STUDY MATERIAL FOR B.COM BANKING AND FINANCE

RURAL BANKING

SEMESTER – IV

ACADEMIC YEAR 2024-25

PREPARED BY

COMMERCE DEPARTMENT

INDEX

Unit - I

A rural bank can be defined as rural financial institution/ cooperative/ community bank or deposit taking financial institution that provides customized financial services to rural communities. As a huge section of the country resides in rural areas, it is important from a financial inclusion aspect that rural branches exist to cater to the population. However, banking in the rural areas is different from merchant banking that exists in cities. This unit will begin by examining the activities of a rural banker, underwriting, bankers to issue and other services.

Rural banking is banking that is done in an area that is not close to towns or cities, making it difficult for those who need to conduct banking business. Many times a bank agent will come to the rural area to offer basic banking services. The goals of rural banks are to provide banking services to the rural/ village population of India. Rural banking is a common practice in places where banking institutions are few and far between and people who need to carry out banking transactions may have difficulty finding a way to do so. With modern technology, more and more people have access to online systems that allow them to conduct certain types of banking without a nearby branch but this technology is not available for everyone and demand for rural banking is still high in some areas. Rural banking is the process of conducting banking transactions out in the country where bank branches are too far away to be of use. Rural banking is popular for very small towns and farmers who live far away from areas of larger population and cannot make the drive to these locations even when they need to use banking services.

The regional rural banks were established with a view to developing the rural economy by providing, for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas credit and other faculties, particularly to small and marginal farmers, agricultural labourers artisans and small entrepreneurs and for matters connected therewith and incidental thereto. The institution of Regional Rural Banks (RRBs) was created to meet the excess demand for institutional credit in the rural areas particularly among the economically and socially marginalized sections. In order to provide access to low-cost banking facilities to the poor, the Narsimham Working Group proposed the establishment of a new set of banks, as institutions which combine the local feel and the familiarity with rural problems which the cooperative possess and the degree of business organizations ability to mobilize deposits, access to central money markets and modernized outlook which the commercial banks have. The multi-agency approach to rural credit was also to sub serve the needs of the input intensive agricultural strategy, that is, the green revolution, which by the mid-seventies was ready to spread more widely throughout the Indian countryside. In addition the potential and the need for diversification of economic activities in the rural areas had begun to be recognized and this was a sector where the Regular Rural Banks could play a meaningful role.

Concept of rural banking:

Rural banking has become integral to the Indian financial markets. With the majority of Indian population still living in rural or semi urban area, the Government of India and Reserve Bank of India have been continuously working to achieve complete financial inclusion, that is, timely and sufficient access to financial services and credit at an affordable cost in the vast expanse of our country. Pradhan Mantri Jan Dhan Yojana is one of the recent initiatives by the BJP Government which has definitely contributed to bring banking to every household. This scheme with time will significantly reduce the gap between rural and urban areas in terms of financial inclusion. But the fact that about 70% of population of India is still rural and the penetration of banking facilities is as low as only 24%, i.e., only this percentage of people in these areas have formal bank accounts, cannot be ignored. Various Regional Rural Banks have been set up under the Regional Rural Banks Act, 1976 to provide a continuous source of credit for agriculture and other activities. These banks were set up with the aim of reaching every corner of the country and cater to financial needs of rural society comprising small and marginal farmer, agricultural laborers, self-help groups, artisans etc. The credit to weaker sections was made haggle-free and given at cheap or concessional rates. RBI has also encouraged the spread of these banks by undertaking the following: Allowing non-target group financing for RRBs Recapitalization and restricting of RRBs Simplification of banking procedures as per Gupta committee recommendations Special credit plans Kisan credit cards Deregulation of banking rates direct financing for SCBs Various relaxations in investment policies and non-fund business.

These initiatives have promoted the banking culture by making formal credit available to rural households. These facilities have helped to steer the agriculture dominated economy towards modernization. The bank have to keep in mind subtleties of the rural culture and understand that the rules of rural economy are different from urban dynamics. However with increased mobility and connectivity the urban and rural integration has increased and many factors which made the urban landscape have come to mark rural settings as well. This has led to diversification in activates and people have started to look at other factors of employment too Agricultural activities have also been significantly commercialized with increased role of cash crops. Thus, banks are getting a strong demand for credit for both agricultural and non-agricultural uses. Bankers however, have to pay attention to these little cultural cues and customer profits and accordingly carry their services. The staff has to identify with rural customers who are not used to banking procedures and need extra assistance at every step. This will help customers to avail full benefit of banking without any hesitation.

