underemployment and the consequent low productivity of labour. Low labour productivity implies low rate of economic growth which is the main cause of poverty and inequality of the large masses of people.

**Definition:**

Poverty may be defined as the inability to secure the minimum consumption, requirements for life, health and efficiency. J. G. Goddard defines poverty as "Poverty is



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insufficient supply of those things which are requisite for an individual to maintain himself and those dependent upon him in health and vigour.”

**CAUSES OF RURAL POVERTY:**

Rural poverty is a multi-dimensional social problem. Its causes are varied. They are as follows:

**1. Climatic factors:**

Climatic conditions constitute an important cause of poverty. The hot climate of India reduces the capacity of people especially the ruralites to work for which production severely suffers. Frequent flood, famine, earthquake and cyclone cause heavy damage to agriculture. Moreover, absence of timely rain, excessive or deficient rain affect severely country's agricultural production.

**2. Demographic factors:**

The following demographic factors are accountable for poverty in India.

**(i) Rapid growth of population:**

Rapid growth of population aggravates the poverty of the people. The growth of population exceeds the rate of growth in national income. Population growth not only creates difficulties in the removal of poverty but also lowers the per capita income which tends to increase poverty. The burden of this reduction in per capita income is borne heavily by the poor people. Population growth at a faster rate increases labour supply which tends to lower the wage rate.

**(ii) Size of family:**

Size of the family has significant bearing on rural poverty. The larger the size of family, the lower is the per capita income, and the lower is the standard of living. The persistence of the joint family system has contributed to the health and earning capacity of the ruralites.

**3. Personal causes:**

**(i) Lack of motivation:**

Lack of motivation is an important cause of rural poverty. Some ruralites do not have a motive to work hard or even to earn something. This accounts for the poverty of the ruralites.

**(ii) Idleness:**

Most of the rural people are lazy, dull and reluctant to work. Hence they rot in poverty.



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**4. Economic causes:**

**(i) Low agricultural productivity:**

Poverty and real income are very much interrelated. Increase in real income leads to reduction of the magnitude of poverty. So far as agricultural sector is concerned, the farmers even today are following the traditional method of cultivation. Hence there is low agricultural productivity resulting in rural poverty.

**(ii) Unequal distribution of land and other assets:**

Land and other forms of assets constitute sources of income for the ruralites. But, unfortunately, there has been unequal distribution of land and other assets in our economy. The size-wise distribution of operational holdings indicates a very high degree of concentration in the hands of a few farmers leading to poverty of many in the rural sector.

**(iii) Decline of village industries:**

At present consequent upon industrialization new factories and industries are being set up in rural areas. Village industries fail to compete with them in terms of quality and price. As a result they are closed down. The workers are thrown out of employment and lead a life of poverty.

**(iv) Immobility of labour:**

Immobility of labour also accounts, for rural poverty. Even if higher wages are offered, labourers are not willing to leave their homes. The joint family system makes people lethargic and stay-at-home. The ruralites are mostly illiterate, ignorant, conservative, superstitious and fatalistic. Poverty is considered as god-given, something preordained. All these factors lead to abysmal poverty in rural India. (v) Lack of employment opportunities:

Unemployment is the reflection of poverty. Because of lack of employment opportunities, people remain either unemployed or underemployed. Most of these unemployed and underemployed workers are the small and marginal farmers and the landless agricultural labourers.

**5. Social causes:**

**(i) Education:**

Education is an agent of social change and egalitarianism. Poverty is also said to be closely related to the levels of schooling and these two have a circular relationship. The earning power is endowed in the individual by investment in education and training. But this investment in people takes away money and lack of human investment contributes to the low earning capacity of individuals. In this way people are poor because they have little investment in themselves and poor people do not have the funds for human capital investment.





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**(ii) Caste system:**

Caste system in India has always been responsible for rural poverty. The subordination of the low caste people by the high caste people caused the poverty of the former. Due to rigid caste system, the low caste people could not participate in the game of economic progress. A Shudra was not allowed to become a trader and a Vaisya could earn his bread only by trade. Birth would decide their occupation and their economic fate. K. V. Verghese rightly observes, "Caste system acted as a springboard for class exploitation with the result that the counterpart of the poverty of the many is the opulence of the few. The second is the cause of the first."

**(iii) Joint family system:**

The joint family system provides social security to its members. Some people take undue advantage of it. They live upon the income of others. They become idlers. Their normal routine of life consists in eating, sleeping and begetting children. In this way poverty gets aggravated through joint family system.

**(iv) Social customs:**

The ruralites spend a large percentage of annual earnings on social ceremonies like marriage, death feast etc. As a result, they remain in debt and poverty.

**(v) Growing indebtedness:**

In the rural sector most of the ruralites depend on borrowings from the money-lenders and land-lords to meet even their consumption expenses. Moneylenders, however, exploit the poor by charging exorbitant rates of interest and by acquiring the mortgaged land in the event of non-payment of loans. Indebted poor farmers cannot make themselves free from the clutches of moneylenders. Their poverty is further accentuated because of indebtedness. Such indebted families continue to remain under the poverty line for generations because of this debt-trap.

**METHODS OF MEASURING RURAL POVERTY:**

Rural poverty is measured using a variety of methods, including:

**1. Caloric requirements**

The poverty line is calculated based on the number of calories an adult needs to consume, which is typically 2,400 calories per day in rural areas.

**2. Cost of basic needs**

The poverty line is calculated by estimating the cost of acquiring the essentials for adequate nutrition, such as food, clothing, and shelter.





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### 3. Absolute poverty lines

The poverty line is set at the amount of money needed to meet basic needs. This method is often used in developing countries.

### 4. Multidimensional approach

A welfare indicator is constructed by defining a set of relevant dimensions and indicators of welfare.

### 5. R-MPI

A tool that can help policymakers identify the extreme poor, where they live, and what constraints prevent them from escaping poverty.

Poverty lines are usually estimated periodically, typically every five years, through sample surveys. The definition and methods for measuring poverty vary by country.

### RURAL INFRASTRUCTURE:

Rural infrastructure is a collection of physical and technological assets that support the economic growth and welfare of rural populations. It includes:

- **Transportation:** Roads, bridges, and other transportation infrastructure
- **Water:** Irrigation systems, dams, canals, and safe drinking water
- **Energy:** Electricity, cogeneration, solar, and micro-hydro projects
- **Sanitation:** Facilities to support sanitation
- **Communications:** Information and communications technologies
- **Housing:** Rural housing
- **Education:** Educational institutes
- **Health:** Health centers
- **Storage:** Market and storage facilities

Rural infrastructure is important because it:

- **Reduces poverty:** By improving livelihoods, increasing connectivity, and improving food and nutrition security
- **Increases agricultural productivity:** By providing irrigation and other infrastructure that supports agriculture
- **Increases employment:** By supporting employment in agriculture and other sectors



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- **Provides key services:** By providing access to electricity, safe drinking water, and sanitation

**RURAL DEVELOPMENT POLICY:**

Rural development policy aims to improve the lives of people living in rural areas by addressing their economic and social needs. The policy should be forward-looking and consider the challenges and opportunities presented by megatrends like globalization, digitalization, and climate change.

Here are some principles of rural development policy:

- **Improve economic opportunities:** Create economic opportunities for women and youth in rural areas.
- **Support local plans:** Support local plans and visions by using local resources and involving local people in development.
- **Improve community development:** Improve the physical and human resource base through investment and capacity building.
- **Strengthen community partnerships:** Strengthen community-based partnerships by involving all segments of the community.
- **Consider the local context:** Analyze the local context and its linkages to larger regions.
- **Recognize felt needs:** Recognize the felt and induced needs of rural people to improve their standard of life.
- **Some examples of rural development policies include:**
  - Providing livelihood opportunities, including guaranteed wage employment
  - Providing basic housing and homesteads
  - Providing social assistance to the elderly, widow, and disabled
  - Providing urban amenities in rural areas
  - Improving rural connectivity and upgrading roads
  - Restoring land productivity through watershed development programs and land reform

**GOVERNMENT POLICIES AND PROGRAMS:**

The government has several policies and programs for rural development, including:

1. Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)



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2. National Rural Livelihoods Mission (NRLM): Helps rural poor households become self-employed and improve their skills
3. Pradhan Mantri Awaas Yojana - Grameen (PMAY-G): Provides housing to BPL households
4. Pradhan Mantri Gram Sadak Yojana (PMGSY): Constructs quality roads
5. National Social Assistance Programme (NSAP): Provides social pension
6. Integrated Watershed Management Programme (IWMP): Improves land productivity
7. Deendayal Antyodaya Yojana- National Rural Livelihoods Mission (DAY-NRLM): Helps rural poor households diversify their livelihoods and improve their incomes
8. Provision of Urban Amenities to Rural Areas (PURA): Provides urban amenities and livelihood opportunities in compact areas around growth centers.

The Ministry of Rural Development also has a store front on the Government e-Marketplace (GeM) called "SARAS Collection" for marketing products from Self Help Groups (SHGs).

**1. MAHATMA GANDHI NATIONAL RURAL EMPLOYMENT GUARANTEE ACT (MGNREGA):**

Mahatma Gandhi National Rural Employment Guarantee Act 2005 or MGNREGA, earlier known as the National Rural Employment Guarantee Act or NREGA, is an Indian social welfare measure that aims to guarantee the 'right to work'. This act was passed on 23 August 2005 and was implemented in February 2006 under the UPA government of Prime Minister Manmohan Singh following tabling of the bill in parliament by the Minister for Rural Development Raghuvansh Prasad Singh.

It aims to enhance livelihood security in rural areas by providing at least 100 days of assured and guaranteed wage employment in a financial year to at least one member of every Indian rural household whose adult members volunteer to do unskilled manual work. Women are guaranteed one third of the jobs made available under the MGNREGA and efforts are made to ensure that at least 50% Another aim of MGNREGA is to create durable assets (such as roads, canals, ponds and wells). Employment is to be provided within 5 km of an applicant's residence, and minimum legal wage under the law is to be paid. If work is not provided within 15 days of applying, applicants are entitled to an unemployment allowance. That is, if the government fails to provide employment, it has to provide certain unemployment allowances to those people. Thus, employment under MGNREGA is a legal entitlement. Apart from providing economic security and creating rural assets, other things said to promote NREGA are that it can help in protecting the environment, empowering rural women, reducing rural-urban migration and fostering social equity, among others."



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In response to the cries for help, the Indian government put together a nationwide welfare scheme aimed at targeting this very issue: The Mahatma Gandhi National Rural Employment Guarantee Act, or MGNREGA. The Government of India introduced the MGNREGA social welfare program in 2005 to address the problem of unemployment and poverty in rural areas. Recognizing the high rates of unemployment and poverty in rural India, especially among the underprivileged groups of the population, led to the need for such a program.

The MGNREGA was created with the idea of giving rural households a safety net in the form of guaranteed work possibilities. Every rural household in the nation was to receive 100 days of guaranteed employment each year as part of the program, guaranteeing that each household had access to a minimum amount of income. The program was intended to be labour-intensive, with the main sources of employment being initiatives like road building, water conservation, and afforestation. The Ministry of Rural Development, a section of the Government of India's economic bureau, was in charge of overseeing the implementation and rollout of the plan. Gram Panchayats - governing heads in rural villages, were the envoy for implementing the scheme at the local level.

#### **Evaluation by the government**

The Prime Minister of India Manmohan Singh released an anthology of research studies on the MGNREGA called "MGNREGA Sameeksha" in New Delhi on 14 July 2012, about a year before the CAG report. Aruna Roy and Nikhil Dey said that "the MGNREGA Sameeksha is a significant innovation to evaluate policy and delivery".[87] The anthology draws on independent assessments of MGNREGA conducted by Indian Institutes of Management (IIMs), Indian Institutes of Technology (IITs) and others in collaboration with United Nations Development Programme (UNDP) published from 2008 to 2012.

The Prime Minister said, "The Mahatma Gandhi NREGA story in numbers is a story worth telling... (but) statistics do not tell the whole truth": Minister of Rural Development Jairam Ramesh says in the 'MGNREGA Sameeksha':

#### **MGNREGA's other quantitative achievements:**

1. Since its inception in 2006, around ₹1,10,000 crore (about USD\$25 billion) has gone directly as wage payment to rural households and 1200 crore (12 billion) person-days of employment has been generated. On an average, 5 crore (50 million) households have been provided employment every year since 2008.
2. Eighty per cent of households are being paid directly through bank/post office accounts, and 10 crore (100 million) new bank/post office accounts have been opened.
3. The average wage per person-day has gone up by 81 per cent since the Scheme's inception, with state-level variations. The notified wage today varies from a minimum of 122 (USD\$1.76) in Bihar, Jharkhand to 191 (USD\$2.76) in Haryana.



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4. Scheduled Castes (SCs) and Scheduled Tribes (STs) have accounted for 51 per cent of the total person-days generated and women for 47 per cent, well above the mandatory 33 per cent as required by the Act.
5. 146 lakh (14.6 million) works have been taken up since the beginning of the programme, of which about 60 per cent have been completed.
6. 12 crore (120 million) Job Cards (JCs) have been given and these along with the 9 crore (90 million) muster rolls have been uploaded on the Management Information System (MIS), available for public scrutiny. Since 2010–11, all details with regard to the expenditure of the MGNREGA are available on the MIS in the public domain.

Proponents of the scheme enumerate number of benefits. For example, Rejaul Karim Laskar, an ideologue of the Congress party- the largest constituent of the UPA Government which introduced the scheme, claims that the scheme has multifarious benefits including "reduction in poverty, reduction in migration, women empowerment, improvement of productivity of agricultural land and regeneration of water resources".

## **2. National Rural Livelihoods Mission (NRLM):**

Aajeevika was launched by the Ministry of Rural Development (MoRD), Government of India in June 2011 as a restructured version of Swarna Jayanti Gram Swarozgar Yojna (SGSY). NRLM has the mandate of reaching out to 100 million rural poor in 6 lakh villages across the country.

NRLM has set out with an agenda to cover 7 Crore rural poor households, across 600 districts, 6000 blocks, 2.5 lakh Gram Panchayats and 6 lakh villages in the country through self-managed Self Help Groups (SHGs) and federated institutions and support them for livelihoods collectives in a period of 8-10 years. In addition, the poor would be facilitated to achieve increased access to their rights, entitlements, and public services, diversified risk, and better social indicators of empowerment. NRLM believes in harnessing the innate capabilities of the poor and complements them with capacities (information, knowledge, skills, tools, finance, and collectivization) to participate in the growing economy of the country

### **NRLM implementation is in a Mission Mode. This enables -**

- (a) the shift from the present allocation-based strategy to a demand-driven strategy enabling the states to formulate their own livelihoods-based poverty reduction action plans,
- (b) focus on targets, outcomes, and time-bound delivery,
- (c) continuous capacity building, imparting requisite skills and creating linkages with livelihoods opportunities for the poor, including those emerging in the organized sector, and
- (d) monitoring against targets of poverty outcomes.



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As NRLM follows a demand-driven strategy, the States have the flexibility to develop their livelihoods-based perspective plans and annual action plans for poverty reduction. The overall plans would be within the allocation for the state based on inter-se poverty ratios.

**Benefits:**

- One member (preferably a woman) from each rural poor household would be brought under the Self Help Group (SHG) network. Women SHG groups would have bank-linkage arrangements.
- SHGs would be federated at the village level and higher levels to provide space, voice and resources and to reduce dependence on external agencies.
- The Mission consists of four components, viz., (i) social mobilization, community institution, and capacity building; (ii) financial inclusion; (iii) livelihood promotion; and (iv) convergence.
- The participatory social assessment would be organized to identify and rank all households according to vulnerability. The ranking would be with reference to the poorest of the poor, single woman and woman-headed households, disabled, landless, and migrant labor and they would receive special focus.
- Training and capacity building of the poor, particularly in relation to managing the institutions, livelihoods, credit absorption, and creditworthiness.
- The Mission also supports the development of skills for rural youth and their placement, training, and self-employment through rural self-employment institutes (RSETIs), innovations, infrastructure creation, and market support.
- Provision of Revolving Fund as support to SHGs to strengthen their institutional and financial management capacity and build a good credit history.
- Provision of Community Investment Support Fund (CIF) in the intensive blocks to the SHGs through the Federations to advance loans and/or undertake common/collective socio-economic activities.
- Introduction of financial inclusion model, loaning from banks, association and coordination with banking/financial institutions, and coverage from loss of life, health, etc.
- Provision of Interest Subvention on loans availed by SHGs to cover the difference between the lending rate of the banks and 7%.
- Convergence with various ministries and agencies dealing with poverty reduction of rural poor.





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- With highly decentralized planning; States will have liberty in developing their own action plan for poverty reduction.
- NRLM to have suitable linkages at the district level with District Rural Development Agencies (DRDAs) and Panchayat Raj Institutions (PRIs).

**Eligibility:**

- SHGs should be in active existence at least for the last 6 months as per the books of account of SHGs and not from the date of opening of the S/B account.
- SHGs should be practicing 'Panchasutras' i.e., Regular meetings; Regular savings; Regular inter-lending; Timely repayment; and Up-to-date books of accounts.
- Qualified as per grading norms fixed by NABARD. As and when the federations of the SHGs come to existence, the grading exercise may be done by the Federations to support the banks.
- The existing defunct SHGs are also eligible for the credit if they are revived and continue to be active for a minimum period of 3 months

**3. PRADHAN MANTRI AWAAS YOJANA-GRAMIN ((PMAY-G)**

Due to adverse impact of Covid-19, only 5.4% of the sanctioned houses under the central government's flagship rural housing scheme, Pradhan Mantri Awaas Yojana-Gramin, have reached completion for the year 2020-2021.

About the Pradhan Mantri Awaas Yojana- Gramin (PMAY-G):

- Launch: To achieve the objective of "Housing for All" by 2022, the erstwhile rural housing scheme Indira Awaas Yojana (IAY) was restructured to Pradhan Mantri Awaas Yojana-Gramin (PMAY-G) w.e.f 1st April, 2016.
- Ministry Involved: Ministry of Rural development.
- Aim: To provide a pucca house with basic amenities to all rural families, who are homeless or living in kutcha or dilapidated houses by the end of March 2022.
  - To help rural people Below the Poverty Line (BPL) in construction of dwelling units and upgradation of existing unserviceable kutcha houses by providing assistance in the form of a full grant.
- Beneficiaries: People belonging to SCs/STs, freed bonded labourers and non-SC/ST categories, widows or next-of-kin of defence personnel killed in action, ex servicemen and retired members of the paramilitary forces, disabled persons and minorities.





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- Selection of Beneficiaries: Through a three stage validation - Socio Economic Caste Census 2011, Gram Sabha, and geo-tagging.
- Cost Sharing: The cost of unit assistance is shared between Central and State Governments in the ratio 60:40 in plain areas and 90:10 for North Eastern and hilly states.

**Features:**

- The minimum size of the house has been increased to 25 sq.mt (from 20sq.mt) with a hygienic cooking space.
- The unit assistance has been increased from Rs. 70,000 to Rs. 1.20 lakh in plain and from Rs. 75,000 to Rs. 1.30 lakh in hilly states.
- The assistance for construction of toilets shall be leveraged through convergence with Swachh Bharat Mission-Gramin (SBM-G), MGNREGS or any other dedicated source of funding.
- Convergence for piped drinking water, electricity connection, LPG gas connection etc. different Government programmers are also to be attempted.

**Performance of the Scheme:**

- Only 55% of the construction target has been completed.
- Of the 2.28 crore houses to be built for the rural poor, less than 1.27 crore had been built by January 2021.
- Money has been sanctioned to almost 85% of beneficiaries.
- This scheme has helped in employment generation. Many states provided employment to their migrant labourers during lock down.

**4. PRADHAN MANTRI GRAM SADAK YOJANA:**

Government had launched the Pradhan Mantri Gram Sadak Yojana on 25th December, 2000 to provide all-weather access to eligible unconnected habitations. The Pradhan Mantri Gram Sadak Yojana 1 (PMGSY) is a 100% Centrally Sponsored Scheme. ` 0.75/ liter out of the Cess on High Speed Diesel (HSD) is earmarked for this Programme.

Rural Road Connectivity is not only a key component of Rural Development by promoting access to economic and social services and thereby generating increased agricultural incomes and productive employment opportunities in India, it is also as a result, a key ingredient in ensuring sustainable poverty reduction. Notwithstanding the efforts made, over the years, at the State and Central levels, through different Programmes, many Habitations in the country are still not connected by All-weather roads. It is well known that even where connectivity has been provided,



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the roads constructed are of such quality (due to poor construction or maintenance) that they cannot always be categorised as All-weather roads.

**GUIDING PRINCIPLES OF PMGSY AND DEFINITIONS**

1. The spirit and the objective of the Pradhan Mantri Gram Sadak Yojana (PMGSY) is to provide good all-weather road connectivity to the eligible unconnected Habitations. A habitation which was earlier provided all-weather connectivity would not be eligible even if the present condition of the road is bad.
2. The unit for this Programme is a Habitation and not a Revenue village or a Panchayat. A Habitation is a cluster of population, living in an area, the location of 2 which does not change over time. Desam, Dhanis, Tolas, Majras, Hamlets etc. are commonly used terminology to describe the Habitations.
3. An Unconnected Habitation is one with a population of designated size (refer to Para 2.1 above) located at a distance of at least 500 metre or more (1.5 km of path distance in case of Hills) from an All-weather road or a connected Habitation. In the blocks bordering international boundary in the hill States (as identified by the Ministry of Home Affairs), however, all habitations within a path distance of 10 km may be treated as a cluster for this purpose@.
4. The population, as recorded in the Census 2001, shall be the basis for determining the population size of the habitation. The population of all Habitations within a radius of 500 metre (1.5 km of path distance in case of Hills) may be clubbed together for the purpose of determining the population size. In the blocks bordering international boundary in the hill States (as identified by the Ministry of Home Affairs), however, all habitations within a path distance of 10 km may be treated as a cluster for this purpose@.
5. The eligible Unconnected Habitations are to be connected to nearby Habitations already connected by an All-weather road or to another existing Allweather road so that services (educational, health, marketing facilities etc.), which are not available in the unconnected Habitation, become available to the residents.
6. A Core Network is that minimal Network of roads (routes) that is essential to provide Basic access to essential social and economic services to all eligible unconnected habitations in the selected areas through at least a single all-weather road connectivity.
7. A Core Network comprises of Through Routes and Link Routes. Through Routes are the ones which collect traffic from several link roads or a long chain of 3 Habitations and lead it to Marketing centres either directly or through the higher category roads i.e., the District Roads or the State or National Highways. Link Routes are the roads connecting a single Habitation or a group of Habitations to Through Routes or District Roads leading to Market Centres. Link Routes generally have dead ends terminating on a Habitation, while Through Routes arise



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from the confluence of two or more Link Routes and emerge on to a major Road or to a Market Centre.

8. It should be ensured that each road work that is taken up under the PMGSY is part of the Core Network. While keeping the objective of Connectivity in view, preference should be given to those roads which also incidentally serve other Habitations. In other words, without compromising the basic objective (covering 1000+ Habitations first and 500+ Habitations next and 250+ Habitations where eligible, last), preference should be given to those roads which serve a larger population. For this purpose, while Habitations within a distance of 500 metres from the road is considered as connected in case of plain areas, this distance
9. The PMGSY shall cover only the rural areas. Urban roads are excluded from the purview of this Programme. Even in the rural areas, PMGSY covers only the Rural Roads i.e., Roads that were formerly classified as 'Other District Roads' (ODR) and 'Village Roads' (VR). Other District Roads (ODR) are roads serving rural areas of production and providing them with outlet to market centres, taluka (tehsil) headquarters, Block headquarters or other main roads. Village Roads (VR) are roads connecting villages / Habitation or groups of Habitations with each other and to the nearest road of a higher category. Major District Roads, State Highways and National Highways cannot be covered under the PMGSY, even if they happen to be in rural areas. This applies to New Connectivity roads as well as Upgradation works.
10. The PMGSY envisages only single road Connectivity to be provided. If a Habitation is already connected by way of an All-weather road, then no new work can be taken up under the PMGSY for that habitation.
11. Provision of connectivity to eligible unconnected Habitations would be termed as New Connectivity. Since the purpose of PMGSY, inter alia, is to provide farm to market access, new connectivity may involve 'new construction' where the link to the habitation is missing and additionally, if required, 'upgradation' where an intermediate link in its present condition cannot function as an all-weather road.
12. Upgradation, when permitted would typically involve building the base and surface courses of an existing road to desired technical specifications and / or improving the geometrics of the road, as required in accordance with traffic condition
13. The primary focus of the PMGSY is to provide All-weather road connectivity to the eligible unconnected Habitations. An All-weather road is one which is negotiable in all seasons of the year. This implies that the road-bed is drained
14. There may be roads which are Fair-weather roads. In other words, they are fordable only during the dry season, because of lack of Cross Drainage (CD) works. Conversion of such roads to All-weather roads through provision of CD works would be treated as upgradation. It must



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be noted that on all the road works of the PMGSY, provision of necessary CD works is considered an essential element.

15. PMGSY does not permit repairs to Black-topped or Cement Roads, even if the surface condition is bad.
16. The Rural Roads constructed under the Pradhan Mantri Gram Sadak Yojana will be in accordance with the provisions of Ministry of Rural Development's 5 Specification for Rural Roads and specifications as given in the Rural Roads Manual (IRC:SP20:2002). In case of Hill Roads, for matters not covered by the Rural Roads Manual, provisions of Hill Road Manual (IRC:SP:48-1998) may apply.

#### **5. NATIONAL SOCIAL ASSISTANCE PROGRAMME (NSAP):**

- NSAP stands for National Social Assistance Programme. NSAP was launched on 15th August, 1995.
- The National Social Assistance Programme (NSAP) represents a significant step towards the fulfillment of the Directive Principles in Article 41 and 42 of the Constitution recognizing the concurrent responsibility of the Central and the State Governments in the matter. In particular, Article 41 of the Constitution of India directs the State to provide public assistance to its citizens in case of unemployment, old age, sickness and disablement and in other cases of undeserved want within the limit of its economic capacity and development.

#### **Objective of NSAP**

National Social Assistance Programme is a social security and welfare programme to provide support to aged persons, widows, disabled persons and bereaved families on death of primary bread winner, belonging to below poverty line households.

#### **Components of NSAP**

The NSAP at its inception in 1995 had three components namely

National Old Age Pension Scheme (NOAPS,

National Family Benefit Scheme (NFBS) and

National Maternity Benefit Scheme (NMBS). The National Maternity Benefit Scheme (NMBS) was subsequently transferred on 1st April, 2001 from the Ministry of Rural development to the Ministry of Health and Family Welfare.

On 1st April, 2000 a new Scheme known as Annapurna Scheme was launched. This scheme aimed at providing food security to meet the requirement of those senior citizens who, though eligible, have remained uncovered under the NOAPS.



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In February 2009, two new Schemes known as Indira Gandhi National Widow Pension Scheme (IGNWPS) and Indira Gandhi National Disability Pension Scheme (IGNDPS) were introduced.

**Presently NSAP comprises of five schemes, namely –**

- Indira Gandhi National Old Age Pension Scheme (IGNOAPS),
- Indira Gandhi National Widow Pension Scheme (IGNWPS),
- Indira Gandhi National Disability Pension Scheme (IGNDPS),
- National Family Benefit Scheme NFBS) and
- Annapurna.

**Eligibility and scale of assistance**

For getting benefits under NSAP the applicant must belong to a Below Poverty Line (BPL) family according to the criteria prescribed by the Govt. of India. The other eligibility criteria and the scale of central assistance under the sub - schemes of NSAP are as follows. Besides the central assistance, states / UT contribute an equal amount as their share:

- **Indira Gandhi National Old Age Pension Scheme (IGNOAPS) :** The eligible age for IGNOAPS is 60 years. The pension is Rs.200 p.m. for persons between 60 years and 79 years. For persons who are 80 years and above the pension is Rs.500/- per month.
- **Indira Gandhi National Widow Pension Scheme (IGNWPS) :** The eligible age is 40 years and the pension is Rs.300 per month. After attaining the age of 80 years, the beneficiary will get Rs.500/- per month.
- **Indira Gandhi National Disability Pension Scheme (IGNDPS) :** The eligible age for the pensioner is 18 years and above and the disability level has to be 80%. The amount is Rs.300 per month and after attaining the age of 80 years, the beneficiary will get Rs 500/- per month. Dwarfs will also be a n eligible category for this pension.
- **National Family Benefit Scheme (NFBS) :** Rs. 20000/- will be given as a lump sum assistance to the bereaved household in the event of death of the bread - winner. It is clarified that any event of death (natural or otherwise) would make the family eligible for assistance. A woman in the family, who is a home maker, is also considered as a 'bread - winner' for this purpose. The family benefit will be paid to such surviving member of the household of the deceased poor, who after local inquiry, is found to be the head of the household. For the purpose of the scheme, the term "household" would include spouse, minor children, unmarried daughters and dependent parents. In case of death of an unmarried adult, the term household would include minor brothers/ sisters and dependent parents. The death of such a bread - winner should have occurred whilst he/



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she is more than 18 years of age and less than 60 years of age. The assistance would be given to every case of death of breadwinner in a family.

- **Annapurna Scheme** : 10 kgs of food grains (wheat or rice) is given per month per beneficiary. The scheme aims at providing food security to meet the requirements of those eligible old aged persons who have remained uncovered under the IGNOAPS

#### **6. INTEGRATED WATERSHED MANAGEMENT PROGRAMME (IWMP):**

The Integrated Watershed Management Programme (IWMP) is the result of the new and unified approach of the GOI for treatment and development of the new generation watersheds in a realistic and holistic manner. The Government of India through the National Rainfed Area Authority (NRAA) has evolved the Common Guidelines, 2008 for implementation of the Watershed Development Projects. The major areas in which paradigm shift has been made under the programme are, inter-alia, institutional funding of the State Government through the State Level Nodal Agency (SLNA) at the State Level, constitution of District and Project Level Institutions for implementation of the projects for the Participatory Watershed projects with financial, social and economic empowerment to the watershed communities in close coordination with the local institutions. Another aspect is the equity and participatory resources management with due regards to the economically weaker section within the village community. The Central and State share for the IWMP projects is in the ratio of 90:10.

**The main aims of this programme are as follows:**

- To restore the ecological balance by harnessing, conserving and developing degraded natural resources such as soil, vegetative cover and water.
- The outcomes are prevention of soil run-off, soil loss.
- Regeneration of natural vegetation.
- Rain water harvesting and recharging of the ground Water table.
- Enabling multi-cropping and the introduction of diverse agro-based activities, which help to provide sustainable livelihoods to the people residing in the watershed area.

**The main objectives of this programmes are as follows:**

- To dissipate soil and water erosion and surface run-off.
- To harvest/recycle surface runoff and rainwater.
- To enhance soil moisture regime/water holding capacity.
- To promote sub-surface flow, base flow and ground water recharge.
- To improve soil health and tilth.





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- To improve production and productivity.
- To promote generation and gainful employment opportunities.

The Salient feature of this project duration is from 4 years to 7 years depending upon nature of activities spread over distinct phase viz., preparatory phase, works phase and consolidation phase. Conservation, productivity and livelihoods: Conservation is to be given priority resulting in productivity enhancement and livelihoods. Resource development and usage is to be planned to promote farming and allied activities to create local livelihoods while ensuring resources conservation and regeneration. Size: The new approach envisages a broader vision of geo-hydrological units normally of average size of 1,000 to 5,000 hectares comprising of clusters of micro-watersheds.

**GUIDING PRINCIPLES:**

The common guidelines for watershed development projects are based on the following principles:

**I. EQUITY AND GENDER SENSITIVITY:**

Project Implementing Agencies (PIAs) facilitate the equity processes such as:-

- a) Enhanced livelihood opportunities for the poor.
- b) Enhancing role of women in decision making processes and their representation in the institutional arrangements and
- c) Ensuring access to usufruct rights from the common property resources for the resource poor.

**II. DECENTRALIZATION:**

Project management would improve with decentralization, delegation and professionalism. Empowered committees with delegation to rationalize the policies, continuity in administrative support and timely release of funds are the other instruments for effective decentralization.

**III. FACILITATING AGENCIES:**

Social mobilization, community organization, building capacities of communities in planning and implementation, ensuring equity arrangements, etc need intensive facilitation.

**IV. CENTRALITY OF COMMUNITY PARTICIPATION:**

Involvement of primary stakeholders is at the centre of planning, budgeting, implementation, and management of watershed projects.





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**V. CAPACITY BUILDING AND TECHNOLOGY INPUTS:**

Considerable stress would be given on capacity building as a crucial component for achieving the desired results. This would be a continuous process enabling functionaries to enhance their knowledge and skills and develop the correct orientation and perspectives thereby becoming more effective in performing their roles and responsibilities.

**VI. MONITORING, EVALUATION AND LEARNING:**

A participatory, outcome and impact-oriented and user-focused monitoring, evaluation and learning system would be put in place to obtain feedback and undertake improvements in planning, project design and implementation.

**VII. ORGANIZATIONAL RESTRUCTURING:**

Establishing appropriate technical and professional support structures at national, state, district and project levels and developing effective functional partnerships among project authorities, implementing agencies and support organizations plays a vital role.

**7. DEENDAYAL ANTODAYA YOJANA-NATIONAL RURAL LIVELIHOOD MISSION (DAY-NRLM):**

Deendayal Antyodaya Yojana-National Rural Livelihood Mission (DAY-NRLM) is a flagship poverty alleviation program implemented by the Ministry of Rural Development, Government of India. It aims to reduce poverty by enabling poor households to access gainful self-employment and skilled wage employment opportunities resulting in sustainable and diversified livelihood options for the poor. National Rural Livelihood Mission (NRLM) was launched in 2010 as a mission-mode scheme by restructuring the erstwhile Swarnajayanti Grameen Swarojgar Yojana (SGSY). In 2016, the program was renamed Deendayal Antyodaya Yojana – National Rural Livelihood Mission (DAYNRLM). The central and state governments jointly fund this centrally sponsored scheme.

Deendayal Antyodaya Yojana-National Rural Livelihood Mission (DAY-NRLM) is a flagship poverty alleviation program implemented by the Ministry of Rural Development, Government of India. It aims to reduce poverty by enabling the poor household to access gainful self-employment and skilled wage employment opportunities resulting in sustainable and diversified livelihood options for the poor. This is one of the world's largest initiatives to improve the livelihoods of the poor. The Mission seeks to achieve its objective through investing in four core components viz.,

- (a) social mobilization and promotion and strengthening of self-managed and financially sustainable community institutions of the rural poor women;
- (b) financial inclusion;
- (c) sustainable livelihoods; and
- (d) social inclusion, social development and access to entitlements through convergence.



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The Mission seeks to reach out to around 10 Crore rural poor households in a phased manner by 2022-23 and impact their livelihoods significantly.

**Features and components of the Scheme include:**

- One member (preferably a woman) from each rural poor household would be brought under the Self-Help Group (SHG) network. Women SHG groups would have banklinkage arrangements.
- The Mission consists of four components, viz.,
  - (i) social mobilization, community institution, and capacity building;
  - (ii) financial inclusion;
  - (iii) livelihood promotion; and
  - (iv) convergence.
- The Mission also supports the development of skills for rural youth and their placement, training, and self-employment through rural self-employment institutes (RSETIs), innovations, infrastructure creation, and market support.
- NRLM provides Revolving Fund (RF) to SHGs of Rs.10,000-15,000 as a corpus to meet the members' credit needs directly and as catalytic capital for leveraging repeat bank finance. RF is given to SHGs that have been practicing 'Panchasutra' (Regular meetings; Regular savings; regular inter-lending; Timely repayment; and Up-to-date books of accounts).
- The Mission also provides Community Investment Fund as Seed Capital to SHG Federations at the Cluster level to meet the credit needs of the members through the SHGs/Village Organizations and to meet the working capital needs of the collective activities at various levels.
- Convergence with various ministries and agencies dealing with poverty reduction of rural poor. Implementation DAY-NRLM implementation is overseen

**Implementation**

DAY-NRLM implementation is overseen by State Rural Livelihood Missions (SPVs), with District Mission Management Units (DMMUs) responsible for planning and execution at the district level under the district administration's guidance. At the block level, a Block Mission Management Unit implements the Mission activities. The Mission is implemented in a phased but intensive manner, covering a specific number of blocks each year. By 2023-24, the Mission aims to mobilize all rural poor households. The Department of Rural Development in the Ministry of Rural Development, Government of India, is the nodal ministry which oversees policy formulation, monitoring, evaluation, and fund disbursement.



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## **8. PROVISION OF URBAN AMENITIES IN RURAL AREAS (PURA):**

Former president Dr A.P.J Abdul Kalam coined the PURA (Provision of Urban Amenities in Rural Areas) model in 2003 on Republic Day. The Ministry of Rural Development (MoRD) implemented the PURA scheme in seven clusters on a pilot basis for three years (2004- 05 to 2006-07).

During the eleventh five-year plan, the MoRD relaunched the PURA scheme as a Central Government scheme with support from the Asian Development Bank and the Department of Economic Affairs. It implemented the PURA scheme under a Public Private Partnership (PPP) model between the local executive bodies like the gram panchayats and private sector partners.

### **Objective of PURA Scheme**

The scheme's primary objective is to provide urban amenities and livelihood opportunities in rural areas and bridge the rural and urban gap. It envisages an accelerated and holistic development of the rural regions around a potential growth centre in a gram panchayat through a PPP model for improving the quality of life in rural areas.

### **Features of the PURA Scheme**

- The scheme's objectives are achieved under a PPP framework between gram panchayats and private sector partners with the support of the state governments.
- The central sector scheme of PURA will source the core funding and be complemented by additional support through the convergences of various Central Government schemes.
- The private sector brings on board its share of investment apart from operational expertise.
- The private sector implements and manages the scheme on considerations of economic viability but is designed to be fully aligned with the overall objective of rural development.

### **Amenities Provided Under PURA Scheme**

Following are the amenities provided under the MoRD schemes:

- Water and sewerage.
- Construction and maintenance of village streets
- Drainage
- Solid waste management
- Skill development
- Development of economic activities



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Following are the amenities provided under the Non-MoRD schemes:

- Village street lighting.
- Telecom.
- Electricity.

Following are the amenities provided under the add-on projects (Revenue earning and people-centric projects):

- Village-linked tourism.
- Integrated rural hub and rural market.
- Agri – common services centre, warehousing, etc.
- Any other rural-economy-based project.

#### **PURA Scheme Implementation**

The private developers' selection is made through a transparent, competitive technical bidding process with evaluation criteria and rigorous qualifications.

The private developers have the flexibility to select and identify the gram panchayat for undertaking the PURA projects based on their working experiences at the grassroots level or familiarity with the area. Since the consent of the concerned panchayats and no objection from the state governments is mandatory, the selection of the gram panchayat would reflect the concurrence of all the stakeholders.

The private developers will implement an action plan for the different PURA sub-projects over a construction period of a maximum of three years and an operations and maintenance (O&M) period of ten years from the date of commercial operation or completion of construction.

A dedicated project management team in the PURA division of the MoRD will coordinate and oversee all activities of the scheme's implementation under the overall guidance of the project screening and monitoring committee.

The funding for projects under the PURA scheme can come from these four sources: MoRD schemes, non-MoRD schemes, private financing and capital grant under PURA.

#### **ECONOMIC REFORMS AND ITS IMPACT ON RURAL ECONOMY:**

The impact of economic reforms on the rural economy of a country is immediate and significant. In 1991, India began an economic reform to help its economy, which was in dire straits then.



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- The impact of economic reforms on a country's agriculture is immediate and significant. In 1991, India began an economic reform to help its economy, which was in dire straits then.
- It was important for India to stabilise the economy and liberalise it to curb escalating inflation. India's administration rushed through economic changes to liberalise the economy and boost growth.
- The private sector's participation in the Indian economy was promoted, and improvements were made through technological breakthroughs, industrial licensing, and the removal of constraints on the private sector.
- The three main aspects of economic and agricultural reforms are liberalisation, privatisation, and globalisation or LPG.
- Agriculture is the primary source of income in rural India, and any reforms will have a direct impact on the nation's economy and vice versa. As the agricultural sector struggles with a variety of resource problems, sustainable agriculture has become increasingly important.
- The primary sector of the Indian economy has diversified the least of the three economic sectors, whereas the tertiary sector has varied the most.

**Agriculture reform has a significant impact on the following areas:**

- Increase in agricultural products both import and export.
- Improvements in agricultural technology and rural infrastructure are two areas where progress is being made.
- Agricultural methods are becoming more prevalent.
- Agriculture and food security prices are maintained.

According to surveys, small farms contribute 60-70 percent of total agriculture, accounting for 30-50 percent of total agricultural produce in India. Agriculture in India supplies raw materials to a variety of sectors, which account for roughly 21% of total exports and employ 64% of the workforce.

The measures implemented by the Indian government are aimed at achieving the following:

- Doubling the total food output.
- Increasing employment and income opportunities.
- Supplying food to individuals living in poverty.
- Enhancing the promotion of export.



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- Agricultural procedures with a high level of sophistication.

### **Effects of Economic Reforms and the Agriculture Sector**

The effects of economic reforms and the agriculture sector are intertwined. As a result of the green revolution and liberalisation, agriculture's GDP has increased. For the poor, the rise of globalisation has been a tremendous setback. They were left with no means of securing food.

Economic changes in India in 1991 were beneficial to the country's economy's survival. The 1991 reforms were required to be implemented because of the following reasons:

- The economy was not performing well.
- There was a payment situation that wasn't favourable.
- Inflation.
- The Persian Gulf War.
- The federal government's deficit had increased dramatically.

### **The Three Agricultural Reforms 2020**

The Indian Parliament passed three major agricultural reforms to raise farmer income and alter the traditional agricultural standards. The laws have been drafted to eliminate intermediaries between farmers and markets.

The three agricultural laws of 2020 are:

1. The farmers produce trade and commerce (promotion and facilitation) Act 2020.
2. The farmers (empowerment and protection) agreement of price assurance and farm services 2020.
3. Amendment to the Essential Commodities Act, 1955.

### **The Farmers Produce Trade and Commerce (Promotion and Facilitation) Act 2020**

- ✓ The statute passed by the legislature allows farmers to sell their agricultural produce anywhere in the country and provides an e-commerce platform for this purpose while ensuring neutrality.
- ✓ The new policy environment will create economic prospects for rural youth, particularly farmers and their children in agricultural trading, as demonstrated in denotified crops and the dairy segment.
- ✓ Farmers will earn greater pricing for their products as a result of this act. It will contribute to the promotion of "one nation, one market".



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**The Farmer's Empowerment and Production (price assurance and farm services) Act 2020**

- ✓ The purpose of this act is to create a national framework for farming agreements that protects and promotes farmers who work for agri-trade companies, exporters, wholesalers, or large retailers. Farmers will benefit from the new law since it tilts the weight in their favour.
- ✓ It does away with the complex system of registration, licensing, and other procedures that exist under contract farming rules in several states.
- ✓ It also assists farmers in experimenting with new modern techniques to improve their yields.

**Essential Commodities Act 2020 (Amendment)**

Grain, pulses, onions, edible oils, and potatoes have all been included in agricultural food production under the essential commodities act. The central government can limit the supply of the above-mentioned products only in exceptional circumstances like war, natural catastrophes, or famine.

This law prompts farmers to invest in cold storage facilities to maintain the quality of their produce. By establishing pricing stability, the amendment is expected to benefit both producers and consumers.

In 2020, the Indian Parliament approved three agricultural reforms to boost farmer income and change traditional agricultural rules. These reforms include the Farmers Produce Trade and Commerce (Promotion and Facilitation) Act 2020, the Farmers (Empowerment and Protection) Price Assurance Agreement, and farm services.





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**UNIT 2**

**FINANCING RURAL DEVELOPMENT:**

A rural development policy for the future should contain at least the following items: - deracialisation of the right of access to land outside scheduled, released and 'coloured reserve' areas. New arrangements for both purchase and tenancy should be considered - evolution of the existing systems of land tenure in the scheduled, released and coloured reserve areas - assistance to resource-poor small farmers intending to make the transition to commercial agriculture - assistance to rural communities who wish to farm on a non- or semi commercial basis.

**Functions and policies of RBI:**

The Reserve Bank of India (RBI) is India's central bank and has many functions and policies, including:

**1) Monetary Management/Authority**

One of the most important functions of RBI is the formulation and execution of Monetary Policy and securing monetary stability in India. It functions the currency and credit system to its advantage.

**2) Supervision and Regulation of Banking and Non-Banking Financial Institutions**

RBI functions to protect the interests of depositors through an effective regulatory framework. Keeping a keen eye over the conduct of banking operations and solvency of the banks along with maintaining the overall financial stability through various policy measures.

These powers of RBI come from the RBI Act 1934 and the Banking Regulation Act 1949. This regulatory and supervisory function of the RBI extends to the Indian Banking System as well as Non-Banking Financial Institutions.

**3) Regulation of Foreign Exchange Market, Government Securities Market, and Money Market**

Foreign exchange market: the foreign exchange management act 1999 came into light after the liberalization measures introduced in 1991. FEMA 1991 replaced the FERA 1973 and came into effect in June 2022.

So now, the RBI is responsible for overseeing the foreign exchange market in India. RBI supervises and regulates the Foreign Exchange Market through the provision of the FEMA Act 1999.

**Government Securities Market:** RBI regulates the trade securities issued by the Central and State governments. For regulation of this, RBI derives its power from the RBI Act of 1934.



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**Money Market:** Short-term and highly liquid debt securities are also regulated by RBI and for this RBI derives its powers from the RBI Act 1934.

#### **4) Foreign Exchange Reserve Management**

Foreign exchange reserves include-

- Foreign Currency Assets (FRAs)
- Special Drawing Rights (SDRs)
- Gold

RBI is the custodian of India's foreign exchange reserves. The legal provision regarding the management of foreign exchange reserves is mentioned in the RBI Act 1934.

The RBI Act of 1934 permits the RBI to invest these foreign exchange reserves in the following instruments-

- Deposit with Banks for International Settlement
- Deposit with foreign Commercial Banks
- Debt Instruments
- Other instruments with approval of the Central Banks of RBI

#### **5) Bankers to Central and State Government**

- RBI acts as a banker to the government. RBI is the responsible agency for receiving and paying money on behalf of the various government departments.
- RBI is also authorized to appoint other banks to act as its agent and undertake banking business on the behalf of the government.
- RBI maintains Central and State Government funds like Consolidated Funds, Contingency Funds, and Public Account.
- RBI also provides loans to the central/State/UT Government as a banker to the government.
- Also read: Loan Loss Provisions

#### **6) Advisor to the Government**

RBI acts as an advisor to the government when called upon to do so on financial and banking-related matters.



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### **7) Central and State Government's Debt Manager**

The debt management policy mainly aims at minimizing the cost of borrowing and smoothening the maturity structure of debt. RBI manages the public debt and also issues new loans on behalf of central and state governments.

### **8) Banker to Banks**

- Banks open their current account with RBI to maintain SLR and CRR.
- RBI is a common banker for the different banks that enables the settlement of interbank transfers of funds.
- For special purposes or in need, RBI provides short-term loans and advances to banks

### **9) RBI- Lender of last resort**

That means RBI comes to rescue the banks that are solvent (facing temporary liquid problems) but have not gone bankrupt. RBI provides this facility to protect the interest of depositors and to prevent the possible failure of the bank.

### **10) RBI- Issuer of Currency**

The RBI and the government are in charge of the creation, manufacturing, and overall administration of the national currency to release a sufficient quantity of authentic and clean notes.

The Reserve Bank of India has given some bank branches permission to set up currency chests to simplify the circulation of rupee notes and coins around the nation (A currency chest is a storehouse where currency notes and rupee coins are stocked on behalf of RBI)

### **11) Developmental Role**

RBI's developmental role includes creating institutions to build financial infrastructure, ensuring credit to the productive sector of the economy, and expanding access to affordable financial systems.

### **Summary of RBI functions**

RBI (Reserve bank of India) is the central bank of India, The origin of the Reserve bank can be traced to 1926, when the royal commission on Indian currency and finance. Also known as the Hilton-Young commission recommended the creation of a central bank to separate the central of currency and credit from the government of augment banking facilities throughout the country. The reserve bank of India act of 1934 established the reserve bank as the banker to the central government and set in nation a series of action culminating in the start of operations in 1935. Since then the Reserve bank roll and function have undergone numerous changes as the nature of Indian economy has changed. Reserve bank of India was nationalized in the year 1949. The



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Reserve Banks affairs are governed by a central board of directors. The board is appointed by the government of India in keeping with the reserve bank of India act. The central board of directors has twenty one members, the governor and four deputy governor, Two Finance Ministry representatives, ten government nominated directors to represent important elements from India's economy and four directors to represent local boards headquartered at Mumbai, Kolkata, Chennai and New Delhi. India has four zonal offices. It has nineteen regional offices at most state capitals and at a few major cities in India.

The bank has also two training colleges for its officers and four zonal training Centre's.