Need for rural banking:

Rural banking has had a favorable impact on farm and non-farm output, income, and employment in rural areas. It assists farmers in obtaining services, financing, and a variety of loans to satisfy their production demands. To protect the impoverished in rural areas from money lenders.

Rural banking is banking that is done in an area that is not close to towns or cities, making it difficult for those who need to conduct banking business. Rural banking is a common practice in places where banking institutions are few and far between and people who need to carry out banking transactions may have difficulty finding a way to do so. The Regional Rural Banks were established on 2nd October 1975. The main objectives of these banks are to provide credit and other facilities particularly to small and marginal farmers and small entrepreneurs so as to develop agriculture trade, commerce industry and other productive activities in rural areas. Regional Rural Bank grant loans and advances to small farmers and agricultural labourers so that they can start their own farming activities including purchase of land, seeds and manure. A rural bank focuses on providing savings and credit services to people who live in rural areas. Project counselling includes preparation of project reports, deciding upon the financing pattern, appraising the project relating to its technical, commercial and financial viability. Loan syndication refers to the services rendered by the financial service expert or firm in procurement of term loans and working capital facilities from financial institutions banks and other financing and investment firms for its clients. The service is rendered on fee base and generally as a percentage on the loan amount syndicated. These services are rendered for both existing companies as well as new projects. Public issue of corporate securities as source of financing projects has gained tremendous popularity in the recent past. Due to the increased awareness on the part of an average investor of the advantages of investing his funds in shares and debentures, there is a rising trend in the issue activities of the capital market which has reached a level beyond the expectation of Government and stock exchange authorities.

Priority sector lending:

This role is assigned by the Reserve Bank of India to the banks for providing a specified portion of the bank lending to few specific sectors like agriculture and allied activities, micro- and small enterprises, education, housing for the poor, and other low-income groups and weaker sections.

Understanding Priority Sector Lending (PSL)

The goal of a PSL initiative is to provide credit to the weaker sections of the society, as opposed to funding only profitable sectors or spaces that are solely important to economic growth. All sectors considered as a priority are able to easily access financial support like apply for loans that the banks are required to allot at a lower interest rate.

The following fall into the priority sectors under the policy: agriculture (including micro financing groups like SHGs, JLGs, individual farmers, and other institutions dedicated to individuals working in the sector), micro, small and medium scale enterprises (MSMEs) and SSIs, Educational and Small Scale Industrial loans, Housing loans and other micro credit finances.

When banks overreach their PSL targets and need additional funding to raise funds for the priority sectors, they are able to issue PSL certificates (PSLCs) only to the extent of the amount banks are allowed to lend in that specific sector. These certificates can be traded on RBI's e-Kuber platform.

Categories of Priority Sectors

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

- Agriculture

- Micro, Small and Medium Enterprises (MSMEs)
- Export Credit
- Education
- Housing
- Social Infrastructure
- Renewable Energy

Activities Covered Under Priority Sector Lending in India

The activities covered under priority sector lending typically include:

- **Agriculture:** Loans provided for farming activities, including crop cultivation, animal husbandry, fisheries, and other allied agricultural activities.
- **Micro, Small, and Medium Enterprises (MSMEs):** Credit extended to micro, small, and medium enterprises. It includes loans for starting new businesses, working capital requirements, and expansion purposes.
- **Education:** Loans granted for education-related expenses, including tuition fees, purchase of books, payment for educational courses, and other educational purposes.
- **Housing:** Lending for housing finance, including loans for the purchase, construction, or renovation of residential properties.
- **Export Credit:** Financing provided to exporters to facilitate international trade. It includes pre-shipment and post-shipment credit, export working capital, and other export-related financial services.
- **Renewable Energy:** Loans extended for renewable energy projects such as solar power, wind power, biomass, and other clean energy initiatives.
- **Healthcare:** Credit support for healthcare infrastructure development, including funding for hospitals, clinics, medical equipment, and healthcare services.
- **Social Infrastructure:** Financing for social infrastructure projects such as schools, colleges, vocational training centers, and other community development initiatives.
- **Loans to Weaker Sections:** Special focus on providing credit to marginalized and economically weaker sections of society. It includes Scheduled Castes, Scheduled Tribes, and Other Backward Classes.