**Main Objectives of RBI**

- ✓ To manage the monetary and credit system of the country.
- ✓ To stabilize internal and external value of rupee.
- ✓ For balanced and systematic development of banking in the country.
- ✓ For the development of organized money market in the country.
- ✓ For proper arrangement of agriculture and industrial finance.
- ✓ For proper management of public depts.
- ✓ To establish monetary relations with other countries of the world and international financial institutions.
- ✓ For centralization of cash reserves of commercial banks.
- ✓ To maintain balance between the demand and supply of currency

Role of RBI in Agricultural Development Agricultural development is regarded as a prerequisite of economic development of the country because seventy present of population in the country are engaged in agriculture sector and the total share of agriculture and allied sectors in terms of percentage of GDP is 13.9 % during 2013-2014 at 2004-05 prices. Agricultural exports constitute a fifth of the total exports of the country. The RBI realizes the basis contributions of the agricultural sector in the overall economic development.

**This is the sector which:-**

1. Provide raw material for industrial sector.
2. Provide the market for producer goods and consumer goods produced in the non-agricultural sector.
3. Provide labour and capital to non-agricultural sector.
4. Provide foreign exchange.



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On recognizing the fact that agricultural is the foundation on which the entire super structure of the growth of industrial and other sectors of the economy has to stand, the RBI Develops the agricultural sector. Agricultural is the heartbeat of the Indian economy. Agricultural sector remains dominant despite remark able progress made in the realm of the industrial development, especially in the field of science and technology. The RBI always wanted an apex institute to be set up to help the growth of this sector in India. RBI has a separate for agricultural credit. According to section 54 of the RBI act, it is required to set up a separate agricultural credit department. The department initiates different measures to development a healthy ruler credit structure and provided guidance to state government and cooperative credit structure. The ACD of the bank, however, primarily confines itself to research rather than financing of agriculture. RBI also established the Agricultural Refinance Corporation (ARC) in 1963 to support investment credit needs for agricultural development. Consequent to undertaking of development and promotional function, ARC was renamed as Agricultural Refinance and Development Corporation (ARDC). With the formation of NABARD in 1982, all the activities of ACD and ARDC have been transferred to NABARD.

### **Agricultural credit**

Agriculture credit is the key factor to accelerate agricultural development in India the credit needs of the farmers are of three kinds.

**Firstly –short term credit** – to finance agricultural operations like purchase of seeds, pesticides and fertilizers.

**Secondly- medium -term credit** – for purchase of ploughs, agricultural equipment's, tractors and other implements to cultivate their lands with the help of modern implements.

**Thirdly, long-term credit** - for agricultural development such as improvement of land, construction of boundaries and horticulture.

And the main source of agri-credit to the farmer were the money-lenders, traders and commission agents who charged high rate of interest and purchased the agricultural product at low price. So it was necessary to provide institutional credit to the farmers. It was in 1935 that the Reserve Bank was founded: the Reserve Bank of India act is unusual among central banks to have specific provision for attention and to agricultural credit. Section 54 of the act enjoined the Reserve Bank to set up an agricultural credit department, which was to have an expert staff to advise the central government, state government, state cooperative banks and other banks and to co-ordinate RBI function for agricultural credit. Section 17 of the act empowered it to provide agricultural credit through state co-operative banks or any other banks engaged in the business of agricultural credit. The RBI being the central bank of the country does not provide finance directly to the farmers, it provides in direct facility of agricultural through State Co-operative banks.



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Through the media of Co-operative credit system, the RBI thus provides three type of loans to the agriculturists, as under:-

1. Short- term credit
2. Medium- term credit
3. Long-term credit.

Short and medium term loans to the agricultural sector are made available through the state Co-operative banks and long term credit is provided through the State Land Development Bank by purchasing their debentures.

The RBI purchase or rediscounts the bill of exchange of SCB's, hereby providing refinance facilities. The bank has also made provision of longterm loans to state government through the National Agricultural Credit Fund. The RBI also undertakes research investigations and surveys relating to rural finance. The bank has been giving very valuable advice to central and state government and to the state co-operative bank on matters relating to rural finance.

RBI the RBI was assigned a crucial role in the scheme of integrated credit and in the building up of the co-operative credit organization. The RBI's role was not only a conventional central banker.

The adoption of special programs for increasing agricultural production and the spread of greenrevolution based largely on intensive use of fertilizers, water, better seeds and machine power have enhanced the RBI's responsibilities further. The RBI had also started offering greater financial assistance to co-operatives for credit facilities to small farmers and other weaker sections and four minimizing disparities in flow of credit to various regions. With the setting up of the national bank of agricultural and rural development (NABARD) in July 1982, The RBI's functions relating to the co-operative movement have been taken over by the NABARD. Besides, the RBI still offers loans and advances to SCB's.

**FUNCTION AND POLICIES OF NABARD:**

**NABARD (NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT):**

NABARD was established in July 1982 to oversee and develop the entire rural credit system including agricultural credit. Consequent, the major of the agricultural credit Department of the RBI and the entire undertaking of the ARDC, was taken over by it. Also it took over from the RBI the refinance, development and statutory inspection of co-operative banks and RRB's. The NABARD provides rural credit by way of refinance and loans and advances to state co-operative banks, land development banks, RRB's and other approved financial institutions for financing production, marketing and investment activities relating to agriculture and other allied economic activities in rural areas.





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Co-Operative credit societies an agricultural co-operative, also known as a farmer's coop, is a co-operative where farmers pool their resources in certain areas of activity. Co-operative credit societies acts of 1904 and 1912 was the first important landmark in the agricultural credit policy in India. In the subsequent period, the co-operative credit becomes more and more significant. It becomes the most important sources of farm credit in the country. Organizationally, the rural cooperative credit system has a unique structure with some specializing in short-term credit and some other in long term credit.

In the field of short-term and medium-term rural credit, the cooperative have three-tier structure with primary agricultural credit societies (PACAs) at the base, District Central cooperative Banks (DCCBs) at the middle level and State Cooperative Banks (SCBs) at the apex. The PACs are affiliated to DCCBs and the later to SCBs with the super tier functioning as a balancing institution of funds for the lower tier. In the sphere of the long term credit, the cooperatives have a two-tier setup with Primary Land Development Banks at the base and State Land Development Banks at the apex level. The organizational structure of the rural cooperative credit system, shown in the following diagram:-

Short-medium term loans the short term credit structure consists as following:-

1. Primary Agricultural Credit Societies at the base level.
2. Central Cooperative Banks at district level.
3. State Cooperative Bank at State level.

**1. Primary Agricultural Credit Societies (PACS):-**

PACS occupy a predominant position in the cooperative credit system structure and form its base. It is the basic unit which deals directly with the rural borrowers, gives those loans and collects repayments of loans given. It serves as the final link between the ultimate borrower on the one hand and higher financing agencies, namely the SCBs and the RBI/NABARD on the other hand.

**2. Central Cooperative Banks:**

The district CCB being the middle tier of the cooperative credit structure, it is functionally positioned to deal with the concerns of both the upper and lower tiers. While the SCB may wish the DCCB to prioritize its task in a particular manner, the PACS may have their own demands on the DCCB. Balancing these competing concerns could often be a dilemma for the DCCBs.

**3. State Cooperative Banks:**

The SCBs provide finance, coordinate and control the working of the central cooperative banks in each state. They serve as the link between the Reserve Bank and the money market on the one side and the central cooperative and primary societies on the other hand. They





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obtain their funds mainly from the journal public by way of deposits, loans and advances from the Reserve Bank and they are own share capital and reserves. Long-term loans Land Development Banks were constituted for meeting the long term financial requirement of farmers for purchase and improvement of land, repaying old debts etc. LDBs mortgage the fixed assets of the farmers and grant loans up to 50% of the mortgages value.

The LDBs functions at two levels. Long-term credit structure consists as following:-

1. Primary Cooperative Agriculture & Rural Development Bank at the base level.
2. State Cooperative Agriculture & Rural Development Bank at state level.

**1. Primary Cooperative Agriculture & Rural Development Bank**

These banks work originally organized to cover one or a few talks in the district. At present they are eligible to cover one development block. All landowners are eligible to become members and borrow funds by mortgaging their land. The principal borrower is enrolled as A' class member and other who have interest in the mortgage property are admitted as B' class members

**2. State Cooperative Agriculture & Rural Development Bank:-**

The members of the SCARDBs are the PCARDBs and a few individual promoters. It grants long-term loans to agriculturists through the PCARDBs and branches of SCARDBs. It raises funds through floating debentures, which are guaranteed by the state government. When PCARDBs obtains loan from the SCARDBs, it assigns the mortgage deeds obtained from the borrowers to the SCARDB. The SCARDB floats debentures and raises funds against the security of these properties. The NABARD and LIC subscribe for the debentures in large amounts and the former also extends refinance assistance to CARDBs

**Regional Rural Bank:-**

The Regional Rural Bank was established on October 2nd 1975. The main objectives of these banks are to provide credit and other facilities particularly to small and marginal farmers, agricultural labourers, rural artisans and small entrepreneurs, so as to develop agriculture, trade, commerce, industry and other productive activities in rural areas. The aim of the rural banks is to bridge the credit gaps existing in the rural areas and they are supposed to be effective instruments of economy development in rural area. The equities of rural banks were divided in a proportion of 50:35:15 among the central government, the sponsor bank and the concerned state government.

**FUNCTIONS OF NABARD:**

NABARD was established as a development bank to perform the following functions:

1. To serve as an apex financing agency for the institutions providing investment and production credit for promoting various developmental activities in rural areas;



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2. To take measures towards institution building for improving absorptive capacity of the credit delivery system, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions and training of personnel;
3. To coordinate the rural financing activities of all institutions engaged in developmental work at the field level and liaison with the Government of India, the State Governments, the Reserve Bank and other national level institutions concerned with policy formulation; and
4. To undertake monitoring and evaluation of projects refinanced by it.
5. NABARD gives high priority to projects formed under Integrated Rural Development Programme (IRDP).
6. It arranges refinance for IRDP accounts in order to give highest share for the support for poverty alleviation programs run by Integrated Rural Development Programme.
7. NABARD also gives guidelines for promotion of group activities under its programs and provides 100% refinance support for them.
8. It is setting linkages between Self-help Group (SHG) which are organized by voluntary agencies for poor and needy in rural areas.
9. It refinances to the complete extent for those projects which are operated under the 'National Watershed Development Programme and the 'National Mission of Wasteland Development'.
10. It also has a system of District Oriented Monitoring Studies, under which, study is conducted for a cross section of schemes that are sanctioned in a district to various banks, to ascertain their performance and to identify the constraints in their implementation, it also initiates appropriate action to correct them.
11. It also supports "Vikas Vahini" volunteer programs which offer credit and development activities to poor farmers.
12. It also inspects and supervises the cooperative banks and RRBs to periodically ensure the development of the rural financing and farmers' welfare.
13. NABARD also recommends about licensing for RRBs and Cooperative banks to RBI.
14. NABARD gives assistance for the training and development of the staff of various other credit institutions which are engaged in credit distributions.
15. It also runs programs for agriculture and rural development in the whole country.
16. It is engaged in regulations of the cooperative banks and the RRB's, and manages their talent acquisition through IBPS CWE conducted across the country.



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**RURAL CREDIT INSTITUTIONS:**

Rural credit institutions are financial institutions that provide financial support to rural communities, including farmers, individuals, and businesses. Rural credit can be in the form of loans, financial assistance, or non-institutional sources.

**Rural credit institutions are important because they:**

1. Foster agricultural development: Farmers can use rural credit to invest in seeds, equipment, and technology, which can increase productivity and contribute to the agricultural sector's growth.
2. Promote rural entrepreneurship: Rural credit can help people in rural areas set up small businesses.
3. Improve economic well-being: Rural credit can help improve the overall economic well-being of rural communities.

Some examples of rural credit institutions include:

1. Commercial banks
2. Regional rural banks (RRBs)
3. Co-operatives
4. Small finance banks (SFBs)
5. NBFCs
6. Micro-finance institutions (MFIs)
7. Indigenous bankers

**ROLE AND FUNCTION OF RURAL CREDIT INSTITUTIONS:**

Rural credit institutions play a key role in the development of rural areas by providing financial support to farmers and other rural borrowers.

The role of rural credit institutions includes:

1. Supporting agricultural productivity
2. Rural credit helps farmers purchase seeds, fertilizers, pesticides, and modern equipment to increase crop yields and ensure food security.
3. Improving land
4. Rural credit helps with land improvement activities such as soil enhancement, irrigation development, and infrastructure building.



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5. Helping with personal expenses
6. Rural credit can help with personal expenses such as marriage, religious functions, death, and more.
7. Repaying debts
8. Rural credit can help with repaying outstanding debts.
9. Coordinating institutions
10. Rural credit institutions ensure coordination in the operation of various institutions engaged in the field of rural credit.

The National Bank for Agriculture and Rural Development (NABARD) is the apex body for rural credit in India. NABARD provides credit to the rural sector through cooperative banks, commercial banks, regional rural banks, and other financial institutions.

**ROLE OF INFORMATION AND COMMUNICATION TECHNOLOGY (IT) IN RURAL BANKING:**

Role of Information Technology (IT) in Banking Sector IT is gradually transitioning from a support role to a key ally in boosting a bank's worth over time. IT accomplishes this by maximizing banks' proactive measures, such as enhancing and standardizing banks' infrastructure in terms of security, communication, and networking, achieving inter-branch connectivity, transitioning to an RTGS environment, forecasting liquidity by creating real-time databases, and using imaging and magnetic ink character recognition technology for cheque clearing, to name a few. Indian banks are making a major push into retail banking. The increased sophistication of technology and the rising popularity of the Internet have been the primary drivers of change. Customers' expectations are evolving as they transition from traditional banking to e-banking.

Modern Information and communication technology (ICT) can act as a tool to develop a platform which helps us to extend the financial services in remote areas. Technology intervention helps banks to reduce their cost, to increase customer reach ability and in better management of business risk.

Role of Information Technology on Rural Banking Various inquiries have been carried out to find out the effect of Internet Technology on the banking industry. The banking sector in India has also witnessed a complete transformation in its operations both in its functioning and delivery of services. Present technology is the main driving force for businesses that have enabled banking customers to sit back at home and operate their accounts without walking into the banks for anything and everything. As the advancement of technology has taken place with immense use of the internet, mobiles and online bill payments banking sector in India has got a new hand altogether. The payment system enterprise taken over the last decade has rebounded in deeper acceptance and penetration of modern electronic payment systems in the country. Indeed the



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banking sector is satisfying the mercantile requirements of people. Thee-commerce and m-commerce platforms are poised for a big stride in the coming times.

### **Benefits of ICT in rural banking**

Information and Communication Technology (ICT) can play a significant role in rural banking by improving the delivery of banking services and increasing access to financial services. Some of the benefits of ICT in rural banking include:

#### **1. Efficiency**

ICT can simplify banking operations, reduce paperwork, and automate manual tasks. This can lead to faster and more efficient service for consumers.

#### **2. Cost savings**

ICT can help RRBs optimize costs and distribute resources more effectively.

#### **3. Data analytics**

ICT can help RRBs analyze client data, understand client behavior, and identify trends.

#### **4. Financial inclusion**

ICT can help RRBs provide financial services to rural and underserved areas. Mobile banking and digital platforms can help RRBs access a wider customer base.

#### **5. Rural entrepreneurship**

ICT can help encourage rural entrepreneurship by improving process efficiencies and making it easier for people and enterprises to participate.

#### **6. Economic development**

ICT can improve the business environment in rural areas by providing access to market and business information. It can also help local communities organize and link themselves.

#### **7. Access to cultural resources**

ICT can help preserve and identify threatened or marginalized cultural artifacts and traditions.

However, some commentators argue that access to ICTs depends on education, income, and wealth. They also argue that developing countries have other pressing investment priorities, such as food, safe water, education, and public health.

### **Main Elements:**

The solution involves the outsourcing of the data management as well as of the delivery channel establishment and operations with required safeguards regarding the data ownership and



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operations. The model envisaged provides a cost-effective but efficient technology platform for rural banking. Technologically, the solution involves four main elements:

- ESTABLISHMENT OF DIGITAL RURAL INFORMATION INFRASTRUCTURE
- MULTI SERVICE DELIVERY SYSTEM (MSDS)
- INTEGRATED MULTI-ENTITY DATABASE SYSTEM (IMDS)
- SERVICE PROVIDER'S WORKSTATION

**Technology for Rural Segment of India:**

- Some banks are issuing their workers handheld micro ATMs to serve the remote rural crowd. Micro ATMs are enabled with AEPS (Aadhaar Enabled Payment Systems) deals, empowering customers to do cash pull out/ deposit, balance inquiry using their Aadhaar number and biometric authentication.

- Numerous banks have designed SMS mobile apps especially designed for the rural crowd, which will enable the merchandisers to accept payments through Aadhaar and biometric authentication, analogous to card payments.

- Numerous banks have started sharing in the “Direct Benefit Transfer (DBT)” installation; the customers who have planted their Aadhaar figures with the Bank Accounts can get the DBT installation.

- DCB Bank has set up ATMs that bear your fingerprints to withdraw money. The ATM operates using Aadhaar card data and links a client's point data with his Aadhaar biometric details.

- HDFC Bank is reaching out to rural areas which don't have ATMs through a hand- held device or a micro ATM with biometric verification. It uses an Aadhaar card and fingerprints for biometric verification for an instant KYC (know your client) check. HDFC has tied up with Gramin Banking Officers (GBO) to give this installation in Punjab.

Indeed in rural areas, digital payment systems are started getting instigation. Monetary conditions of rural India are being accommodated through various modes similar as UPI, IMPS, AePS, ATM, micro-ATM, PoS. PMJDY Heirs at rural/semi-urban centre bank branches showed an adding trend line, increased from around 12 Cr in 2016 to 47 Cr in the time 2025. PMJDY and DBT had contributed to an increased operation of ATM deals as out of a aggregate of around 98 Crore ATM cards, 30 belonged to PMJDY accounts. To grease the expansion of ATMs in rural and remote areas, non-bank realities were permitted in 2012 to permit on-bank realities to set up, own, and operate ATMs and similar ATMs were called White – Marker ATMs (WLAs).





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**RURAL FINANCIAL SERVICE:**

Rural finance is the provision of financial services to people in rural areas, including services for people of all income levels. These services can include: Loans, Deposits, Insurance, and Remittances.

Rural finance can also include agricultural finance, which is a subset of rural finance that focuses on financing activities related to agriculture.

Rural finance can be provided by both financial institutions, such as banks and credit unions, and non-financial mechanisms.

Rural finance can help improve the livelihoods of rural people. However, many rural people don't have reliable ways to save money, protect assets, or transfer funds. This is especially true for vulnerable groups like women, youth, and displaced people. Some factors that contribute to this problem include: Weak infrastructure, Limited capacity of financial service providers, and Low levels of client education

**REGULATIONS OF RURAL FINANCIAL SERVICE:**

Rural finance services regulations ensure that decentralized rural financial institutions follow the law and their by-laws. These regulations include:

**1. Decision-making and accountability**

Management must follow procedures for decision-making and accountability, such as keeping accurate banking records.

The decision-making and accountability procedures of the organizations are in accordance with the law and with the by-laws of each organization and that management follow them properly, for instance, ensuring that accurate and timely banking records are kept, etc.

**2. Accounting and audit**

Management must follow accounting and audit procedures transparently, adequately, and on time. Shareholders should have access to independent internal and external audit reports.

**3. Lending and savings mobilization**

Policies, procedures, and management should minimize the risk of loan delinquency and fraud, and be conducive to financial sustainability.

- Governments can also help ensure an enabling environment for rural finance services by:
- Avoiding interest rate ceilings that don't allow financial service providers to recover costs
- Not directly providing credit schemes or subsidized lending programs



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- Supporting savings mobilization by regulating deposit-taking financial intermediaries
- Integrating rural finance into the broader financial system development agenda
- Improving infrastructure to lower transaction costs
- Increasing financial literacy in rural communities
- Promoting a savings and insurance culture in rural populations.

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**UNIT III**

**FINANCIAL INCLUSION:**

Financial Inclusion is described as the method of offering banking and financial solutions and services to every individual in the society without any form of discrimination. It primarily aims to include everybody in the society by giving them basic financial services without looking at a person's income or savings. Financial inclusion chiefly focuses on providing reliable financial solutions to the economically underprivileged sections of the society without having any unfair treatment. It intends to provide financial solutions without any signs of inequality. It is also committed to being transparent while offering financial assistance without any hidden transactions or costs.

Financial inclusion wants everybody in the society to be involved and participate in financial management judiciously. There are many poor households in India that do not have any access to financial services in the country. They are not aware of banks and their functions. Even if they are aware of banks, many of the poor people do not have the access to get services from banks.

For several years, only the middle and high classes of the society procured formal types of credit. Poor people were forced to rely on unorganised and informal forms of credit. Many of them were uneducated and did not have basic knowledge about finance and hence, they got cheated by the greedy and rich people of the society. Several poor people have been exploited for years in the context of financial assistance.

Financial Inclusion Schemes in India the Government of India has been introducing several exclusive schemes for the purpose of financial inclusion. These schemes intend to provide social security to the less fortunate sections of the society. After a lot of planning and research by several financial experts and policymakers, the government launched schemes keeping financial inclusion in mind. These schemes have been launched over different years. Let us take a list of the financial inclusion schemes in the country:

- Pradhan Mantri Jan Dhan Yojana (PMJDY)
- Atal Pension Yojana (APY)
- Pradhan Mantri Vaya Vandana Yojana (PMVVY)
- Stand Up India Scheme
- Pradhan Mantri Mudra Yojana (PMMY)
- Pradhan Mantri Suraksha Bima Yojana (PMSBY)
- Sukanya Samriddhi Yojana



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- Jeevan Suraksha Bandhan Yojana
- Credit Enhancement Guarantee Scheme (CEGS) for Scheduled Castes (SCs)
- Venture Capital Fund for Scheduled Castes under the Social Sector Initiatives
- Varishtha Pension Bima Yojana (VPBY)

**CONCEPT OF FINANCIAL INCLUSION:**

Banking and financial services play very crucial role in the growth and development of an economy. Research shows that a well-functioning and inclusive financial system is linked to a faster and equitable growth. There is wide range of personal finance options for higher and upper middle income population in the form of financially engineered and innovative products whereas a significantly large section of population still lack access to the most basic banking services that is holding a bank account. This is termed as “financial exclusion” which further leads to social exclusion. So it is necessary to provide individuals with easy and affordable institutional financial products or services popularly called “financial inclusion”. Universally, it is accepted that the objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit the people with low incomes.

In India, there is a need for coordinated action amongst the banks, the government and related agencies to facilitate access to bank accounts to the financially excluded. In view of the need for further financial deepening in the country in order to boost economic development, there is a dire need for expanding financial inclusion.

Twenty-three years after economic reforms unfurled in India, the financial sector still suffer from many maladies. There are various socio-cultural, economic issues that hinder the process of financial inclusion. For instance on demand side, it includes lack of awareness and illiteracy. From supply side, lack of avenues for investment such as poor bank penetration, unwillingness of banks to do financial inclusion or high cost involved in financial inclusion seem to be some likely reasons for financial exclusion. Normally the weaker sections of the society are completely ignored by the formal financial institutions in the race of making chunks of profits or the complexities involved in providing finance to the weaker section.

Financial inclusion is an innovative concept which helps to achieve the sustainable development of the country, by making available financial services to the unreached people with the help of financial institutions. The concept of financial inclusion get popularity from 2000. Financial inclusion is concerned with providing financial and banking services on lower costs to low section and slum people of society. It can be a great weapon to overcome financial backwardness. Access to financial services plays a critical part in development by facilitating economic growth and reducing income inequality. Inclusive financial systems allow poor people to smooth their consumption and insure themselves against the many economic



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vulnerabilities they face—from illness and accidents to theft and unemployment. Financial inclusion enables poor people to save and to borrow—allowing them to build their assets, to invest in education and entrepreneurial ventures, and thus to improve their livelihoods. It is likely to benefit disadvantaged groups such as women, youth, and rural communities. For all these reasons financial inclusion has gained prominence in recent years as a policy objective to improve the lives of the poor

#### **ROLE IN INCLUSIVE GROWTH:**

The importance of this study lies in the fact that India being a socialist, democratic republic, it is imperative on the policies of the government to ensure equitable growth of all sections of the economy. With only 34% of population engaged in formal banking, India has, 135 million financially excluded households, the second highest number after China. Further, the real rate of financial inclusion in India is also very low and about 40% of the bank account holders use their accounts not even once a month. It is universally opined that the resource poor need financial assistance at reasonable costs and that too with uninterrupted pace. However, the economic liberalization policies have always tempted the financial institutions to look for more and more greener pastures of business ignoring the weaker sections of the society. Some of the features of financial exclusion in India.

It is essential for any economy to aim at inclusive growth involving each and every citizen in the economic development progression. It is in this context that a study has to be made to understand the importance of priority sector lending in ensuring the inclusive growth in the Indian.

#### **Analysis**

Based on the well accepted approaches for evaluation of the coverage of financial inclusion and to assess its impact on inclusive growth the study endeavours to analyse the following:

- 1 Spatial Distribution of banking Services
- 2 Regional Distribution of Banking Services
- 3 Impact of Financial Inclusion on Inclusive Growth

#### **1. Spatial Distribution of banking Services:**

In order to analyse the spatial distribution of banking services in the country, data for the periods 1991 and 2005 has been verified. Further, bank offices in the country have been classified into Rural and Urban areas. This has been considered in order to get a clear understanding about how the spread of formal banking services has been affected in different parts of the country. The total number of saving accounts, considered to be a better indicator of banking penetration than other deposit accounts, as per cent of number of households, was 137 in rural areas and 244 in



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the urban areas on the eve of reforms in 1991. By 2005, despite the reforms, the differential continues to be similar. In the case of credit accounts, the situation have deteriorated for rural households while showing significant improvement in the urban areas (Table-6 in Annexure-6), corroborating the very significant increase in retail credit.

## **2. Regional Distribution of Banking Services**

An effort has been made to analyse the extent of financial inclusion in different regions of the country such as Northern, North-Eastern, Eastern, Central, Western and Southern regions apart from All India level. A purposeful analysis is made by comparing the data for the period from 1991 to 2005. Further, this data has been further split into rural and urban areas in the country in order to get an exact view about the distribution services in these areas. Further, the analysis is made in terms of population coverage per bank office, Number of Savings accounts per population of one hundred and Number of Credit (loan) accounts per population of one hundred. The data related to Financial Inclusion, Poverty levels, Population density and Literacy. The data related to Bank Branches, Workers, Population of Scheduled Castes and Percentage of Households with bank accounts in India. This data is largely sourced from the website of Census India and Reserve Bank of India publications.

Both the deposit and credit accounts are lower in rural households than urban households. Hence despite the rural-push, the rural population has not come forward and avail even basic banking services

## **3. Impact of Financial Inclusion on Inclusive Growth**

In order to involve a comprehensive measure of financial inclusion in the Indian context, we consider Priority Sector Lending as a measure of financial inclusion. We are of the opinion that, mere opening of bank account would not be a true indicator of financial inclusion, but availment of financial services, more importantly; the much needed credit for the excluded sections of the society would definitely depict the measure of financial inclusion. Further, this measure would meet the requirements of the definition for measurement of Financial Inclusion provided by United Nations, wherein it is said that the indicator should measure the "Access to credit, insurance, savings and payment services". Priority Sector Lending as an indicator in our study addresses all the above aspects. In view of this an attempt has been made to establish the relationship of priority sector lending (as a measure of financial inclusion) with the indicators of inclusive growth such as rural poverty. Rural poverty is considered to portray inclusive growth as more than 70 percent of India lives in rural areas.

The required data for the analysis is obtained largely from the most reliable and official sources such as Reserve Bank of India website, NABARD website, India Development Report 2008 and other related sources. Economic Reforms in Indian economy were initiated in the year 1991-92. As such, to cover equal number of years of priority sector lending and inclusive growth during pre and post-Liberalisation period, data for the period from 1974-75 to 2007-08 has been





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analysed for understanding the trends. For the purpose of analysis the most popular statistical measure Multiple Regression (OLS) Analysis is used (Andrea Vaona, 2005, Andrea Vaona and Roberto Patuelli, 2008 have also used the same kind of analysis for similar studies).

**MICROCREDIT:**

Microcredit is a common form of microfinance that involves an extremely small loan given to an individual to help them become self-employed or grow a small business. These borrowers tend to be low-income individuals, especially from less developed countries (LDCs). Microcredit is also known as "micro lending" or "microloan."

- Microcredit is a method of lending very small sums to individuals to start or expand a small business.
- Microcredit borrowers tend to be low-income individuals living in parts of the developing world; the practice originated in its modern form in Bangladesh.
- Most microcredit schemes rely on a group borrowing model, originally developed by Nobel Prize winner Muhammad Yunus and his Grameen Bank.

**MICRO INSURANCE SCHEME:**

Micro insurance is a category of insurance policies designed for the betterment of the economically vulnerable population of the country. This category has been created by the Insurance Regulatory and Development Authority of India (IRDAI). Micro insurance is governed as per the IRDAI Micro insurance Regulations, 2005. Such a policy can belong to General Insurance as well as the Life Insurance category. However, the defining quality of such policies is that the sum assured offered by them is equal to or less than Rs. 50,000.

Micro insurance can enable some sort of insurance cushioning for the economically vulnerable population. Such plans can provide a sense of security to low-income people that are unable to afford the popular form of insurance.

**Types of Micro insurance Plans:**

Micro insurance plans can be divided into the following two broad categories.

**1) General Micro insurance**

A General or regular Micro insurance product covers health insurance, personal accidents, and assets such as livestock, hut, etc. This product can be availed at an individual or a group basis.

**2) Life Micro insurance**

A Life Micro insurance Plan can be Term or an Endowment Plan. It can be purchased at an individual or a group level and with or without an accident benefit. Such plans can also be related to health insurance.



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**Micro insurance Policies:**

The biggest advantage concerning Micro insurance is that it offers the opportunity for the economically vulnerable section of the population to buy insurance at a low cost. Because of buying Micro insurance Policies, they can receive financial assistance during challenging times. This will result in the safeguarding of their savings, which are usually on the lower side. Here are some top advantages of specific Micro insurance Covers.

**1) Endowment/Pension Micro insurance**

- It offers survival as well as death benefits as per the terms and conditions
- Pension allowance can also be built-in

**2) Term Micro insurance**

- Covers life risk with accidental benefits
- Some insurers offer permanent disability benefits

**3) Health Micro insurance**

- It covers pre-and post-hospitalisation expenses
- Covers medical bills for diagnosis, medical bills, etc.

**4) Property Micro insurance**

- It offers coverage due to damage/losses of properties due to natural calamities.
- This policy offers compensation due to the theft of assets.

**Importance of Micro insurance Policies:**

Here's why such policies are important.

- They are an accessible risk-management tool to reduce financial vulnerability in times of adversity.
- The affordable premium of such plans is an incentive for better reach in an organized manner.
- Micro insurance covers the policyholder's financial liability as per the chosen plan.
- Micro insurance helps the poor to save money.
- Can bring about a positive change in poor people's perception of insurance.



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**BUSINESS FACILITATOR AND BUSINESS CORRESPONDENTS IN RURAL FINANCING (BF/BCs):**

Business Correspondent and Business Facilitator are representatives of a bank, responsible for building awareness and sourcing prospective customers. In addition, Business Correspondent is also responsible for carrying out banking transactions for existing customers.

Business Facilitators (BF) are also known as Bank Mitra, who mobilize business for their link branches such as Savings, Current, Recurring, Fixed Deposit Accounts Mobilization, Loan Referrals. They are not allowed to carry out cash transactions

The Business Facilitator (herein referred to as 'BF'), means "the organization / body corporate, which fulfils the eligibility criteria and appointed by NEDFi for providing facilitation services".

**Eligibility criteria and appointment of BF/BCs:**

The eligibility criteria are:

- a. The intermediaries may be a Society/ NBFC-MFI/NBFC/ Company/ Co-operative society/ Sec.8 of Companies Act 2013 / Farmers Producers Company / Trust/ Cooperative Banks / Charter Accountants firms.
- b. The intermediary as well as none of its promoters / directors / executive members should be a defaulter or blacklisted by any bank or organization or agency.
- c. The intermediary should have adequate working station, in own premises / home / rented premises.
- d. The intermediary should have adequate infrastructure such as Computer (desktop/ laptop) with internet connection, printer, own conveyance, and un-interrupted phone line/ mobile phone.

The eligible intermediaries, who are intended to become a BF should apply to NEDFi.

Upon approval for appointment of the organization as BF, a Letter of Appointment (LOA) along with a Term Sheet shall be issued to the Organization.

Upon acceptance of the LOA and Term & Conditions, a service Agreement will be signed between NEDFi and the concerned organization. Thereafter, the BF can start providing services.

**Services of BF/BCs:**

The services of BFs will be:

- Creating awareness about NEDFi's schemes and credit counselling to potential—borrowers.



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- Identification of borrowers, collection of loan applications along with required documents, collection of KYC documents and verification of primary information / data and forward/submission to nearest NEDFi office.
- Help NEDFi officials in conducting site visits, collecting additional information, executing legal documentations etc.
- Post sanction monitoring and follow-up for recovery. For recovery, NEDFi may also handover NPA accounts, which are not sourced by the concerned BF, from time to time. However, in no case, cash handling shall be done by BFs.
- One BF can operate in multiple locations by appointing different Service Provider Executives.

**Service fee for BF/BCs:**

The service fee will be purely on commission basis as well as on assignment basis, whichever is applicable, as mentioned in the table below:

Sl. No	Type of service	Commission rate
1	Success fee against the loan sourced by the BF	For every loan sanctioned, 50% of the processing fee will be paid as success-fee. 50% of the payable amount will be paid on the execution of the loan agreements and remaining 50% will be paid at end of 18th month from the date of 1st disbursement subject to the account status remains standard. In case, the account become NPA at the end of 18th month, the remaining payable amount will be forfeited.
2	Recovery commission against the standard loan accounts sourced by the BF	1.5% of the interest received will be paid, which is payable on monthly / quarterly.
3	Recovery commission against the NPAs, which are sourced by the BF.	1% of the recovered amount will be paid, which is payable on monthly / quarterly. However, the eligible NPAs under this category will be identified separately and approved by the GMMF & MSE. The payment of commission against the recovery from the rest of the NPAs will remain same as that of the standard account, as mentioned above in point no.2.



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4	Recovery commission against the other NPA, which are not sourced by the BF but handed over by NEDFi for recovery.	(i) 10% on interest recovered; and (ii) 5% on principal recovered.
5	Assignments for Project site verification / land record verification of the projects, which are not sourced by the BF, but assigned by NEDFi from time to time.	All-inclusive fee of Rs.500/- per assignment if it is within the 10 km radius from the base office of BF. If it is beyond 10 km radius, an additional running charge of Rs.6 per km will be reimbursed against the distance exceeding 10 km.
6	Organizing Business Meet/ Training / Awareness Generation Camp/ Business Development Camp etc.	Rs.2000/- per programme as honorarium.
7	Reimbursement of Head Office / Branch Offices visit, overnight stay and other emergency assignments etc. However, such reimbursement will be applicable, only when the travelling and assignments are carried out on the instructions from NEDFi.	i To and fro bus fare will be reimbursed on actual basis. ii. Rs.1500/- (Rupees one thousand five hundred) only, all inclusive on overnight stay, for HO visit. iii. Rs.600/- (Rupees six hundred) only all inclusive, on overnight stay at the places other than HO. iv. Rs.150/- per day will be reimbursed as food allowance if the assignment involves traveling of more than 8 hours.

#### **SELF-HELP GROUPS (SHGS):**

Self-help Groups (SHGs) are informal associations of people who come together to find ways to improve their living conditions. They are generally self-governed and peer-controlled.

People of similar economic and social backgrounds associate generally with the help of any NGO or government agency and try to resolve their issues, and improve their living conditions.

#### **Self Help Groups – Origin and Development in India**

- The origin of SHGs in India can be traced back to the establishment of the Self-Employed Women's Association (SEWA) in 1972.



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- Even before, there were small efforts at self-organizing. For example, in 1954, the Textile Labour Association (TLA) of Ahmadabad formed its women's wing in order to train the women belonging to families of mill workers in skills such as sewing, knitting, etc.
- Ela Bhatt, who formed SEWA, organized poor and self-employed women workers such as weavers, potters, hawkers, and others in the unorganized sector, with the objective of enhancing their incomes.
- NABARD, in 1992, formed the SHG Bank Linkage Project, which is today the world's largest microfinance project.
- From 1993 onwards, NABARD, along with the Reserve Bank of India, allowed SHGs to open savings bank accounts in banks.
- The Swarn Jayanti Gram Swarozgar Yojana was introduced in 1999 by GOI with the intention of promoting self-employment in rural areas through formation and skilling of such groups. This evolved into the National Rural Livelihoods Mission (NRLM) in 2011.

#### **Functions of Self Help Groups**

- They try to build the functional capacity of poor and marginalised sections of society in the domain of employment and income-generating activities.
- They offer collateral-free loans to sections of people that generally find it hard to get loans from banks.
- They also resolve conflicts via mutual discussions and collective leadership.
- They are an important source of microfinance services to the poor.
- They act as a go-through for formal banking services to reach the poor, especially in rural areas.
- They also encourage the habit of saving among the poor.

#### **Need for Self Help Groups**

- One of the chief reasons for rural poverty is the lack of access or limited access to credit and financial services.
- The Rangarajan Committee Report highlighted four major reasons for lack of financial inclusion in India. They are:
  - Inability to give collateral security
  - Weak credit absorption capacity
  - The insufficient reach of institutions





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- Weak community network

It is being recognised that one of the most important elements of credit linkage in rural areas is the prevalence of sound community networks in Indian villages.

SHGs play a vital role in giving credit access to the poor and this is extremely crucial in poverty alleviation.

They also play a great role in empowering women because SHGs help women from economically weaker sections build social capital.

Financial independence through self-employment opportunities also helps improve other development factors such as literacy levels, improved healthcare and better family planning.

#### **Advantages of Self Help Groups**

- Financial Inclusion – SHGs incentivise banks to lend to poor and marginalised sections of society because of the assurance of returns.
- Voice to marginalised – SHGs have given a voice to the otherwise underrepresented and voiceless sections of society.
- Social Integrity – SHGs help eradicate many social ills such as dowry, alcoholism, early marriage, etc.
- Gender Equality – By empowering women SHGs help steer the nation towards true gender equality.
- Pressure Groups – SHGs act as pressure groups through which pressure can be mounted on the government to act on important issues.
- Enhancing the efficiency of government schemes – SHGs help implement and improve the efficiency of government schemes. They also help reduce corruption through social audits.
- Alternate source of livelihood/employment – SHGs help people earn their livelihood by providing vocational training, and also help improve their existing source of livelihood by offering tools, etc. They also help ease the dependency on agriculture.
- Impact on healthcare and housing – Financial inclusion due to SHGs has led to better family planning, reduced rates of child mortality, enhanced maternal health and also helped people fight diseases better by way of better nutrition, healthcare facilities and housing.
- Banking literacy – SHGs encourage people to save and promote banking literacy among the rural segment.



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### **Problems of Self Help Groups (SHGs)**

- Need for extending this idea into the poorest families, which is not necessarily the case at present.
- Patriarchal mindset prevailing which prevents many women from coming forward.
- There are about 1.2 lakh branches of banks in rural areas as opposed to 6 lakh villages in the country. There is a need to expand banking amenities further.
- Sustainability and the quality of operations of such groups have been questionable.
- There is a need for monitoring cells to be established for SHGs across the country.
- The SHGs work on mutual trust. The deposits are not safe or secure.

### **NGOs (NON-GOVERNMENTAL ORGANIZATION):**

Before starting a complete article review, let's first understand an NGO. An NGO is an organisation in which the government has no role, and it is a Non-governmental organisation. People who have good money or business help people through NGOs. NGOs are a subgroup of organisations established by citizens, including clubs and associations that provide services to their members and others—an organisation aimed at the welfare of society. NGOs do much social work, such as housing widowed women, teaching poor orphans, protecting women, etc.

### **Role of NGOs in India**

In this section, we provide detailed information about the Role of NGOs; you can check the table below.

- **Particular Description:** Advocacy for and with the Poor NGOs can act as spokespeople for low-income people, attempting to influence government policies and programmes. This can be accomplished through various methods, including demonstration and pilot projects, public forum engagement, government policy and strategies, and dissemination of research findings and impoverished case studies.
- **Bridging the Gap:** Non-governmental organizations (NGOs) work to fill in gaps in government programmes and reach out to those typically overlooked by government projects.
- **Research and Development:** These non-governmental organizations (NGOs) do research and assist in advancing knowledge on current topics. They come up with creative solutions to social problems based on research.
- **Acts as a Middleman:** It is a non-profit venture that acts as a middleman and is not under the control of any governmental body. Its goal is to improve the welfare of citizens.



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Individual needs are assessed by NGOs, which operate as a middleman between Society and the government. They are respected globally because they seek aid in the financial sector and many economic, social, and political structures.

- Empowering women: NGOs take a stand against gender-based discrimination through our advocacy and initiatives. Together, we can create a world where everyone is treated fairly and respectfully, regardless of gender.

**SHG- LINKAGE WITH BANK:**

Linking the SHG with the bank is an essential pre-requisite for promoting financial inclusion. Unless SHGs access repeat doses of bank credit, the members will not be able to meet their consumption and production credit requirements at affordable interest rates. Apart from providing access to credit, bank linkage enables SHGs to utilize other services such as remittances of Mission and other government funds such as interest subvention and insurance services. Bank linkage also promotes the financial literacy of the members and contributes to prudent utilization of funds.

The two key steps in promoting SHG-bank linkage are:

- 1 Opening of SHG Saving Bank Account; and
- 2 Facilitating Credit Linkage of SHG.

The following processes should be adopted in facilitating opening of bank accounts and credit linkage of SHGs.

**1. Opening of Savings Bank account for SHG:**

Opening of savings bank account is the first step towards financial inclusion of SHG. The saving bank account provides the following advantages to the SHGs and its members:

1. Savings bank account gives recognition to the SHG as a customer of the banking system and provides potential access to different financial services;
2. SHG can keep surplus cash with the bank for safe custody, which in turn contributes to trust building among members;
3. An account provides an opportunity for the SHG to undertake financial transactions with the bank and contributes to the financial literacy of the members; and
4. It facilitates introduction of all individual members of the SHG to the bank who could eventually become individual customers of the bank.

SHG should open a SB A/c with the nearest Bank branch, ideally within two months of formation of the Group.



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The followings steps should be observed in opening of the Savings Bank Account:

**Step-1: SHG Resolution**

The first step is to facilitate passing of a resolution by SHG to open a bank account in the service area bank branch/nearest bank branch. All members should subscribe their signatures to the resolution (See sample resolution for opening SB A/c for SHGs).

**Step-2: Office Bearers**

As part of the resolution, the SHG should authorize three Office Bearers to operate the saving bank account with a condition that any two Office Bearers can transact with the bank.

**Step-3: Application for Opening of Bank Account**

The next step is to guide the SHG in preparing an application to the branch manager with a request to open a savings bank a/c at the branch. The application should be signed by office bearers of the SHG.

**Step-4: SHG Seal and Photographs of OBs**

It is important to ensure that each SHG gets a stamp (seal) made. Also the SHG needs to be guided to arrange for color photographs of 3 Office Bearers (passport size-3 copies each). Photocopies of the supporting identity and address proof documents of office bearers should also be prepared as part of the KYC norms (See RBI Circular on KYC – 28 Mar 2013 & 01 Apr 2013).

The following documents are required for the SHG to comply with the KYC norms

Proof of Identity of Office bearers (Any one of the documents to be submitted)

1. Voter ID Card
2. Aadhar Card
3. MGNREGS Job Card
4. Artisan Card

Any other ID card with photograph, issued by A Government Department as ID card is accepted by the banks

Proof of Address of office bearers (Any one of the documents to be submitted)

1. Voter ID Card
2. Aadhar Card
3. MGNREGS Card
4. Electricity Bills
5. Artisan Card



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**Single document for proof of identity and address:**

Earlier, as part of the KYC process, one had to submit separate proofs for address and identity. The RBI has done away with this. Now, a single document with photograph and address of the applicant will suffice. Among the documents approved for KYC include passport, driving license, voter ID card, Aadhar and job card.

**Step-5: Visit to the Bank**

The SHG office bearers should visit the bank branch along with following items for opening of Saving Bank account

1. A copy of the resolution to open bank account for the SHG;
2. Application to the Branch Manager with a request to open a savings bank A/c;
3. Photocopies of identity and address proof documents of office bearers (Original documents also should be carried for verification);
4. Colour photographs (passport size-3 copies each) of 3 office bearers; and
5. Seal of the group.

**Step-6: Opening Form**

The SHGs should be guided to filling in the requisite SB account opening form and attach all supporting documents correctly.

**Step-7: Basic Saving Bank Deposit Account**

The SHGs may also open 'Basic Saving Bank Deposit Account' or may deposit some amount if they choose to. Preference should be given to open account with some amount to avoid any confusion/misunderstanding at later stage.

**Step-8: Regular Banking**

SHG should be encouraged to regularly transact with the bank to maintain good rapport with bank branch manager.

**Self Help Group (SHG) Bank linkage (BL) Project:**

- The SHG BL Project was launched by NABARD in 1992 and has blossomed into the world's largest microfinance project.
- Under this programme, banks were allowed to open savings accounts for SHGs.
- Recently, the Union Minister of State for Rural Development, in a written reply in Rajya Sabha has given information about Self Help Group (SHG) Bank linkage (BL).



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- In 2019, the International Initiative for Impact Evaluation assessed DAY-NRLM, finding a 19% income boost and a 28% increase in household savings compared to the baseline.
- The study spanned nine states: Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Maharashtra, Odisha, Rajasthan, Uttar Pradesh, and West Bengal.

**LATEST GUIDELINES OF GOI AND RBI:**

1. RBI Guidelines NACH
2. RBI Guidelines on Current Account
3. Guidelines of Priority Sector Lending
4. E-KYC
5. Retail Direct Scheme

The Reserve Bank of India (RBI) has made changes pertaining to the National Automated Clearing House (NACH) services with effect from 1st August 2021. Accordingly, the “working day” rule, which was in practice earlier in NACH clearings, will now no longer be applicable. NACH facilities were available to customers only on working days, i.e. from Monday to Friday. But now customers will be able to avail these services on all seven days of the week. As a result, customers will not have to wait for the next working day, be it for the credit of their salaries and pensions or while making payments against EMIs and other transactions.

The RBI governor, Mr Shaktikanta Das, confirmed this change after concluding the bio-monthly monetary policy review. He said that this change would ensure the round-the-clock availability of Real-Time Gross Settlement and add more convenience for users.

Along with the NACH rule, a few other changes have also been introduced.

The doorstep delivery charges of the India Post Payments Bank will now be chargeable at the rate of Rs 20 plus GST. It was free of cost earlier.

Banks will now be able to charge more as interchange fees for providing ATM services to customers of other banks. The interchange charge for financial transactions has increased from Rs 15 to Rs 17, while non-financial transactions will be Rs 6 instead of Rs 5.

Cash transaction charges for the home branch will be free up to Rs 2 lakhs per account and Rs 5 per Rs 1000 thereafter, the minimum charge being Rs 150. For non-home branches, cash transactions up to Rs 25,000 is free of charge. The charge for transactions above Rs 25,000 is Rs 5 per Rs 1000, while the minimum charge being Rs 150.

Rs 20 will be charged for every additional cheque book of 20 leaves. The first 25 cheque leaves in a year are free.





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**NACH (National Automated Clearing House)**

NACH is a popular mode of direct benefit transfers. It is operated by the National Payments Corporation of India and caters to millions of beneficiaries and customers. The Reserve Bank of India (RBI) has rolled out a new framework for Domestic Money Transfer (DMT) in July 2024, targeting regulated enterprises. The updated guidelines focus on bolstering Know Your Customer (KYC) record standards and honing in on banking services and payment systems. These fresh directives come into effect as of November 1, 2024.

The aim of the revised regulations is to enhance the security of domestic money transfers and ensure adherence to prevailing financial laws. In light of the increasing prevalence of cashless and digital transactions in India, the intention is to provide a robust and secure structure for money transfers.

The alterations made to the existing framework were the product of a meticulous evaluation of various payment transfer services. As per a communication issued by the Reserve Bank of India to authorised payment system operators, remitting banks are now mandated to obtain and maintain a record containing the name and address of the beneficiary for cash disbursement. Moreover, every transaction initiated by a remitter must undergo validation through an additional factor of authentication (AFA).

The RBI in its July circular said: “The framework for Domestic Money Transfer (DMT) was introduced in 2011, vide RBI circular DPSS.PD.CO.No.622/02.27.019/2011- 2012 dated October 5, 2011. There has been significant increase in the availability of banking outlets, developments in payment systems for funds transfers, and ease in fulfilling KYC requirements etc., since then; and now users have multiple digital options for funds transfer. A review was recently undertaken of various services facilitated in the current framework.”

1. Banks are required to maintain a record of the beneficiary's name and address during cash transfers to promote transparency and accountability in financial transactions.
2. Both Banks and Business Correspondents (BCs) are obligated to verify the remitter's cell phone number and relevant documentation.
3. Remitters will undergo registration process using an authenticated mobile phone number and a self-certified 'Officially Valid Document' (OVD) as per the guidelines set by the Reserve Bank of India (RBI).
4. The new framework mandates remitting banks to keep track of the name and address of beneficiaries for cash pay-out services in order to enhance traceability and accountability in cash-based transactions.
5. These measures have been implemented to strengthen the oversight and accountability in cash transactions.



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6. Additional authentication will be needed for each transaction.
7. Remitting banks and their BCs must follow the Income Tax Act rules on cash deposits.
8. Remitter banks must include the remitter's details in the transaction message on systems like IMPS and NEFT.
9. Cash-based remittance transactions must have a specific identifier in the message.
10. For Cash Pay-out Service, the remitting bank has been asked to obtain and keep a record of the name and address of the beneficiary.

**Impact on customers:**

In order to utilise cash pay-in services, banks and business correspondents are required to register remitters with a verified cell phone number and a self-certified Officially Valid Document (OVD) in line with the Master Direction – Know Your Customer (KYC) Direction 2016.

This measure is implemented to strengthen identity verification procedures and mitigate the risks related to potential fraud incidents.

It is important to note that the updated guidelines do not apply to card-to-card transfers, as they will continue to be governed by the existing regulations specific to such transactions.

**Cash payout services:**

Cash pay-out refers to transferring funds from bank accounts to beneficiaries who do not have a bank account. The process of cash pay-out involves transferring funds from bank accounts to individuals who do not have their own bank accounts. In 2011, the central bank issued a statement allowing banks to offer services that enable clients to transfer funds from their accounts for cash delivery to recipients without bank accounts at an ATM or through a designated agent known as a Business Correspondent. The maximum amount allowed for such transfers was increased from Rs. 5,000 to Rs. 10,000 per transaction, with a monthly cap of Rs. 25,000. "Banks are permitted to provide services which facilitate transfer of funds from the accounts of their customers for delivery in cash to the recipients not having bank accounts at an ATM or through an agent appointed as Business Correspondent. It has been decided to raise the ceiling on the value of such transfers from Rs. 5,000 to Rs. 10,000 per transaction subject to the cap of Rs. 25,000 per month," the RBI had said.

**RBI GUIDELINES ON CURRENT ACCOUNT:**

Under the latest RBI circular on current account, the Reserve Bank of India has also removed restrictions on all Indian financial institutions and accounts opened under specific instructions of the central government and state governments RBI has come up with specific alterations to ease the present account rules for borrowers with bank exposures of less than Rs 5



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crore. This RBI circular on current account 5 crore helps the borrowers immensely. Any lending bank can now open a current account or cash credit or overdraft facilities without any restrictions.

1 Under the Non-lending banks are not permitted to open current accounts.

2 Current Account for Borrowers Availing the Cash credit or Overdraft facility

The instructions for the opening of the current account for customers who have availed of the cash credit or overdraft facility are listed hereunder, as per RBI current account circular: For borrowers, whose exposure to the banking system is less than Rs 5crore As per RBI's revised Guidelines, for borrowers whose exposure to the banking system is less than Rs 5 crore, there's no restriction on opening current accounts. The customer will also not face any curbs on the provision of cash credit or overdraft facilities by banks.

The customer is required to give an undertaking to the bank stating that the bank will be informed about the increase in the total credit facility, as and when the credit facility availed by the customer becomes INR 5 Crore or more.

For borrowers, whose exposure to the banking system is Rs 5 crore or more As per RBI circular on current account, in respect of borrowers where exposure of the banking system is Rs.5 crore or more, such borrower can maintain current accounts with any one of the banks with which it has cash credit or overdraft facility.

Note: The bank should have at least 10 percent of the banking system's exposure to that borrower.

**Current Account for Borrowers not availing of Cash credit or Overdraft Facility**

Borrowers not availing of cash credit or overdraft facility from the banking system will continue to maintain current accounts as per the RBI guidelines for current account issued on August 6, 2020.

**New guidelines:**

1. Banks will not open a current account for the customer who has already availed the credit facilities in the form of Cash Credit (i.e., CC) or Overdraft (i.e., OD).
2. The instruction for the opening of the current account for customers who have not availed the CC or OD facility are listed hereunder-

**a. Instructions for borrowers, where the aggregate amount of credit facility availed is less than INR 5 Crores**

- The customer is required to give an undertaking to the bank stating that the bank will be informed about the increase in the total credit facility, as and when the credit facility availed by the customer becomes INR 5 Crore or more.



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**b. Instructions for borrowers, where the aggregate amount of credit facility availed is more than INR 5 Crores but less than INR 50 Crores-**

- Any lending bank can open the current account without any restrictions.
- A non-lending bank can open only collection account.

**c. Instructions for borrowers, where the aggregate amount of credit facility availed is INR 50 Crores or more-**

- The bank will require a mandatory escrow mechanism.
- In such a case, the current account will be opened by only the escrow managing bank or agent.
- Any other lending banks can open only the collection account. However, the balances in such accounts cannot be used as margin for availing any non-fund based credit facility.
- Non-lending banks shall not open any current account.

**3. Conditions to avail CC or OD facility-**

Percentage of bank's exposure to the borrower	Conditions
Less than 10% of the aggregate banking system exposure	1. The CC or OD facility can be availed, but can be used only for the credits.  2. The debit can be only to remit the funds to the CC or OD account of the borrower with a bank that has 10% or more of the banking system to that borrower.
More than 10% of the aggregate banking system exposure	The CC or OD facility can be availed.

**Other important instructions-**

- 1 Banks are allowed to open the current account of any prospective potential customer. However, such customer shouldn't have availed any CC or OD facility.
- 2 Only if the borrower doesn't have CC or OD account, the day to day expenses can be routed through the current account.
- 3 Banks cannot route draws from the term loans through the current account.



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4. Banks are required to regularly, at least once in a quarter, monitor all the current accounts.

#### **GUIDELINES OF PRIORITY SECTOR LENDING**

Some of the key features of the new PSL guidelines are as follows:

1. The RBI has increased the mandatory PSL target for all scheduled commercial banks from 40% to 40% of adjusted net bank credit (ANBC). ANBC is a broader measure of bank credit. It includes loans, investments, and other advances.
2. The RBI has introduced sub-targets for lending to the weaker sections under the PSL. Under the new guidelines, banks are required to lend at least 15% of their ANBC to the weaker sections.
3. The RBI has introduced differential weightage for lending to certain sectors under the PSL. This means that banks will get more credit for lending to certain sectors. This includes agriculture, micro and small enterprises (MSMEs), and export credit.
4. The RBI has introduced incentives for banks to lend to underserved areas. For example, banks will get more credit for lending to districts with low per capita PSL credit.
5. The RBI has enhanced the monitoring and reporting requirements for PSL. Banks are now required to submit more detailed reports on their PSL lending to the RBI.

#### **E-KYC;**

e-KYC refers to electronic KYC. e-KYC is possible only for those who have Aadhaar numbers. While using e-KYC service, you have to authorise the Unique Identification Authority of India (UIDAI), by explicit consent, to release your identity/address through biometric authentication to the bank branches/business correspondent (BC). The UIDAI then transfers your data comprising name, age, gender, and photograph of the individual, electronically to the bank/BC. Information thus provided through e-KYC process is permitted to be treated as an 'Officially Valid Document' under PML Rules and is a valid process for KYC verification. Accounts opened using OTP based e-KYC, in non-face-to-face mode are subject to the following conditions:

There must be a specific consent from the customer for authentication through OTP.

- The aggregate balance of all the deposit accounts of the customer shall not exceed rupees one lakh. In case, the balance exceeds the threshold, the account shall cease to be operational, till CDD as mentioned at (v) below is complete.
- The aggregate of all credits in a financial year, in all the deposit accounts taken together, shall not exceed rupees two lakh.
- As regards borrowal accounts, only term loans shall be sanctioned. The aggregate amount of term loans sanctioned shall not exceed rupees sixty thousand in a year.



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- Accounts, both deposit and borrowal, opened using OTP based e-KYC shall not be allowed for more than one year within which identification as per Section 16 is to be carried out.
- If the CDD procedure as mentioned above is not completed within a year, in respect of deposit accounts, the same shall be closed immediately. In respect of borrowal accounts no further debits shall be allowed.
- A declaration shall be obtained from the customer to the effect that no other account has been opened nor will be opened using OTP based KYC in non-face-to-face mode with any other RE. Further, while uploading KYC information to CKYCR, REs shall clearly indicate that such accounts are opened using OTP based e-KYC and other REs shall not open accounts based on the KYC information of accounts opened with OTP based e-KYC procedure in non-face-to-face mode.
- REs shall have strict monitoring procedures including systems to generate alerts in case of any non-compliance/violation, to ensure compliance with the above mentioned conditions.

**RETAIL DIRECT SCHEME:**

As part of continuing efforts to increase retail participation in Government Securities, the RBI Retail Direct facility was announced in the Statement of Developmental and Regulatory Policies dated February 05, 2021 for improving ease of access by retail investors through online access to the Government Securities Market – both primary and secondary - along with the facility to open their gilt securities account (Retail Direct) with the RBI.

In pursuance of this announcement, the RBI Retail Direct scheme, which is a one-stop solution to facilitate investment in Government Securities by individual investors has been issued

**Scope:**

RBI Retail Direct is a comprehensive scheme which provides the following facilities to retail investors in Government Securities market through an online portal:

- Open and maintain a Retail Direct Gilt Account (RDG Account)
- Access to primary issuance of Government Securities
- Access to NDS-OM

**Eligibility**

- Retail investors, as defined under the scheme, can register under the Scheme and maintain
- A RDG Account, if they have the following:
- Permanent Account Number (PAN) issued by the Income Tax Department





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- Access to primary issuance of Government Securities
- Any Officially Valid documents (OVD) for KYC purpose
- Valid e-mail ID
- Registered mobile number
- Non-Resident retail investors eligible to invest in Government Securities under Foreign
- Exchange Management Act, 1999 are eligible under the scheme.
- The RDG account can be opened singly or jointly with another retail investor who meets
- The eligibility criteria.

**Procedure:**

**Registration:**

- Investors can register on the online portal by filling up the online form and use the OTP
- Received on the registered mobile number and email id to authenticate and submit the form.
- Instructions issued under RBI-Know Your Customer (KYC) Direction, 2016, updated from time to time, will be adhered to during on boarding the investors. Upon successful registration, Retail Direct Gilt Account will be opened and details for accessing the online portal will be conveyed through SMS/e-mail.
- RDG account shall be available for primary market participation as well as secondary market transactions on NDS-OM.

**Primary Market Participation**

- Participation and allotment of securities will be as per the non-competitive scheme for participation in primary auction of Government Securities and procedural guidelines for SGB issuance.
- Only one bid per security is permitted. On submission of the bid, the total amount payable will be displayed.
- Payment to the aggregator / receiving office can be made through either of the following ways:
  - Using the net-banking / UPI facility from the linked bank account, whereby funds will be debited at the time of submission of bids on the portal.



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- Using the UPI facility, whereby funds in the linked bank account can be blocked at the time of submission of bids on the portal which will be debited from this account on successful allotment in the auction. Similar facility through banks will be made available in due course.
- Refund, if any, will be credited to the investor's bank account as per the timelines specified by the aggregator.
- Allotted securities will be issued to the investors by credit to their RDG Account on the day of settlement.

### **Secondary Market Transaction NDS-OM**

Registered investors can access the secondary market transaction link on the online portal to buy or sell Government Securities through NDS-OM (odd lot segment / RFQ).

#### **Buy**

- Payment can be made through either of the following ways:
  - Before start of trading hours or during the day, the investor should transfer funds to the designated account of CCIL (Clearing Corporation of NDS-OM) using net-banking/UPI from the linked bank account. Based on actual transfer/success message, a funding limit (Buying Limit) will be given for placing 'Buy' orders. At the end of the trading session, any excess funds lying to the credit of the investor will be refunded.
  - Using the UPI facility, whereby funds in the linked bank account can be blocked at the time of placing order which will be debited from this account on the day of settlement. Similar facility through banks will be made available in due course.
- Securities purchased will be credited to the RDG Account on the day of settlement.

#### **Sell:**

- Securities identified for sale will be blocked at the time of placing order till the settlement of the trade.
- Funds from the sale transactions will be credited to the linked bank account on the day of settlement.

### **Non-Trade Transactions - Value Free Transactions (VFT)**

- Transactions permitted under VFT guidelines issued by RBI on November 16, 2018, as amended from time to time, as applicable to retail investors, will be available under the scheme.
- For such purposes, the investors should submit an application on the online portal.



## UNIT-IV

### PRIORITY SECTOR FINANCING AND GOVERNMENT INITIATIVES:

#### **PRIORITY SECTOR LENDING:**

Priority sector lending (PSL) is lending to those sectors of the economy which may not otherwise receive timely and adequate credit. This role is assigned by the RBI to the banks for providing a specified portion of the bank lending to a few specific sectors. This is essentially meant for an all-round development of the economy as opposed to focusing only on the financial sector.

#### **History of PSL**

- The priority sector started gaining popularity in 1972, right after the National Credit
- Council's plea that commercial banks should give more emphasis to the priority sector.
- Initially, in 1974, the commercial banks were given a target of 33.33% of their total credit should be driven towards the priority sector.
- Following the recommendations of Dr K S Krishnaswamy Committee, this target was later revised to 40% of the total credit given by the banking institutions.
- The latest revision in private sector lending targets was made in 2012 by the M V Nair Committee.

#### **COMPONENTS OF PRIORITY SECTORS:**

The Reserve Bank of India (RBI) has classified the following eight categories of priority sectors in India:

1. Agriculture
2. Micro, Small and Medium Enterprises (MSMEs)
3. Export Credit
4. Education
5. Housing
6. Social Infrastructure
7. Renewable Energy
8. Others



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**Agriculture:**

1. Farm Credit to Individual farmers including Self Help Groups (SHGs) or Joint Liability Groups (JLGs) involves groups of individual farmers and Proprietorship firms of farmers, directly engaged in Agriculture and Allied Activities
2. Crop loans include loans for traditional/non-traditional plantations, horticulture and allied activities
3. Medium and long-term loans for agriculture and allied activities such as the purchase of agricultural implements and machinery and developmental loans for allied activities
4. Loans for pre and post-harvest activities viz. spraying, harvesting, grading and transporting their own farm produce
5. Loans to distressed farmers indebted to non-institutional lenders
6. Loans under the Kisan Credit Card Scheme
7. Loans to small and marginal farmers for purchase of land for agricultural purposes
8. Loans against pledge/hypothecation of agricultural produce (including warehouse receipts)
9. for a period not exceeding 12 months
10. Loans to farmers for installation of stand-alone Solar Agriculture Pumps and solarisation of grid-connected Agriculture Pumps

**Agricultural Infrastructure**

- Loans for construction of storage facilities (warehouses, market yards, godowns and silos) including cold storage chains designed to store agricultural produce/products
- Soil conservation and watershed development
- Plant tissue culture and agri-biotechnology, seed production, production of bio-pesticides, bio-fertilizer, and vermicomposting

**Ancillary Activities**

- Loans up to Rs 5 crore to co-operative societies of farmers for disposing of the produce of members
- Loans for setting up of Agriclincs and Agribusiness Centers
- Loans for Food and Agro-processing up to an aggregate sanctioned limit of Rs 100 crore per borrower from the banking system



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- Bank loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi-Purpose Societies (LAMPS) for on-lending to agriculture

#### **Small and Marginal Farmers**

- Farmers with land holdings of up to 1 hectare are considered Marginal Farmers
- Farmers with a landholding of more than 1 hectare and up to 2 hectares are considered Small Farmers
- Landless agricultural labourers, tenant farmers, oral lessees and share-croppers
- Loans to Self Help Groups, where groups of individual Small and Marginal farmers are directly engaged in Agriculture and Allied Activities
- Loans to farmers' producer companies of individual farmers, and co-operatives of farmers directly engaged in Agriculture and Allied Activities

#### **Micro, Small and Medium Enterprises (MSMEs)**

- Micro enterprises are those where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees
- Small enterprises are those where the investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees
- Medium enterprise, where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees

#### **Education**

Loans to individuals for educational purposes, including vocational courses, not exceeding Rs 20 lakh are considered eligible for priority sector classification

#### **Housing**

- Loans to individuals up to Rs 35 lakh in metropolitan centres and up to Rs 25 lakh in other areas for purchase/construction of a dwelling unit per family
- Loans up to Rs 10 lakh in metropolitan centres and up to Rs 6 lakh in other centres for repairs to damaged dwelling units
- Bank loans to any governmental agency for construction of dwelling units or slum clearance and rehabilitation of slum dwellers subject to dwelling units with a carpet area of not more than 60 sq.m



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### **Social infrastructure**

- Loans up to a limit of Rs 5 crore per borrower for setting up schools, drinking water facilities and sanitation facilities
- Loans up to a limit of Rs 10 crore per borrower for building health care facilities including under Ayushman Bharat in Tier-2 to Tier-6 centres

### **Renewable Energy**

Loans up to Rs 30 crore to borrowers for purposes such as solar-based power generators, biomass-based power generators, windmills, micro-hydel plants and more

### **Others**

- Loans not exceeding Rs 1.00 lakh per borrower provided directly by banks to individuals and individual members of SHGs
- Loans not exceeding Rs 2.00 lakh provided directly by banks to SHG for activities other than agriculture or MSME
- Loans to distressed persons not exceeding Rs 1,00,000/- per borrower to prepay their debt to non-institutional lenders
- Loans sanctioned to State Sponsored Organizations for Scheduled Castes/ Scheduled Tribes for the specific purpose of purchase and supply of inputs and/or the marketing of the outputs of the beneficiaries of these organizations

### **RBI Guidelines on Banking Services:**

1. In order to improve the quality of service available to customers in branches, the banks have been advised to ensure that full address / telephone number of the branch is invariably mentioned in the Pass Books / Statement of Accounts issued to account holders.
2. Banks are therefore advised to invariably offer pass book facility to all its savings bank account holders (individuals) and in case the bank offers the facility of sending statement of account and the customer chooses to get statement of account, the banks must issue monthly statement of accounts.
3. Banks are required to make the customer aware of both the options available to him i.e. dropping cheques in the drop-box or tendering them at the counters so that he can take an informed decision in this regard. Banks are therefore advised to invariably display on the cheque drop-box itself that 'Customers can also tender the cheques at the counter and obtain acknowledgment on the pay-in-slips'.
4. Banks are advised to give wide publicity and provide guidance to deposit account holders on the benefits of nomination facility and the survivorship clause.





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5. Banks with core banking solution are advised to provide “payable at par”/ “Multi-city” cheque issuance facility to all the eligible and requesting customers.
6. The banks are required to display and update, on their websites, the details of certain service charges. They are also required to place service charges and fees on the homepage of their websites at a prominent place under the title of ‘Service Charges and Fees’ so as to facilitate easy access to the bank customers.
7. The banks are required to place a complaint form, along with the name of the nodal officer for complaint redressal, in the homepage itself to facilitate complaint submission by customers. The complaint form should also indicate that the first point for redressal of complaints is the bank itself and that complainants may approach the Banking Ombudsman only if the complaint is not resolved at the bank level within a month. Similar information is to be displayed in the boards put up in all the bank branches to indicate the name and address of the Banking Ombudsman. In addition, the name, address and telephone numbers of the controlling authority of the bank to whom complaints can be addressed is to be given prominently.
8. The banks are therefore, advised to ensure that none of their branches/staff refuse to accept lower denomination notes and / or coins and to issue strict instructions to all branches that the staff concerned should in no case refuse to accept small denomination notes and coins tendered at the counters.
9. Detailed guidelines have been issued by RBI on Safe Deposit Locker facility offered by the Banks, including prohibition of linking allotment of lockers to placement of fixed deposits, fixed deposits as security for lockers, wait list of lockers, operations, due diligence, monitoring/break-open of un-operated lockers, access / handing over the contents upon death of the locker-holder, etc.

**GOVERNMENT INITIATIVE:**

**POVERTY ALLEVIATION PROGRAMMES:**

Poverty alleviation initiatives in India

- Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) – The Act provides 100 days of assured employment every year to every rural household.
- National Rural Livelihood Mission: Aajeevika – Self-Help groups are formed at the village level to help the needy.
- National Urban Livelihood Mission – focuses on organizing urban poor in Self Help Groups, creating opportunities for skill development leading to market-based employment



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- Pradhan Mantri Kaushal Vikas Yojana – It will focus on fresh entrants to the labor market, especially the labor market and class X and XII dropouts.
- Pradhan Mantri Jan Dhan Yojana – It aimed at direct benefit transfer of subsidy, pension, insurance, etc., and attained the target of opening 1.5 crore bank accounts. The scheme particularly targets the unbanked poor.

According to the United Nations Global Multidimensional Poverty Index 2018, 271 million people in India moved out of poverty between 2005-06 and 2015-16. Over a ten-year period, the country's poverty rate has virtually halved, falling from 55% to 28%. Still in India, a large portion of the population continues to live below the poverty line. Rapid economic growth and the use of technology for social sector activities have contributed to a major reduction in the country's severe poverty. Despite fast growth and progress, an unacceptable share of our people remains impoverished on several fronts. To alleviate poverty in India, a more comprehensive and inclusive strategy is necessary in collaboration of various stakeholders like Non-profits, corporates, and government agencies.

In this context, poverty alleviation is the overarching goal and at the core of Responset's work to support holistic transformational change which brings impactful improvements in people's lives. Responset is a CSR implementation organization working across all 17 Sustainable Development Goals (SDGs) towards social-economic development in India. We plan, innovate and execute programs that are holistic in nature and cater to the needs of society. Our programs are customized and mapped as per the needs of the targeted geographical location to ensure maximum impact.

Major poverty alleviation programmes in India

1. National Food for Work Programme.
2. Swarnajayanti Gram Swarozgar Yojana (SGSY)
3. Sampoorna Grameen Rozgar Yojana (SGRY)
4. Rural Housing – Indira Awaas Yojana (IAY)
5. Pradhan Mantri Gramodaya Yojana (PMGY)
6. Rural Employment Generation Programme (REGP)
7. Prime Minister's Rozgar Yojana (PMRY)
8. Pradhan Mantri Gram Sadak Yojana (PMGSY)

**National Food for Work Programme (NFWP):**

The National Food for Work Programme (NFWP), 2004 was launched by the Ministry of Rural Development, central government on 14 November 2004 in 150 of the most backward



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districts of India to generate supplementary wage employment. The programme is open to all Indian poor who are ready to do manual unskilled labour work sponsored scheme. Food grains are provided to the States free of cost. The transportation cost, handling charges, and taxes on food grains will, however, be the responsibility of the States. It has always been better to supply food grains free of cost instead of distributing money among them. The eligibility criteria were relaxed to provide for both Below Poverty Line (BPL) and Above Poverty Line (APL) families.[1] This is one of a number of schemes built on the food for work concept.[2][3][4]

The collector is the primary or nodal officer at the district level and has overall responsibility for planning, implementation, coordination, good monitoring and supervision. From 2004-2005, ₹2,020 crore (US\$240 million) have been allocated for the programme in addition to 18 million tonnes of food grains.

Meal is provided at work places and also the wages are paid on daily bases.

The programme has since been subsumed in National Rural Employment Guarantee Act (NREGA) of 2005 which has come in force in 200 identified districts of the country including 150 NFFWP districts. MGNREGA is now the chief right based employment guarantee scheme.

**SWARNAJAYANTI GRAM SWAROZGAR YOJANA (SGSY):**

This programme was launched in April, 1999. This is a holistic programme covering all aspects of self-employment such as organisation of the poor into self-help groups, training, credit, technology, infrastructure and marketing.

**Objective:**

The objective of SGSY is to provide sustainable income to the rural poor. The programme aims at establishing a large number of micro-enterprises in the rural areas, based upon the potential of the rural poor. It is envisaged that every family assisted under SGSY will be brought above the poverty line with in a period of three years.

**Scope:**

This programme covers families below poverty line in rural areas of the country. Within this target group, special safeguards have been provided by reserving 50% of benefits for SCs/STs, 40% for women and 3% for physically handicapped persons. Subject to the availability of the funds, it is proposed to cover 30% of the rural poor in each block in the next 5 years. Funding:

SGSY is a centrally sponsored scheme and the Central and State Governments share funding in the ratio of 75:25 respectively.

**Strategy:**

SGSY is a Credit-cum-Subsidy programme. It covers all aspects of self-employment, such as organisation of the poor into self-help groups, training, credit technology, infrastructure and



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marketing. Efforts would be made to involve women members in each self-help group. SGSY lays emphasis on activity clusters. Four-five activities will be identified for each block with the approval of Panchayat Samities. The Gram sabha will authenticate the list of families below the poverty line identified in BPL census. Identification of individual families suitable for each key activity will be made through a participatory process. Closer attention will be paid on skill development of the beneficiaries, known as swarozgaris, and their technology and marketing needs.

**How to Seek Assistance:**

For assistance under the programme, District Rural Development Agencies and Block Development Officers may be contacted.

**Sampoorna Grameen Rozgar Yojana**

The Sampoorna Grameen Rozgar Yojana (English: Universal Rural Employment Programme) was a scheme launched by the Government of India to gain the objective of providing gainful employment for the rural poor.[1]:1 From 21 February 2003, EAS became an allocation-based scheme.[1]:3 The programme was implemented through the Panchayati Raj institutions.

The Sampoorna Grameen Rozgar Yojana was launched on 25 September 2001 by merging the provisions of Employment Assurance Scheme (EAS) and Jawahar Gram Samridhi Yojana (JGSY). The programme is self-targeting in nature and aims to provide employment and food to people in rural areas who lived below the poverty line.

**History:**

Sampoorna Grameen Rozgar Yojana is a combination of the provisions under Employment Assurance Scheme (EAS) and Jawahar Gram Samridhi Yojana (JGSY).[2]: 709

The Food for Work Programme was restructured and renamed as National Rural Employment Programme in October 1980 by the then Prime Minister Indira Gandhi and it became a regular Programme from April 1981. The Programme was launched during the Sixth Five Year Plan. It aims the implementation of additional employment to under employed persons. Central-state contribution was on the basis of 50:50 ratio. In 1989 NREP was merged with Jawahar Rozgar Yojana.[3]

Jawahar Rozgar Yojana (JRY) was launched on April 1, 1989 by merging National Rural Employment Programme and Rural Landless Employment Guarantee Programme by Prime Minister Rajiv Gandhi. The urban version of this program was Nehru Rozgar Yojana.

This was a consolidation of the previous employment programs and it was largest National Employment Program of India at that time with a general objective of providing 90-100 Days Employment per person particularly in backward districts. People below Poverty Line were main targets. The Yojna was implemented on rural scale. Every village was to be covered through



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Panchayati Raj Institutions. The village got aid and support from District Rural Development Authority. Expenditures were borne by central & state in 80:20 ratios.

Since 1993-94 the Yojna was made more targets oriented and expanded substantially through increased budgetary allocations. It was divided into 3 streams.

**First Stream:** Comprising general works under JRY and also two sub schemes Indira Awas Yojana and Million Wells Scheme. This stream got 75% of the total allocation. In New Delhi Awas Yojna the allocation was increased from 6% to 10% and in Million Wells Scheme from 20% to 30% during that period.

**Second Stream:** This was also called intensified JRY and was implemented in selected 120 backward districts. It got 20% allocation.

**Third Stream:** This was left with 5% allocation for Innovative programs which included Prevention of labor migration, drought proofing watershed etc. programs.

Since April 1, 1999 this Yojna was replaced by Jawahar Gram samridhi Yojna. Later from September 25, 2001, Jawahar Gram Samridhi Yojna was merged with Sampoorna Grameen Rozgar Yojana.

### **Implementation**

The programme is implemented by the District Panchayats, Intermediate Panchayats and Gram Panchayats. The resources are allocated in the 20–30–50 ratio.

The Gram Panchayats commence their work based on the approval of the Gram Sabha. 50 percent of the funds for the Gram Panchayats are used for the development of infrastructure in SC/ST dominated areas. 22.5 percent of the funds allocated to District and Intermediate Panchayats are also used for the development of individuals belonging to SC/ST communities.

The employment of contractors or middlemen are not permitted under this scheme. However, this scheme was subsumed in NREGP which has been initiated since 2 February 2006.

### **RURAL HOUSING - INDIRA AWAAS YOJANA (IAY) IAY**

INDIRA AWAAS YOJANA (IAY) IAY is the flagship rural housing scheme, which is being implemented by the Government of India with an aim of providing shelter to the poor below poverty line. The Government of India has decided that allocation of funds under IAY (Indira Awas Yojna) will be on the basis of poverty ratio and housing shortage.

### **Objective:**

The objective of IAY is primarily to help construction of new dwelling units as well as conversion of unserviceable kutcha houses into pucca/semi-pucca by members of SC/STs freed



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bonded labourers and also non-SC/ST rural poor below the poverty line by extending them grants in aid.

**Scope:**

IAY is a beneficiary-oriented programme aimed at providing houses for SC/ST households who are victims of atrocities, households headed by widows/unmarried women and SC/ST households who are below the poverty line. This scheme has been in effect from 1st April 1999.

**Funding:**

IAY is a centrally sponsored scheme funded on cost sharing basis between the Govt. of India and the States in the ratio of 75:25 respectively. Strategy: Grant of Rs. 25,000/- per unit is provided in the plain areas and Rs. 27,500/- in hilly/difficult areas for the construction of a house. For conversion of a kutch house into a pucca house, Rs. 12,500/- is provided. Sanitary latrines and chulahs are integral part of the house. In construction/upgradation of the house, cost effective and environment friendly technologies, materials and designs are encouraged. The household is allotted in the name of a female member of beneficiary household.

**How to Seek Assistance:**

The person concerned should contact the Village Panchayat or Village Level Worker or the Block Development Officer or District Rural Development Agency. The documents required for availing of assistance are as under:

- Application Form.
- Form I & XIV/NOC of land owner.
- Gram Sabha Resolution.
- Ration Card Copy.

Likewise, under IAY upgradation, the documents required are as follows:

- Application Form.
- House Tax Receipt.
- Gram Sabha Resolution.
- Ration Card Copy

**Pradhan Mantri Gramodaya Yojana**

Pradhan Mantri Gramodaya Yojana is often referred to as Gramodaya Yojana. It is a flagship program designed to empower rural India. It bridges the development gap between urban and rural areas. It encompasses initiatives that aim to improve the quality of life for





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individuals residing in rural regions. Through targeted interventions, PMGY aims to create sustainable and inclusive growth. It ensures that the benefits of development reach every corner of the country.

### **Objectives of Pradhan Mantri Gramodaya Yojana**

The following are some of the major objectives of the Pradhan Mantri Gramodaya Yojana:

- To generate livelihood and employment opportunities in rural areas.
- To provide basic amenities like housing, sanitation, electricity, and road connectivity.
- To create community, social, and farm assets in villages.
- To enhance the productivity and income of rural people, especially small and marginal farmers.
- To ensure convergence of various rural development programmes for optimal impact.

### **Components of Pradhan Mantri Gramodaya Yojana**

The scheme focuses on four key areas for rural development - infrastructure, livelihoods, health/education, and agriculture. Here are the key components of Pradhan Mantri Gramodaya Yojana:

- The scheme focuses on building good rural infrastructure. This includes roads, bridges, schools, hospitals, electricity, and irrigation facilities. This improves connectivity, access, and quality of life in villages.
- The scheme aims to reduce poverty and create jobs in rural India. It promotes skills training, self-help groups, and entrepreneurship to raise incomes and living standards.
- The scheme focuses on improving healthcare facilities and education in villages. It wants to strengthen primary health centers and make quality education accessible to all rural children. This will improve people's well-being.
- The scheme targets enhancing agricultural productivity and promoting sustainable farming. It provides farmers access to credit, technology, and markets. This aims to raise farmers' incomes, reduce farm distress and improve food security.

### **Implementation Strategies of Pradhan Mantri Gramodaya Yojana**

The implementation strategies of Pradhan Mantri Gramodaya Yojana include the following:

#### **Converging different schemes for better resource use and coordination**

The government combines different schemes related to rural development. This convergence of schemes helps utilize resources better. It helps coordinate efforts to maximize impact.



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**Involving local communities in tailoring solutions to specific village needs**

The scheme involves local communities, villages, and other stakeholders in planning and executing development projects. This participatory approach tailors solutions to specific village needs and ensures ownership.

**Closely monitoring and evaluating progress to identify gaps and correct the implementation accordingly**

The government closely monitors and evaluates the progress and impact of the initiatives. This allows them to identify gaps and policy changes. It helps correct the implementation to achieve desired outcomes.

**Impact of Pradhan Mantri Gramodaya Yojana**

Since its inception, the scheme has made significant strides in transforming rural India. Some notable impacts of the scheme include:

- The scheme has improved rural infrastructure by constructing roads, bridges, schools, and hospitals. This has reduced villages' isolation by improving connectivity and access.
- The scheme has helped reduce poverty. It has provided livelihood opportunities through jobs and self-employment. This has increased people's skills and empowered them.
- The scheme has strengthened primary healthcare. It has increased people's access to hospitals in rural areas. This has improved health outcomes.
- The scheme has enhanced the availability of quality education in villages. This has led to more children enrolling in schools and higher literacy rates.
- The scheme's focus on agriculture has increased farm productivity. It has improved farming techniques and given farmers better market access. This has raised farmers' incomes and reduced agrarian distress.

**Rural Employment Generation Programme (REGP):**

Rural Employment Generation Programme (REGP) is no more functional, as the Prime Minister's Employment Generation Programme (PMEGP) has been announced on 15th August, 2008 and launched as a replacement of REGP.

**Governmental Rural Employment Generation Programmes**

In order to address this deficit, various rural employment generation programs have been set up by the government in order to create jobs, develop financial security for rural workers, and offer financial assistance to rural entrepreneurs. Some of the important rural employment generation programs are:



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**National Rural Employment Programme (NREP, 1980)**

The National Rural Employment Programme was launched in 1980 as an anti-poverty and anti-unemployment program. The aim was to develop key assets, such as fisheries, fuel and energy plantations, and fodder and pasture development plantations by mobilizing unemployed and under-employed labourers. It was also hoped that the project would succeed in the development of homestead projects for the homeless alongside essential economic infrastructures, such as godowns, banks, and workshops for the beneficiaries.

**Rural Landless Employment Guarantee (RLEG, 1983)**

The Rural Landless Employment Guarantee was a program funded by the central government for the landless with guaranteed employment for at least 100 days. While 25% of the funds were allocated for social forestry and 20% for housing, 10% for also earmarked for the benefit of only SC/ST communities.

**Jawahar Rozgar Yojana (JRY, 1989)**

The Jawahar Rozgar Yojana scheme was launched on the 1st of April, 1989 by a consolidation of the NREP and RLEGP. While the general aims were the same, the primary demographic target were people below the poverty line.

**Employment Assurance Scheme (EAS, 1993)**

The Employment Assurance Scheme was launched on the 2nd of October, 1993 specifically to address unemployment and underemployment during lean agricultural seasons where able-bodied adults in rural areas could not find enough work. It was also hoped that through this scheme, community, social and economic assets would be created for further sustained employment and development.

**Jawahar Gram Samridhi Yojana (JGSY, 1999)**

The Jawahar Gram Samridhi Yojana was launched on the 1st of April, 1999 specifically to create demand-driven village infrastructure. It was hoped that this scheme would create new employment opportunities for the under-employed and unemployed poor living in rural areas. Special preference would be given to the SC/ST families living below the poverty line and for physically handicapped persons.

**Swarna Jyanti Gram Swarojgar Yojana (SJGSY, 1999)**

The Swarnajyanti Gram Swarojgar Yojana was launched on the 1st of April, 1989 with its primary aim towards the creation of self-employment opportunities for the rural poor. This scheme envisioned the upliftment of the low-income families (referred to as the swarojgaris) into self-help groups through mobilization, capacity building and provision of income generating assets.



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**Sampoorna Gramin Rozgar Yojana (SGRY, 2001)**

The Sampoorna Gramin Rozgar Yojana was launched on the 25th of September, 2001 aimed towards providing gainful employment for the rural poor. One of the other primary aims of the scheme was also to provide employment and food for people who lived below the poverty line and had special provisions for women, scheduled castes, scheduled tribes and persons employed in hazardous occupations. Additionally, the employment of contractors and middlemen was not permitted under this scheme.

**National Food for Work Programme (NFWP, 2004)**

The National Food for Work Programme was launched on the 14th of November, 2004 specifically for the 150 most backward districts of India in order to create supplementary wage employment for manual unskilled labour in need of wage employment. The NFWP was subsequently subsumed under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA).

**National Rural Employment Guarantee Scheme (NREGS, 2006)**

The National Rural Employment Guarantee Scheme, later renamed as Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) aimed to provide 100 days of guaranteed wage employment in every financial year in every household whose household members agreed to do unskilled manual work. Like the NREP and the SJGSY, the NREGS aimed to rope in rural infrastructure development through the employment of manual workers in irrigation canal projects, roads and flood control and drought-proofing infrastructure projects.

**Prime Minister Employment Generation Programmes (PMEGP, 2008)**

The Prime Minister Employment Generation Programme (PMEGP) is aimed towards creating jobs in rural, as well as urban areas through various self-employment enterprises. It is a conflation of the PMRY (Prime Minister's Rozgar Yojana) and REGP (Rural Employment Generation Programme). It is hoped that this project will create sustained employment opportunities for a large segment of traditional and emerging artisans and other small entrepreneurs through the setting up of micro enterprises.

**Rural Self Employment Training Institutes (RSETI's)**

The Rural Self Employment Training Institutes were set up with the aim of providing gainful employment for rural youth below the poverty line. The RSETI is based on RUDSETI (Rural Development and Self Employment Training Institute) jointly established in 1982 by the SBI, Syndicate Bank, Canara Bank and Sri Manjunatheswara Trust.



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**Prime Minister's Shram Awards's Scheme (PMSAS, 1975)**

The Prime Minister's Shram Awards Scheme was instituted in 1975 for the recognition and felicitation of workers in both public and private sectors for their outstanding contributions towards productivity and innovation. It takes its working definition of workmen from the Industrial Dispute Act of 1947 and gives special recognition to women and handicapped for their innovative and valorous contributions.

**Non-Governmental Rural Employment Generation Programmes**

Alongside various rural employment generation programmes instituted by the government, there are presently various NBFCs and microfinancing institutions industries like Satin Creditcare Network, Inditrade Capital and Instamojo that are providing financial assistance to a wide variety entrepreneurs in weaving, catering and other small enterprises.

As rural employment makes a gradual shift from village-based agricultural economy to an industry-based village economy, governmental and non-governmental rural employment generation programmes have the important task of designing creative schemes for agricultural and non-agricultural rural businesses that will provide employment to millions of able-bodied adults.

**Prime Minister's Rozgar Yojana (PMRY):**

Prime Minister's Rozgar Yojana (PMRY) for providing self-employment to educated unemployed youth has been in operation since October 2, 1993. The Scheme aimed at assisting the eligible youth in setting up self-employment ventures in industry, service and business sectors. The scheme has been modified to enhance its coverage and scope. The modified parameters are as under.

**1. Age**

- (i) 18 to 35 years for all educated unemployed.
- (ii) 18 to 40 years for all educated unemployed in North-East states, Himachal Pradesh, Uttaranchal and J&K.
- (iii) 18 to 45 years for Scheduled Castes/ Scheduled tribes. Ex-servicemen, Physically Disabled and women.

**2. Educational Qualification:**

(8th pass). Preference will be given to those who have been trained for any trade in Government recognized/approved institutions for duration of at least six months.



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### **3. Family Income**

The income beneficiary along with the spouse or the income of parents of the beneficiaries shall not exceed Rs. 40,000- per annum.

### **4. Residence:**

Permanent resident of the area for at least 3 years. (Relaxed for married men in Meghalaya and for married women in rest of the country).

### **5. Defaulter:**

Should not be a defaulter to any bank/ financial institution/Co-operative bank. Further, a person already assisted under other subsidy linked Government schemes would not be eligible under this scheme.

### **6. Activities Covered:**

All economically viable activities including agriculture and allied activities but excluding direct agricultural operations like raising crop, purchase of manure etc. An illustrative list and activities is available at DICs. C:2/D.I./PMRY (English).doc

### **7. Project Cost:**

Rs. 1.00 lakh for business sector. Rs. 2.00 lakhs for other activities, loan to be of composite nature. If two or more eligible persons join together in a partnership, project upto Rs. 10.00 lakhs are covered. Assistance shall be limited to individual admissibility.

### **Self Help Groups can be considered for Assistance under the Scheme provided:**

- All the members of the Self Help Group individually satisfy the eligibility criteria laid down under the scheme.
- Membership of the group would not exceed 10 numbers.
- Maximum loan limit for a Self Help Group is Rs. 10.00 lakhs . Assistance will be limited to individual eligibility under the Scheme.

### **8. Subsidy and Margin Money:**

(i) Subsidy will be limited to 15% of the MARGIN MONEY project cost subject to ceiling of Rs. 7,500/- per entrepreneur. Banks will be allowed to take margin money from the entrepreneur varying from 5% to 16.25% of the project cost so as to make the total of the subsidy and the margin money equal to 20% of the project cost. For North-Eastern States, Himachal Pradesh, Uttaranchal and J&K.

(ii) Subsidy @ of 15% of the project cost subject to a ceiling of Rs. 15,000/- per entrepreneur for North-Eastern States, Himachal Pradesh, Uttaranchal and J&K. Margin money





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contribution from the entrepreneur may vary from 5% to 12.5% of the project cost so as to make the total of the subsidy and the margin money equal to 20% of the project cost.

**9. Collateral:**

No collateral for units in industry sector with project cost up to Rs. 2.00 lakhs (the loan ceiling under the PMRY). For partnership projects under Industry sector, the exemption limit for obtaining of collateral security will be Rs. 5.00 lakhs per borrower account. For units in service and business sector no collateral for project up to Rs. 1.00 lakhs. Exemption from collateral in case of partnership project will also be limited to an account of Rs. 1.00 lakh per person participating in the project.

**10. Rate of Interest and Repayment:**

Normal rate of interest shall be charged. Repayment schedule may range between 3 to 7 years after an initial moratorium as may be prescribed. C:2/D.I./PMRY(English).doc

**11. Reservation:**

Preference should be given to weaker sections including women. The scheme envisages 22.5% reservation for SC/St and 27% for Other Backward Class (OBCs). In case SC/ST/OBC candidates are not available, States/UTs Govt. will be competent to consider other categories of candidates under PMRY.

**12. Training:**

Each entrepreneur whose loan is sanctioned is provided training as per details given below:

- (i) For Industry sector: Duration 15 working days. Stipend: Rs. 300/-. Training Expenditure: Rs. 700/- per beneficiary
- (ii) For Service & business Sector: Duration 10 working days. Stipend: Rs. 150/-. Training Expenditure: Rs. 350/- per beneficiary

**13. Implementing Agency:**

The District Industry Centers and the Directorate of Industries are mainly responsible for Implementation of the Scheme along with the banks. District Level Task force: Senior official of the rank of Joint Director of District Industries Centre is the Chairman of Task Force Committee and the other members of the committee are as under. Lead Bank, representatives from two leading banks, District Employment Officer, Small Industries Service Institute and representatives from Zila Panchayat, Deputy Director, District Industries Centre is the Ex-officio Secretary. One or more members from NGOs to be selected/nominated as members by the Chairman. The implementation of action plan involves selection of candidates, identification of economic activities, identification of necessary infrastructure, follow-up service and liaisoning with banks, local agencies, industry, business and service related organizations.



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The Task Force Committee is responsible for;

- i) Motivating and selection of candidates
- ii) Identifying industry, service and business activities and prepare action plan
- iii) Selecting subsidiary activities
- iv) Recommending loans
- v) Obtaining necessary permissions from related authorities quickly

The above information is corrected as on 01.04.2004. The trainer shall provide the latest information about the Scheme by procuring it from the nearest DIC or by referring to the prevailing Government Gazette notifications.

### **POVERTY ALLEVIATION AND RURAL DEVELOPMENT**

Poverty is a condition where people lack adequate economic resources to fulfill their day-to-day basic requirements. According to the World Bank, 'Poverty is pronounced deprivation in well-being and comprises many dimensions. It includes low incomes and the inability to acquire the basic goods and services necessary for survival with dignity. Poverty also encompasses low levels of health and education, poor access to clean water and sanitation, inadequate physical security, lack of voice, and insufficient capacity and opportunity to better one's life.'

**Poverty is classified into two types:-**

#### **Absolute Poverty:**

A state in which household income falls below the amount required to sustain basic living standards (food, shelter, housing). This condition allows for comparisons across nations as well. The "dollar a day" poverty level, originally proposed in 1990, defined absolute poverty by the criteria of the world's poorest countries. The World Bank reset it to \$1.90 per day in October 2015.

#### **Relative Poverty:**

It is described from a social standpoint as a living standard in comparison to the economic standards of the surrounding population. As a result, it is a measure of income disparity. Typically, relative poverty is defined as the percentage of the population earning less than a certain percentage of median income.

### **Causes of poverty in India**

#### **Population Explosion:**



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India's population has gradually expanded over time. It has increased at a pace of 2.2% per year during the last 45 years, which implies that around 17 million people are added to the country's population each year. This greatly boosts the demand for consumer products.

**Low Agricultural Productivity:**

The agricultural sector's low productivity is a key source of poverty. The causes for low productivity in the sector are numerous. It's primarily due to fragmented land holdings, lack of capital infusion, ignorance about modern agricultural technology, use of conventional farming practices, losses incurred due to inadequate storage, and so on. There is underemployment and disguised unemployment, notably in the agricultural sector. As a result, agricultural productivity has been poor, living standards have fallen and there has been underutilization of resources.

**Price Rise:**

Price rise has been steady in the country and this has added to the burden the poor carry. Although a few people have benefited from this, the lower income groups have suffered because of it, and are not even able to satisfy their basic minimum wants.

**Unemployment:**

Another element contributing to poverty in India is unemployment. The ever-increasing population has resulted in an increase in the number of job searchers. However, the growth of prospects is insufficient to meet the demand for work.

**Lack of Capital and Entrepreneurship:**

A lack of capital and entrepreneurship leads to a low level of economic investment and employment creation.

**Social Barriers:** In addition to economic constraints, there are social factors impeding poverty elimination in India. Some of the obstacles in this respect are inheritance laws, the caste system, etc.

**Colonial exploitation:**

For over two centuries, the British occupation and dominance over India de-industrialized the country by destroying its indigenous handicrafts and textile industries. Colonial policies reduced India to the status of a raw-material producer for European enterprises.

**Climate Change:**

The majority of India's impoverished live in the states of Bihar, Uttar Pradesh, MP, Chhattisgarh, Odisha, and Jharkhand, among others. Natural catastrophes such as floods, disasters, earthquakes, and cyclones inflict significant harm to agriculture in these states. Unchecked, climate change will push up to 130 million people into poverty over the next 10



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years—unraveling hard-won development gains—and could cause over 200 million people to migrate within their own countries by 2050.

**POVERTY ALLEVIATION EMPLOYMENT PROGRAMMES:**

- Mahatma Gandhi National Rural Employment Guarantee Act
- Indira Awaas Yojana (IAY)
- Pradhan Mantri Gram Sadak Yojana (PMGSY)
- Antyodaya Anna Yojana (AAY)
- Integrated Child Development Services (ICDS) Scheme
- Jawahar Rozgar Yojana (JRY)
- Sampoorna Grameen Rozgar Yojana (SGRY)
- Employment Assurance Scheme (EAS)

**1. Integrated Rural Development Programme (IRDP)**

IRDP is one of the driving schemes of poverty alleviation programmes that has bestowed a lot in ridding the evil of deprivation to some extent. Introduced in 1978-79, the major objective of the scheme stands as providing self-employment to the target audience that exists below the poverty line. This target group includes agricultural labourers, small and marginal farmers and rural artisans. In addition, inclusions are compelled where 50% is allotted to the scheduled castes and tribes.

**2. Jawahar Gram Samridhi Yojana**

The above scheme is the reformation of the Jawahar Rozgar Yojana. Currently, this programme is known by the name of Sampoorna Grameen Rozgar Yojana. Under this, the matter-of-fact is generating demand-driven communities in the rural areas with the rationale of employing the people. Employment is provided to those living below the poverty line defined by the government. Furthermore, 3% has been allocated to providing barrier-free infrastructure to those people who are disabled.

**3. Pradhan Mantri Grameen Awaas Yojana**

Launched in the year 2015, the above programme is one of the most flourishing schemes under the poverty alleviation programmes initiated by the government. The main aim is to provide free houses for the people living in the rural areas that are considered BPL. Here, the advancement is made through the subsidy process, involvement of the private sector and reasonable housing to the people at subsidized rates.



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#### **4. National Social Assistance Programme (NSAP)**

The programme was launched in the year 1995, with its main objective of giving social security to the neglected categories of the society i.e., widows, disabled persons, aged persons belonging to the BPL section of the society. There are three schemes under this particular programme:

##### **National Old Age Pension Scheme**

This provides pensions to the people who are contemplated as destitute. The main purpose of this scheme is to bestow social security to the eligible beneficiaries. In this, the beneficiaries don't have to contribute at the first phase to receive this pension under the National Old Age Pension Scheme.

##### **National Maternity Benefit Scheme**

The government provides funds under this scheme to the women for their prenatal and postnatal sustenance. This financial grant is given to those women belonging to families that aren't well financially. The person gets cash-based aid directly from the government.

##### **National Family Benefit Scheme**

The funds are provided to those families whose main wage earner dies due to any reason. Under this, a sum of 10,000 is provided to the household.

#### **5. Annapurna:**

The scheme had its initial enactment in 1999-2000 where its main aim has always been to provide a nutritional diet to the senior citizens who are unable to do that for themselves. This scheme under the poverty alleviation programme provides 10 kg of free nutritional diet every month for the aged citizens of the above classification.

##### **Employment programmes of poverty alleviation in India**

The unemployment issue in India is considered as one of the major causes of poverty in India. The poverty rate of a country can be reduced with high economic growth and by reducing the unemployment problem. Various poverty alleviation programmes are set up under the Government of India that aims to eradicate poverty by providing employment on-demand and through specific guaranteed wage employment every year to households living below the poverty line.

The generation of employment is important in poverty alleviation because of the following reasons:



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- It will increase the income level of poor household families and will help in reducing the rate of poverty in the country. Hence, there is a significant relationship between unemployment and poverty.
- It will decrease the rural-urban migration through the generation of employment programs in rural areas.
- An increase in the income level through the generation of employment programs will help the poor in accessing basic facilities including education, health facilities, and sanitation.

### **Production Oriented Scheme**

#### **Objectives:**

As training of ITI is more practical oriented, during the training period, it is necessary to increase the self-confidence of the trainees and to make them competent to handle the various machines individually and to do the job correctly and accurately within the given limits and within the time limits as manufactured by Industries. Hence it is necessary to do more and more Jobs as done in factories.

Considering above factors and in order to strengthen and update the skills of the trainee and thereby increasing the revenue of Government, the scheme named PRODUCTION ORIENTED SCHEME. It was launched in the State during 1981, & there after necessary amendments are done in the existing G.R.

1. To enhance the skill and practice given to the trainees to make them competent for wage and self-employment.
2. To compensate the expenditure on raw material required for the ITI Training.
3. To provide on the Job training to the trainees and instructors/ staff and develop Self-confidence and interest in work.
4. By making optimum utilization of available Machinery, Equipment and Manpower of the institute for generating revenue to the institute and from this revenue procures modern machinery for the institute and implement other Developmental projects.
5. By implementing this scheme establish good relation with the industry in the vicinity, industrial organization, Government and Semi- Government organization and benefits to be made available for the trainees.
6. As the result of decision taken by Government of Maharashtra to establish 1 Industrial Training Institute at each Taluka Level, the courses started were based on advanced technology. To strengthen & implement this scheme successfully, Government of Maharashtra has issued Government Resolution No. ITI-1000/(302)/Voc-1, Dt. 01/02/2002.





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**Production Oriented Scheme is compulsory for all Industrial Training Institutes.**

**Government Initiatives to Production oriented programmes:**

Government of India has undertaken several schemes/initiatives to promote manufacturing sector. The annual growth rate of Manufacturing Sector as per Index of Industrial production (IIP), with base year 2011-12, for last three years, is as under:

Annual Sectoral Growth rate (in %) from 2019-20 to 2021-22

Sector	2019-20	2020-21	2021-22
Manufacturing	-1.4	-9.6	11.8

Source: National Statistical Office.

The growth of manufacturing sector was adversely affected due to COVID-19 pandemic, which has shown positive growth in double digits in the Financial Year 2021-2022.

**Schemes undertaken by DPIIT to promote manufacturing sector**

Government of India has undertaken various steps to promote manufacturing sector and to boost domestic and foreign investments in India. These include introduction of Goods and Services Tax, reduction in Corporate tax, interventions to improve ease of doing business, FDI policy reforms, measures for reduction in compliance burden, policy measures to boost domestic manufacturing through public procurement orders, Phased Manufacturing Programme (PMP), to name a few.

The series of measures taken by the Government to improve the economic situation and convert the disruption caused by COVID 19 into an opportunity for growth includes Atmanirbhar packages, introduction of Production Linked Incentive (PLI) Scheme in various Ministries, investment opportunities under National Infrastructure Pipeline (NIP) and National Monetisation Pipeline (NMP), India Industrial Land Bank (IILB), Industrial Park Rating System (IPRS), soft launch of the National Single Window System (NSWS), etc. An institutional mechanism to fast-track investments has been put in place, in the form of Project Development Cells (PDCs) in all concerned Ministries/ Departments of Government of India.

Keeping in view India's vision of becoming 'Atmanirbhar' and to enhance India's Manufacturing capabilities and Exports, an outlay of INR 1.97 lakh crore (over US\$ 26 billion) has been announced in Union Budget 2021-22 for PLI schemes for 14 key sectors of manufacturing, starting from fiscal year (FY) 2021-22. With the announcement of PLI Schemes, significant creation



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of production, skills, employment, economic growth and exports is expected over the next five years and more.

The reforms taken by Government have resulted in increased Foreign Direct Investment (FDI) inflows in the country. FDI inflows in India stood at US \$ 45.15 billion in 2014-2015 and have continuously increased since then, and India registered its highest ever annual FDI inflow of US\$ 84.84 billion (provisional figures) in the financial year 2021-22.

As per Economic Survey 2021-22, inspite of Covid related disruptions there is trend of positive overall growth of Gross Value Addition (GVA) in manufacturing sector. The total employment in this sector has increased from 57 million in the year 2017-18 to 62.4 million in the year 2019-20.

**Details of some of the major initiatives /schemes are as follows:**

**1. Make in India initiative:**

‘Make in India’ is an initiative which was launched on 25th September 2014 to facilitate investment, foster innovation, build best in class infrastructure and make India a hub for manufacturing, design and innovation. It was one of the unique single, vocal for local initiative that promoted India’s manufacturing domain to the world. ‘Make in India’ initiative is not the state/district/city/area specific initiative, rather it is being implemented all over the country.

**2. Industrial Corridor Development Programme:**

In order to accelerate growth in manufacturing, Government of India (GoI) has adopted the strategy of developing Industrial Corridors in partnership with State Governments. The objective of this programme is to develop Greenfield Industrial regions/areas/nodes with sustainable infrastructure & make available Plug and Play Infrastructure at the plot level. As part of National Industrial Corridor Program, 11 Industrial Corridors are being developed in 4 phases.

**3. Ease of Doing Business:**

The objective is to improve Ease of Doing Business and Ease of Living by Simplifying, Rationalizing, Digitizing and Decriminalizing Government to Business and Citizen Interfaces across Ministries/States/UTs. The key focus areas of the initiative are simplification of procedures, rationalization of legal provisions, digitization of government processes, and decriminalization of minor, technical or procedural defaults.

**4. National Single Window System:**

The setting up of National Single Window System (NSWS) was announced in the Budget 2020-21 with the objective to provide “end to end” facilitation and support to investors, including pre-investment advisory, provide information related to land banks and facilitate clearances at Centre and State level. Envisioned as a one-stop shop for investor related approvals and services



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in the country, the National Single Window System (NSWS) was soft-launched on 22nd September, 2021 by Hon'ble Commerce & Industry Minister. Large number of States/UTs Single Window Systems have been linked with the NSWS Portal thereby providing access to approvals of these States/UTs to be applied through NSWS.

#### **5. PM Gati Shakti National Master Plan (NMP):**

PM Gati Shakti National Master Plan (NMP), a GIS based platform with portals of various Ministries/Departments of Government, was launched in October, 2021. It is a transformative approach to facilitate data-based decisions related to integrated planning of multimodal infrastructure, thereby reducing logistics cost. Empowered Group of Secretaries (EGoS) and Network Planning Group (NPG) have been created as institutional arrangement. About 2000 data layers of various Central Ministries/Departments/State Governments have so far been uploaded on the NMP.

For enhanced capital expenditure by states for infrastructure development, the Ministry of Finance, Department of Expenditure through the "Scheme for Special Assistance to States for Capital Investment for 2022-23" on 6th April 2022 has made a additional provision of Rs. 1,00,000 crore for disbursement among the states as long term loans at a zero interest rate. Out of this, under Part II of the scheme Rs 5,000 crore are specifically provided for PM GatiShakti related expenditure.

#### **6. National Logistics Policy:**

National Logistics Policy (NLP) was launched on 17th September 2022, that aims to lower the cost of logistics and lead it to par with other developed countries. It is a comprehensive effort to address cost inefficiency by laying down an overarching interdisciplinary, cross-sectoral, and multi-jurisdictional framework for developing entire logistics ecosystem. This would boost economic growth, provide employment opportunities, and make Indian products more competitive in the global market.

#### **7. Production Linked Incentive scheme:**

Keeping in view India's vision of becoming 'Atmanirbhar', Production Linked Incentive (PLI) Schemes for 14 key sectors have been announced with an outlay of Rs. 1.97 lakh crore to enhance India's manufacturing capabilities and Exports. These schemes have potential for creation of high production, economic growth, exports and significant employment over the next five years and more.

#### **8. Indian Footwear and Leather Development Programme (IFLDP):**

The Central Government has approved the Central Sector Scheme 'Indian Footwear and Leather Development Programme (IFLDP)' in January, 2022 with an allocation of Rs.1700 crore till 31.03.2026 or till further review, whichever is earlier. The expenditure of last three years made



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under previous scheme of Indian Footwear, Leather and Accessories Development Programme (IFLADP) is as under:

**9. North East Industrial and Investment Promotion Policy (NEIIPP), 2007:**

North East Industrial and Investment Promotion Policy (NEIIPP), 2007 was notified for a period of 10 years from 1.4.2007 to 31.03.2017 with the purpose to boost industrialization of the region. The registered eligible units continue to receive benefits under grand-parenting of scheme. Funds allocated under the NER Schemes

**10. North East Industrial Development Scheme (NEIDS), 2017:**

To promote industrialization in NE States and to boost employment and income generation, a new Scheme namely North East Industrial Development Scheme (NEIDS), 2017, came into force w.e.f. 01.04.2017 for a period of five years. The scheme covered manufacturing and service sector.

**11.** Industrial schemes covering manufacturing & service sector in the UTs of J&K and Ladakh and State of Himachal Pradesh and Uttarakhand were launched. Scheme-wise

Schemes undertaken by other Ministries/ Departments to promote manufacturing sector

**12.** Schemes to encourage domestic manufacturing of pharmaceutical drugs including bulk drugs and medical devices are as follows;

- i. The Scheme for Promotion of Bulk Drug Parks, with a financial outlay of Rs. 3,000 crores and the tenure from FY 2020-2021 to FY 2024-25, provides for financial assistance to three States for establishing Bulk Drug Parks.
- ii. The scheme of Strengthening of Pharmaceutical Industry (SPI), was launched with a financial outlay of Rs. 500 crores and the tenure from FY 2021-2022 to FY 2025-26, to provide infrastructure support for pharma MSMEs in clusters and to address the issues of technology upgradation of individual pharma MSMEs.
- iii. Under the scheme "Promotion of Medical Devices Parks", final approval for financial assistance of Rs. 100 crore each, has been given to the States of Uttar Pradesh, Tamil Nadu, Madhya Pradesh and Himachal Pradesh for establishment of common facilities in their Medical Device Parks.

**13. Modified Programme for Semiconductors and Display Manufacturing Ecosystem:**

In furtherance of the vision of Aatmanirbhar Bharat and positioning India as the global hub for Electronics System Design and Manufacturing, a comprehensive program for the development of semiconductors and display manufacturing ecosystem in India was approved by Government of India with an outlay of 76,000 crore (>10 billion USD). The Programme contained various schemes to attract investments in the field of semiconductors and display manufacturing.



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**14. FAME-India Scheme (Faster Adoption and Manufacturing of (Hybrid &) Electric Vehicles):**

In order to promote manufacturing of electric and hybrid vehicle technology and to ensure sustainable growth of the same, FAME-India Scheme- Phase-I [Faster Adoption and Manufacturing of (Hybrid &) Electric Vehicles in India] was implemented from 1st April 2015 for a period of two years which was subsequently extended upto 31st March, 2019. Total outlay of Phase-I of the FAME-India Scheme has been enhanced from Rs. 795 Crore to Rs. 895 Crore.

The Phase-II of FAME-India scheme proposes to give a push to electric vehicles (EVs) in public transport and seeks to encourage adoption of EVs by way of market creation and demand aggregation.

**15. Udyami Bharat Scheme:** 'Udyami Bharat' is reflective of the continuous commitment of the government, right from day one, to work towards the empowerment of Micro Small and Medium Enterprises (MSMEs). The government has launched several initiatives from time to time like MUDRA Yojana, Emergency Credit Line Guarantee Scheme, Scheme of Fund for Regeneration of Traditional Industries (SFURTI) etc. to provide necessary and timely support to the MSME sector, which has helped benefit crores of people across the country. 'Raising and Accelerating MSME Performance' (RAMP) scheme with an outlay of around Rs 6000 crore, aims to scale up the implementation capacity and coverage of MSMEs in the States, with impact enhancement of existing MSME schemes.

**16. PM Mega Integrated Textile Region and Apparel (PM MITRA):**

In order to have world-class industrial infrastructure which would attract cutting age technology and boost FDI and local investment in the textiles sector, Ministry of Textiles issued notification to set up 7 Mega Integrated Textile Region and Apparel (PM MITRA) Parks with a total outlay of Rs. 4,445 crore. These parks will offer an opportunity to create an integrated textiles value chain right from spinning, weaving, processing/dyeing and printing to garment manufacturing at one location. PM MITRA scheme aspires to position India strongly on the Global textiles map.

This information has been given by the Minister of State for Commerce and Industry, Shri Som Parkash in reply to a parliamentary question today.

**Rural Housing Schemes:**

Rural Housing Schemes are government-supported initiatives to provide financial assistance to people living in rural areas to purchase or build a home. These schemes are designed to improve living standards in rural areas and to provide people with a safe and secure environment in which to live.

They may provide direct loans, grants, or subsidies to help people purchase a home or help with construction costs. These are also known as PM Rural Housing Schemes. These often include



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incentives such as reduced interest rates or tax deductions for people who purchase a home in rural areas.

### **Benefits And Features of the Rural Housing Scheme**

You can read the benefits and features of a housing scheme for rural areas.

#### **Affordable Housing**

The Rural Housing Scheme provides rural communities with affordable housing options that are designed to meet their needs. This helps to ensure that rural communities can access the housing they need without having to pay exorbitant prices.

#### **Home Ownership**

The PM Rural Housing Scheme encourages home ownership, which is beneficial for rural communities as it helps to create wealth and stability.

#### **Flexible Options**

The Rural Housing Scheme provides flexible options that allow rural communities to choose the type of housing they need. This includes different types of housing, such as starter homes, retirement homes, and other housing types.

#### **Energy Efficiency**

The Rural Housing Scheme encourages the use of energy-efficient housing designs and materials. This helps to reduce energy costs and promote sustainability.

#### **Community Investment**

The PM Rural Housing Scheme helps promote community investment through grants and subsidies. This helps to stimulate local economies and create jobs.

#### **Home Improvements**

Homeowners can access grants to help with repairs and upgrades to their property, making it easier to keep it in good condition.

#### **Financial Incentives**

Depending on the region, there may be financial incentives available, such as tax relief or reduced interest rates on mortgages.

#### **Community Development**

The scheme can help to develop the local community by providing employment opportunities and encouraging investment in the area.





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### Sustainable Living

The scheme encourages sustainable living, with homes that are energy efficient and have low carbon footprints

### Rural Housing Schemes & Programs in India

You can check the different PM Rural Housing Scheme programmes in India in the table below:

Scheme/Program	Description
Pradhan Mantri Awas Yojana	The main vision is to provide housing for all. This rural housing scheme will provide financial assistance for the building of houses in rural areas and offer interest sponsorships on housing loans.
Indira Awaas Yojana	The mission is to provide housing to the rural poor people belonging to minor communities like SC (scheduled castes), ST (scheduled tribes), freed bonded labourers, denotified tribes, and other BPL (below poverty line) families.
Gramin Awaas Mission	The intent of the scheme is to provide a house with basic amenities to all rural households.
Deen Dayal Upadhyaya Gram Jyoti Yojana	This scheme will focus on providing a continuous power supply to rural areas. It will provide access to electricity for all households and farms.
Pradhan Mantri Gram Sadak Yojana	To make the connectivity of the roads in rural areas across the country better.
State-run Housing Schemes	These state-run housing schemes are designed to provide affordable homes for all people who are not able to afford them otherwise. These schemes also target specific communities

### Indira Awas Yojana (IAY)

The Indira Awas Yojana (IAY) is a social welfare program launched by the Government of India in 1985. It is a targeted poverty alleviation program that seeks to provide housing for rural households living below the poverty line (BPL).



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The program aims to construct pucca houses for the rural poor, with special emphasis on families headed by widows and the disabled. The government provides financial assistance for the construction of these houses.

The program is implemented by the Ministry of Rural Development and is funded in part by the World Bank, with the Government of India providing the remaining funds. The IAY is implemented through the Gram Panchayats (GPs) and is monitored at the district, state, and national levels.

Over two crore (20 million) houses have been constructed since its inception, with the majority of these houses having been provided to the scheduled castes and scheduled tribes. The IAY has made a significant contribution to the eradication of poverty in rural areas and has been credited with playing a major role in the reduction of rural-urban migration.

**PRADHAN MANTRI AWAS YOJANA (PMAY):**

Pradhan Mantri Awas Yojana (PMAY): was launched with the aim to provide housing at an affordable price to the weaker sections of the society, lower income group people, urban poor, and rural poor. The Yojana involves a construction of around 20 million houses at an affordable price. In the Budget 2023, the outlay for the Pradhan Mantri Awas Yojana was enhanced by 66% to over Rs.79,000 crore. The Pradhan Mantri Awas Yojana has two components:

1. Pradhan Mantri Awas Yojana Urban (PMAY-U)
2. Pradhan Mantri Awas Yojana Gramin (PMAY-G)

The scheme is also linked with other schemes like:

- **Swachh Bharat Abhiyan** which aims at reducing open defecation by constructing in-house toilets and community-owned toilets and aims to maintain cleanliness around the streets, roads, and houses
- **Saubhagya Yojana** which aims at providing electricity connection
- **Ujjwala Yojana** which aims at providing LPG Gas connection
- **Accessibility of pure drinking water**
- **Pradhan Mantri Jan Dhan Yojana** which aims at opening a zero balance account and spreading banking facilities to each and every person in the society.

**Benefits of PM Awas Yojana**

House: Beneficiaries will get a own house of a minimum size of 25 square meter under PMAY-G. The beneficiaries under PMAY-U will get a own house of 30 square meter to 200 square meter carpet area depending on their category (EWS, LIG, MIG).



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**Assistance:** The beneficiaries under the PMAY-G will receive an assistance of Rs. 12,000 for the construction of a toilet from the Swachh Bharat Mission (G). They will also receive a unit assistance of Rs. 1.20 lakh in plains and Rs.1.30 lakh in Hill states, Jammu and Kashmir, Ladakh, North Eastern States, difficult areas and IAP/ worst affected Left-Wing Extremism (LWE) districts. The beneficiaries under the PMAY-U will get a Central assistance of Rs.1.5 lakh per EWS house.

**Land ownership:** The government will provide government land or any other land (public land) for landless persons to construct houses under PMAY.

**Women empowerment:** The houses/ land will be allotted in the name of the woman member or jointly in the name of the husband and wife of the household, thus, empowering women of the country.

**Interest subsidy:** Beneficiaries of PMAY will get interest subsidy on housing loans for acquisition or new construction of houses from the Primary Lending Institutions (PLIs).

**Improved socio-economic status:** The houses provided to homeless families will improve their socio-economic status and also their quality of life. A house with all amenities will lead to better education, health and overall well-being.

**Reduction in slums:** The PMAY-U will help to reduce slums in towns and cities by providing the slum dwellers a pucca house. This will help to bring slum dwellers into the formal urban settlement.

**Direct Transfer:** The financial assistance under the scheme is directly transferred to the beneficiaries electronically to their Bank or Post office accounts linked to Aadhaar. Thus, it reduces the chances of fraud and ensures that the beneficiaries receive funds.

**DEEN DAYAL UPADHYAYA GRAM JYOTI YOJANA (DDUGJY)**

The Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY) is a Government of India scheme that aims to provide a reliable and continuous electricity supply to rural areas. The scheme was launched in 2014 by Prime Minister Narendra Modi. The scheme's objectives include: Providing access to power for all households, Achieving 24/7 power, Reducing AT&C loss, and Increasing farm productivity and security.

The scheme's components include:

- Separating agriculture and non-agriculture feeders
  - Strengthening and augmenting sub-transmission and distribution infrastructure
  - Completing micro grid and off grid distribution network
  - Completing rural electrification projects already sanctioned under RGGVY



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**URBAN Housing:**

Urban housing is a term that refers to the housing facilities in urban areas. It is a complex issue, involving social, economic, and political aspects that impact the housing sector. As the population of urban areas is on the rise, it has become the need of the hour to explore urban housing trends in India.

**Pradhan Mantri Awas Yojana (Urban)-PMAY (U)**

Pradhan Mantri Awas Yojana (Urban) Mission launched on 25th June 2015 which intends to provide housing for all in urban areas by year 2022. The Mission provides Central Assistance to the implementing agencies through States/Union Territories (UTs) and Central Nodal Agencies (CNAs) for providing houses to all eligible families/ beneficiaries against the validated demand for houses for about 1.12 cr. As per PMAY(U) guidelines, the size of a house for Economically Weaker Section (EWS) could be upto 30 sq. mt. carpet area, however States/UTs have the flexibility to enhance the size of houses in consultation and approval of the Ministry.

In continuation to this Government's efforts towards empowerment of women from EWS and LIG unlike earlier schemes, PMAY (U) has made a mandatory provision for the female head of the family to be the owner or co-owner of the house under this Mission. Verticals of PMAY (Urban) A basket of options is adopted to ensure inclusion of a greater number of people depending on their income, finance and availability of land through following four options.

**PMAY Scheme:**

1. Subsidized Interest Rate - Enjoy a low 6.50% p.a. interest rate on housing loans for 20 years.
2. Priority for Special Groups - Differently-abled and senior citizens receive preferential ground floor allocations.
3. Eco-Friendly Construction - Sustainable and environmentally conscious technologies utilized in building.
4. Pan-India Coverage - The scheme spans 4041 statutory towns, with initial priority given to 500 Class I cities in 3 phases.
5. Early Credit-Linked Subsidy - Implementation of the credit-linked subsidy begins at the project's inception, covering all statutory towns in India.

**Advantages of the Pradhan Mantri Awas Yojana (Urban)**

Basic utilities including a kitchen, toilet, water supply, and electricity are provided in every house under the PMAY-U. The mission offers homeownership under the joint or sole name of a female member, thereby promoting women empowerment.



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Additionally, SCs, STs, OBCs, single women, transgender people, differently-abled people, senior citizens, and other vulnerable groups in society have all been given preference. The PMAY-U ensures that the beneficiaries have a sense of security and pride in their houses and live a dignified life.

### **Education Loans a Priority Sector**

According to the Reserve Bank of India, loans granted to educational institutions will be claimed as priority sector loans under small and micro-scale industries. In simple terms, RBI considers educational advances critical to India's development and should be given priority over other sectors.

The major revelation behind it is an increase in demand for higher education. Education empowers not only individuals but also the nation at large. By providing students with quick and right access to education loans, the government develops powerful human capital and facilitates innovation. Some other reasons for considering education loan a priority sector include:

#### **1. Raising Tuition Costs**

In India, students often quit their higher education due to rising tuition fees and financial strains. In such a scenario, education loans can alleviate all worries, especially when personal savings are insufficient. Education loans bridge the gap between available resources and total educational expenses. Thus, they allow students to enrol in higher education programs despite rising costs.

#### **2. Promotion of Socio-economic Development**

Quality education influences socio-economic development. Students learn vocational and other advanced skills that enhance their productivity and contribute to economic growth and social development. It empowers students and society at large to be competitive in skill-based markets and take the lead in responding to emerging challenges.

As more people have access to education loans, society will benefit from a highly educated workforce that drives its progress toward prosperity. The Reserve Bank of India incorporates educational loans under priority sector lending. It grants loans and advances to any individual for educational needs. The loan limit for education under priority sector is up to Rs 10 lakh for studying in India and Rs 20 lakh for studying in international countries.

### **Benefits of Education Loans in Priority Sector**

Education loan under priority sector lets you unlock educational opportunities due to the easy loan disbursement process. Moreover, other benefits of education loans under priority sector include the following:



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### **1. Easier Access to Quality Education**

Education loans under the priority sector ensure that financial aid remains readily available to every student. Regardless of your social or economic background, you can have access to higher education funds. Financial institutions or private lenders can make this possible by offering preferential terms like lower interest rates and flexible repayment options.

### **2. Financial Inclusion**

This education loan contributes to broader financial inclusion goals. Government and financial institutions ensure extending financial aid to those who may otherwise fail to get traditional forms of financing. It bridges the gap between underserved sectors of society and financial institutions. Additionally, financial inclusion can empower students like you to pursue their educational objectives and enhance their societal position.

### **3. Improving Economic Development**

Education loan priority sectors boost economic growth. It then facilitates you, like everybody else, to invest in your higher education. By doing so, you pave the path for a better future earning potential. As you graduate and enter the corporate or workforce, you will be able to contribute to higher productivity, greater incomes, and increased purchasing power. All of this further fuels economic growth and prosperity.

### **4. Innovation with Sustainable Development**

Many governments acknowledge the value of education for sustainable development. Allocating funds to education loans is in line with the nation's overall development objectives of developing human capital, innovation, and a competent workforce. Eventually, you can ensure long-term economic growth and social stability with such an investment.

### **Students Looking Out For Education Loan Priority Sector**

If you are planning to take an education loan under the priority sector, you must consider the following tips:

- **Look Out for a Reputed Lender:** Choose a lender for your education loan who is well-reputed. Propelled has a solid history of offering reliable financing services.
- **Understand Loan Terms:** Ensure reading all the terms and conditions involved in the education loan process. Read about interest rates, repayment terms, total fees or penalties, if any, carefully.
- **Calculate Total Cost:** Make sure you calculate your costs well. Consider total interest with fees of the complete course to evaluate your affordability.





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- **Talk with Lender:** Communicate well with your lender and stay in touch with him. Notify him immediately if any problems occur during the loan application process.

### **Challenges and Solutions Involved in the Education Loan Under Priority Sector**

As important and beneficial as education loans under the priority sector may be, certain challenges obliterate its smooth functioning. Let us understand these challenges along with potential solutions to combat them:

#### **Challenges**

1. **Lack of Awareness:** Numerous students are unaware of the education loan under priority sector. Thus, they are unable to understand its benefits and eligibility criteria.
2. **Strict Eligibility Criteria:** It may contain tough eligibility criteria like high credit scores or collateral requirements.
3. **Limited Expense Coverage:** Education loans under priority sector may not cover all the education costs.
4. **Complex Process:** These loans may require a lengthy timeline, verification process, and extensive paperwork. It can thereby delay access to funds and admission on time.
5. **High-interest Rates:** The education loan priority sector comprises higher interest rates even after being present under priority. This can be a problem for students with weak credit histories or non-availability of collateral.

#### **Solutions**

1. **Increased Awareness:** Awareness programs to educate people, students, parents, and professionals can help in better outreach. The benefits of education loan under priority sector and the application process should be communicated to them.
2. **Simplified Application Procedure:** A simplified application process for education loan under priority sector can reduce administrative tasks and boost funds access to needy students.
3. **Flexible Eligibility Criteria:** Banks should work on simplifying the eligibility criteria for education loans under priority sector. Relaxation on credit score and collateral alternatives availability can ensure financial inclusivity.
4. **Interest Rates Subsidy:** Governments and financial institutions can offer subsidies on education loans under priority sector interest rates. It will make these loans more affordable. Thus, the socio-economic gap can be filled by providing subsidized interest rates.



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5. **Full Cost Coverage:** Comprehensive financial aid must be given to students under the education loan priority sector. It can combine, for example, scholarships, accommodation costs, and work-study programs.

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**UNIT V**

**PROBLEMS & PROSPECTS OF RURAL BANKING:**

**PROBLEMS OF RURAL BANKING**

**1. Inadequate Finance:**

One of the major problems being faced by the RRB's is that of inadequate finance. The regional rural banks are highly dependent on National Bank for Agriculture and Rural Development (NABARD) for satisfying their financial requirements and furthering their rural credit operations. The level of savings in the rural areas is low which in turn affects the financial health of RRBs and hinder smooth operations.

**2. Poor Recovery Rates:**

Yet another problem faced by the regional rural banks is that of high over dues and very poor recovery of loans. The loan default is however become one of the biggest problems before the RRBs and is consistently affecting the functioning of RRBs. Poor access of granting loan, insufficient and untrained staff, unproductive or less productive use of credit, inadequate production, poor marketing facilities and improper channel of recovery system has resulted in this problem that can be seen in almost all the RRBs.

**3. Regional Imbalance:**

Regional Rural Banks are also characterized by the issues of regional imbalance in banking facilities. This is primarily happening because of selective operational area in districts and blocks.

**4. Increasing NPAs:**

Many RRBs are suffering from the problem of heavy loans because of low repaying capacity of their customer. The unpaid loans increase burden on the branch and affects its performance further.

**5. Inability to Tackle Poverty Issues:**

The RRBs have failed to play a significant role in poverty alleviation of the country. Though the RRBs have made sincere efforts in this regard but lack of economic infrastructure, poor marketing strategies, poor knowledge of customers, low production, low awareness about savings have created many hurdles for RRB's.

**6. Improper Coordination:**

Regional Rural Banks (RRBs) are also characterized with absence of proper co-ordination between them and other financial institution like commercial banks, NABARD and other co-



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operative banks. The lack of coordination with the other institutions dealing in rural credit has severely affected the performance of these banks.

**PROSPECTS OF RURAL BANKING:**

Rural banking needs are many and the rural communities have limited facilities for the same. In the absence of rural banks the rural community members often end up settling their financial needs through local moneylenders and traders and get into the vicious circle of unending interest rates and exploitation. In order to fulfil the financial needs of the rural people, RRBs should enhance their operations and instead of providing rural credit services only for agriculture sector must also provide benefits to small entrepreneurs, village and cottage industries and small farmers. Better institutional coordination with financing agencies, co-operative banks, commercial banks and local participants must be undertaken to serve the untapped rural market. Rural banks need to remove the lack of transparency in their operation which leads to unequal relationship between banker and customer.

The RRBs must keep in mind the reasons for their existence and therefore must provide credit facilities to weaker sections in the villages. They should be the first priority banks for the rural poor.

The role of state government is very important in keeping the RRBs strong. A better policy and management guidelines must be developed and implemented. Appointing local staff who are well versed with the region, its culture and people might be a good strategy in the long run. Training of the staff must be undertaken regularly to upgrade their customer management skills.

Focus must be laid on cross selling other financial products like micro insurance through the RRBs. They must also involve in making villages aware about wealth management programs.

**PROBLEM FACED BY COMMERCIAL BANK IN RURAL DEVELOPMENT:**

The following points highlight the nine major problems faced by commercial banks.

**1. Losses in Rural Branches:**

Most of the rural branches are running at a loss because of high overheads and prevalence of the barter system in most parts of rural Bihar.

**2. Large Over-Dues:**

The small branches of commercial banks are now faced with a new problem—a large amount of overdue advances to farmers. The decision of the former National Front Government to waive all loans to farmers up to the value of Rs. 10,000 crores has added to the plight of such banks.



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### **3. Non-Performing Assets:**

The commercial banks at present do not have any machinery to ensure that their loans and advances are, in fact, going into productive use in the larger public interest. Due to a high proportion of non-performing assets or outstanding due to banks from borrowers they are incurring huge losses. Most of them are also unable to maintain capital adequacy ratio.

### **4. Advance to Priority Sector:**

As far as advances to the priority sectors are concerned, the progress has been slow. This is partly attributable to the fact that the bank officials from top to bottom could not accept nationalisation gracefully, viz., diversion of a certain portion of resources to the top priority and hitherto neglected sectors. This is also attributable to the poor and unsatisfactory loan recovery rates from the agricultural and small sectors.

### **5. Competition from Non-Banking Financial Institution:**

As far as deposit mobilisation is concerned, commercial banks have been facing stiff challenges from non-banking financial intermediaries such as mutual funds, housing finance corporations, leasing and investment companies. All these institutions compete closely with commercial banks in attracting public deposits and offer higher rates of interest than are paid by commercial banks.

### **6. Competition with Foreign Banks:**

Foreign banks and the smaller private sector banks have registered higher increase in deposits. One reason seems to be that non-nationalised banks offer better customer service. This creates the impression that a diversion of deposits from the nationalised banks to other banks has probably taken place.

### **7. Gap between Promise and Performance:**

One major weakness of the nationalised banking system in Bihar is its failure to sustain the desired credit pattern and fill in credit gaps in different sectors. Even though there has been a reorientation of bank objectives, the bank staff has remained virtually static and the bank procedures and practices have continued to remain old and outmoded.

The post-nationalisation period has seen a widening gap between promise and performance. The main reason seems to be the failure of the bank staff to appreciate the new work philosophy and new social objectives.

### **8. Bureaucratisation:**

Another problem faced by the commercial banks is bureaucratisation of the banking system. This is indeed the result of nationalisation. The smooth functioning of banks has been hampered by red-tapism, long delays, lack of initiative and failure to take quick decisions.



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### 9. Political Pressures:

The smooth working of commercial banks has also been hampered by growing political pressures from the Centre and the States. commercial banks often face lots of difficulties due to various political pressures. Such pressures are created in the selection of personnel and grant of loans to particular parties without considering their creditworthiness.

#### PROBLEM OF REGIONAL RURAL BANK OF RURAL BRANCHES:

1. **Outdated Technology:** RRBs are lagging in digital services, making it difficult to compete with private and small finance banks.
2. **Poor Infrastructure:** Many RRB branches lack basic facilities. In western Uttar Pradesh, branches often have no security guards, poorly maintained cash rooms, and inadequate air conditioning.
3. **Slow Service Delivery:** Customers expect quick services like ATM cards and cheque books, but RRBs struggle to provide these promptly. This leads to customer dissatisfaction and migration to other banks.
4. **Financial Struggles:** Despite a ₹10,890 crore capital infusion during FY22 and FY23, RRBs continue to grapple with non-performing assets and mismanagement, hindering their growth and competitiveness.
5. **Lack of capital:** The authorised capital of RRBs is very low as compared to that of commercial banks. This limits their ability to expand their business and serve the rural people effectively.
6. **Lack of trained personnel:** Most of the RRBs are located in remote and backward areas, where it is difficult to attract and retain trained personnel. As a result, they have to depend heavily on their sponsor banks for advice and guidance.
7. **High cost of operations:** The high cost of operations is another problem faced by RRBs. This is due to the small size of their business and the lack of economies of scale.
8. **Dependence on Sponsor Banks:** RRBs are generally dependent on their sponsor banks for day-to-day operations as well as for financial assistance. This dependence often leads to a conflict of interest between the two institutions.
9. **Political interference:** Another major problem faced by RRBs is political interference. This is because they are often used as a tool for political patronage.

#### EMERGING TRENDS IN RURAL BANKING:

Technology has opened up new markets, new products, new services and efficient delivery channels for the banking industry. The various technological platforms provided by the banks to





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its customers bring greater flexibility and operational convenience by providing computerised banking environment. Major technology and innovation banking sector in India are

- APPLICATIONS PROGRAMMING INTERFACE (API):
- UPI
- Digital Wallets
- Wearable Technology
- The 3 Big B's
- Real time gross settlement(RTGS)
- National Electronic Funds Transfer (NEFT)
- Electronic fund transfer
- Point of sale (POS)
- Electronic Clearing Service (ECS)

Now, discuss about technology and innovation in detail as under:

**APPLICATIONS PROGRAMMING INTERFACE (API) :**

An API (Application Programming Interface) is an interface that allows to synchronize, link and connect the database of service with any application. Their implementation in the banking system is basically the same: they link a bank's database (its customers' information) with different applications or programs, thus forming a network encouraging the promotion of services, payments, and products appropriate to each person. Its benefits range from cost reduction, optimization of services, reduction of time spent on transactions, increased revenue and facilitation in all the needs of those who accept it. Innovation Labs: Many banks have adopted proactive strategy by establishing their own internal innovation labs. Innovation labs operate with the primary objective of evaluating and adopting emerging technologies and contribute to banks motive of digitalization. Eg: AXIS Bank has set up its Innovation Lab named Thought Factory

**UPI :**

National Payments Corporation of India (NPCI) launched Unified Payments Interface (UPI) in 2016 with 21 member banks. UPI is a system that powers multiple bank accounts into a single mobile application, merging several banking features and seamless fund routing. UPI has been considered as the revolutionary product in payment system. Example: BHIM app, Google Tez, Paytm, SBI Pay, BOB UPI, Axis Pay



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**Digital Wallets :**

Digital Wallets allow an individual to make electronic transactions using a smartphone. Awareness and use of e-wallets increased post demonitisation in India. It is indeed one step towards “less cash” economy. Example: mRupee, ICICI Pockets, HDFC PayZapp, Citi MasterPass, YONO SBI

**Wearable Technology :**

“To wear your bank on your wrist” is a reality today. Smart watch banking helps the customers check their balance, get fraud alerts, carry out both financial and information transactions and offers many more services, all on their wrist. In India, ICICI has launched an app named Wear for all smart watches. ICICI is among few global players allowing transactions using this app on both Apple and Android platforms. As technology is redefining banking, wearable banking and transactions via smart watches and smart glasses is gearing up as a key trend.

**The 3 Big B's :**

The 3 Big B's prominently trending today in Indian banking sector are Biometrics, Blockchain and Big Data Analytics.

**1) Biometrics :-**

Biometrics technology makes use of biological data and behavioural characteristics that differentiates one human being from another. Biometrics is secure and cost effective method for authentication process of the customers of the bank. It eliminates the burden of remembering passwords, PINs and card numbers.

**Biometrics application in banking sector**

Biometrics type	Example
Fingerprint	1 DCB has set up ATMs in Bengaluru, Mumbai, Chennai that require fingerprints to withdraw money. The ATM operates using Aadhaar card data and links a customer's fingerprint data with his Aadhaar biometric details  2 HDFC is reaching out to rural areas with micro ATMs (handheld device). Fingerprints are used for instant authentication.
Voice Recognition	ICICI Bank introduced voice recognition for its customers to transact smoothly through the bank's call center. Voice of the customer acts as the password.
Face Recognition	Federal bank has introduced zero balance selfie account which uses an app (Feedbook), scanned PAN, Aadhaar details and a selfie to open an



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	account instantly. App gets converted into a passbook once the account is opened.
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**2) Blockchain:-**

A blockchain is a data structure that is used to create a digital ledger of transactions and share it among a distributed network of computers. The underlying principle used is cryptography, wherein each participant on the network is allowed to manipulate the ledger in a secure way without the need for a central authority. Present day applications in India In October 2016, ICICI Bank carried out India's first international trade transaction and overseas remittances using blockchain technology. ICICI partnered with Dubai's largest bank Emirates NBD for this project. AXIS Bank and YES Bank too are working on blockchain technology.

**3) Big Data Analytics :-**

Big Data are said to be extremely huge data set that has to be analysed, handled, managed and validated through typical data management tools. Indian banks have millions of customers. The data of these customers is stored in the database. Retrieving the data in meaningful manner becomes a complex process as many times the data collected is unorganized. Big Data Analytics helps in resolving this problem. To achieve competitive edge in today's modern banking era, banks in India are using data analytics to attract new customers, retain them and make the entire process consumer centric.

**Real time gross settlement (RTGS):**

Real time gross settlement is a fund transfer system. Settlement in "real time" means the transactions happen almost immediately "gross settlement "means transaction is settled one to one basis. This is mainly used for transaction which high in value and need to be cleared immediately. Real Time Gross Settlement system, introduced in India since March 2004, is a system through which electronics instructions can be given by banks to transfer funds from their account to the account of another bank. The RTGS system is maintained and operated by the RBI and provides a means of efficient and faster funds transfer among banks facilitating their financial operations.

**National Electronic Funds Transfer (NEFT):**

According to Reserve Bank of India, National Electronic Funds Transfer (NEFT) is a nation-wide payment system to facilitate one-to-one funds transfer. Under NEFT, individuals, firms and corporates can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme. The funds under NEFT can be transferred by individuals, firms or corporates maintaining accounts with a bank branch. Even individuals not having a bank account can deposit cash at the NEFT-enabled branches with instructions to transfer funds using NEFT. However, such cash remittances will be restricted to a maximum of Rs.50, 000/- per transaction. Such walk-in-



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customers have to furnish full details including complete address, telephone number, etc. NEFT, thus, also help in transfer of funds even without having a bank account. This is a simple, secure, safe, fastest and cost effective way to transfer funds especially for Retail remittances.

**Electronic fund transfer:**

It is a system of transforming money from one bank account direct to another without any paper money changing hands. Direct deposits are one of the most widely used EFT program. It refers transfer of funds initiated through on electronic terminal, including credit cards, ATM, and point of sale transactions. It used for both credit transfer and debit transfer. Electronic fund transfer transactions are processed through the automated clearing house network. The growing popularity of EFT for online bill payment in paying the way for paperless universe where checks, stamps, envelopes, and paper bills are obsolete. Through EFT administrative costs should be reduced, increase efficiency, simplified bookkeeping and greater security.

**Point of sale (POS):**

Point of Sale Terminal is a computer terminal that is linked online to the computerized customer information files in a bank and magnetically encoded plastic transaction card that identifies the customer to the computer. During a transaction, the customer's account is debited and the retailer's account is credited by the computer for the amount of purchase. Electronic

**Clearing Service (ECS):**

Electronic Clearing Service is retail payment systems that can be used to make bulk payments/receipts of a similar nature especially where each individual payment is of repetitive nature and of relatively smaller amount. This facility is meant for companies and government departments to make/receive large volumes of payments rather than for funds transfers by individuals

**FINANCING POOR AS BANKABLE OPPORTUNITY:**

Financial inclusion also offers opportunities for individuals and organizations alike. For example, by providing essential banking services such as savings accounts or microloans, individuals can build up their credit scores over time and become eligible for larger loans at better rates.

When it's easier for hundreds and millions more people to access essential financial services such as savings accounts, credit cards, mortgages, microcredit, and loans, the ability to sell and receive money from anyone, anywhere, can help them achieve their goals. In addition, financial inclusion can lead to economic growth by increasing consumer spending, investment opportunities, job creation, tax revenue for governments, and opening up the economy.



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Additionally, organizations that promote financial inclusion can benefit from increased donations and trust amongst their customers due to their focus on social responsibility initiatives.

Financial inclusion also has social benefits, as it can reduce poverty and inequality in countries where these issues are prevalent. By providing access, people can save, which they can then use for healthcare through insurance, education, or business opportunities. This can help them break out of the cycle of poverty and improve their quality of life significantly.

A financial survey of four poor states of India—Odisha, Bihar, Madhya Pradesh and Uttar Pradesh—has revealed that access to formal banking outlets is not as difficult as had been in the past and an increasing number of people are being financially included.

**SHGs:**

Governments can borrow from individuals, and individuals can as well borrow from governments. Whichever the case, borrowing, and lending of money are essential to the economy of a country.... The funds that go to capital expenditures stimulate business activities, leading to the overall growth of the economy.

The basic objective behind the SHGs is to provide financial resources to the poor people by organizing the rural poor, particularly women, into small Self Help Groups. They even provide loans at a reasonable rate of interest without collateral.

The main objectives of the SHGs are:

- To organize rural poor people particularly women into small Self-Help Groups.
- To collect the savings of their members.
- To provide loans without collateral.
- To provide timely loans for various purposes
- To provide loans at responsible interest rates and easy terms.
- Provide a platform to discuss on various issues and act on a variety of social issues like education, health, nutrition, domestic violence etc.

**MFIs (Microfinance):**

Microfinance customers live in both rural and urban areas—the rural poor borrow for cattle fattening, dairy farming, bamboo making, or weaving, whereas the urban poor borrow to become street vendors, rickshaw drivers, or seamstresses. Moreover, microfinance has moved well beyond its roots in developing countries—some MFIs now serve poor people in industrial countries



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MFIs assume that their clients are clever enough to handle their own affairs, but do not assume that all the poor will be reliable borrowers. They have adopted two basic approaches:

**Group lending:**

Grameen Bank is considered the pioneer of the group lending model, which has now been adopted in many countries. Individual borrowers are required to form a group and take responsibility for each other's loans. Grameen Bank depends primarily on peer pressure to guarantee repayment. Moreover, it limits risk by targeting female borrowers, who are considered more reliable because of family-based community ties. In early 2007, Grameen Bank reported almost 7 million borrowers—96 percent of them poor, illiterate women from remote villages. And since 1976, it says, \$6 billion has been lent, with a repayment rate of 98 percent.

**Individual lending:**

These loans are bigger and are made to individuals without a collective guarantee and on more flexible terms. Typical borrowers are not the very poor seeking to start businesses, but the self-employed poor who are skilled business people. In some cases, the borrower has a small amount of collateral. Accion, a leading MFI that operates in Latin America and the Caribbean, Africa, and Asia, has adopted individual lending in the form of small, short-term loans of \$100 to \$500 at interest rates that it says reflect the cost of lending. Loan officers look not only at a borrower's financial wherewithal but also at references from customers and neighbours. Incentives such as the possibility of borrowing progressively larger amounts and the opportunity to get business and vocational training encourage repayment. In countries like Bolivia, credit bureaus have been set up to enforce repayment..

**Categories: Understanding the Market (poor people)**

The market for financing the poor includes a diverse range of individuals and microenterprises that lack access to conventional banking services. These can be categorized as follows:

**Micro entrepreneurs:**

Small business owners in sectors such as agriculture, retail, and services.

**Low-Income Households:**

Individuals seeking credit for essential needs such as education, healthcare, and housing.

**Informal Workers:**

People employed in the informal sector who require financial support to sustain their livelihoods.





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## **Financial Products and Services**

### **1. Microloans:**

Small loans provided to individuals or groups for entrepreneurial ventures. These loans typically have shorter repayment periods and higher interest rates compared to traditional loans.

### **2. Savings Accounts:**

Secure accounts that allow low-income individuals to save money, often with no minimum balance requirements.

### **3. Micro insurance:**

Insurance products designed to protect against specific risks such as illness, death, and natural disasters.

### **4. Remittances:**

Services that facilitate the transfer of money, particularly for migrant workers sending funds to their families.

## **Business Models**

Several business models have proven effective in serving this market:

### **1. Grameen Model:**

Pioneered by Grameen Bank in Bangladesh, this model focuses on group lending, where small groups of borrowers mutually guarantee each other's loans.

### **2. Self-Help Groups (SHGs):**

Common in India, SHGs are community-based groups that pool savings and provide loans to their members.

### **3. Digital Finance:**

Leveraging mobile technology to deliver financial services, particularly in regions with high mobile phone penetration.

## **Benefits of Financing the Poor**

### **1. Economic Empowerment**

Access to finance enables individuals to start or expand businesses, leading to increased income and economic growth.



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## **2. Social Impact:**

Financial inclusion improves living standards, reduces poverty, and promotes social stability.

## **3. Market Expansion:**

Serving this segment can open up new markets and revenue streams for financial institutions.

## **4. Sustainable Development:**

Financial inclusion supports several United Nations Sustainable Development Goals (SDGs), including no poverty, zero hunger, and decent work.

## **Challenges and Mitigation Strategies**

### **1. Credit Risk:**

The risk of default is higher among low-income borrowers. Mitigation strategies include group lending, collateral-free loans, and thorough borrower assessments.

### **2. Operational Costs:**

Serving low-income individuals can be costly. Digital finance solutions and partnerships with local organizations can reduce costs.

### **3. Financial Literacy:**

Lack of financial knowledge can hinder the effective use of financial services. Providing financial education and training is essential.

### **4. Regulatory Environment:**

Ensuring compliance with regulations while maintaining flexibility is crucial. Engaging with regulators and policymakers can help create an enabling environment.

**5. Risk Management:** Ensuring that loans are repaid.

**6. Sustainability:** Creating models that are financially viable in the long term.

**7. Scalability:** Expanding operations while maintaining quality and impact.