Unit - II

Prime Minister Employment Generation Program (PMEGP):

The scheme is implemented by Khadi and Village Industries Commission (KVIC) functioning as the nodal agency at the national level. At the state level, the scheme is implemented through State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs), District Industries Centres (DICs) and banks. In such cases KVIC routes government subsidy through designated banks for eventual disbursal to the beneficiaries / entrepreneurs directly into their bank accounts.

The maximum cost of the project/unit admissible in manufacturing sector is Rs. 25 lakhs and in the business/service sector, it is Rs.10 lakhs. Categories of Beneficiary's Rate of subsidy under PMEGP (of project cost) Area (location of project/unit) General category 15%(Urban), 25%(Rural), Special 25%(Urban), 35%(Rural) (including SC/ ST/ OBC/ Minorities/Women, Ex-servicemen, Physically handicapped, NER, Hill and Border areas, etc.)

The balance amount of the total project cost will be provided by the banks in the form of term loan and working capital.

Credit Guarantee Trust Fund for Micro & Small Enterprises (CGT SME)

Related Scheme	**Credit Guarantee Trust Fund for Micro & Small Enterprises (CGT SME)**
Description	Ministry of Micro, Small and Medium Enterprises and Small Industries Development Bank of India (SIDBI) jointly established a Trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) in order to implement Credit Guarantee Scheme for Micro and Small Enterprises. The corpus of CGTMSE is contributed by Government of India and SIDBI. 75% of the loan amount to the bank is guaranteed by the Trust Fund.
Nature of assistance	Collateral free loan up to a limit of ₹ 100 lakh is available for individual MSE on payment of guarantee fee to bank by the MSE.
Who can apply?	Both existing and new enterprises are eligible under the scheme.

Interest Subsidy Eligibility Certificate (ISEC)

Related Scheme	Interest Subsidy Eligibility Certificate (ISEC)

Description	The Interest Subsidy Eligibility Certificate (ISEC) Scheme is an important mechanism of funding khadi programme undertaken by khadi institutions. It was introduced to mobilise funds from banking institutions for filling the gap between the actual fund requirements and availability of funds from budgetary sources.
Nature of assistance	Under the ISEC Scheme, credit at a concessional rate of interest of 4% per annum for working capital, is made available as per the requirement of the institutions. The difference between the actual lending rate and 4% is paid by the Central Government through KVIC to the lending banks.
Who can apply?	The Khadi institutions, having valid Khadi certificate and sanctioned khadi programme.The Institutions registered with the KVIC/State Khadi and Village Industries Boards (KVIBs) can avail of financing under the ISEC Scheme, the Scheme supports only the khadi and the polyvastra sector.
How to apply?	The Khadi institutions will apply to the financing bank for working capital alongwith the ISEC certificate issued by KVIC. Based on the working capital sanctioned, financing bank will raise the reimbursement claim to the nodal branch for the differential interest rate over and above 4%.

Start up India :

Startup India is a flagship initiative of the Government of India, intended to catalyse startup culture and build a strong and inclusive ecosystem for innovation and entrepreneurship in India.

Startup India scheme is an important government scheme that was launched on 16th January 2016 with an aim to promote and support the start-ups in India by providing bank finances. It was inaugurated by the former finance minister, Arun Jaitley.

The Startup India scheme is based majorly on three pillars which are mentioned below:

1. Providing funding support and incentives to the various start-ups of the country.
2. To provide Industry-Academia Partnership and Incubation.
3. Simplification and Handholding.

Registration for Startup India

A person must follow the below-mentioned steps that are important for the successful registration of their business under the Startup India scheme:

1. A person should incorporate their business first either as a Private Limited Company or as a Limited Liability Partnership or as a Partnership Firm along with obtaining the certificate of Incorporation, PAN, and other required compliances.
2. A person needs to log in to the official website of Startup India where he/she has to fill all the essential details of the business in the registration form and upload the required documents.
3. A letter of recommendation, Incorporation/Registration Certificate, and a brief description of the business are some of the essential documents required for the registration purpose.
4. Since the start-ups are exempted from income tax benefits, therefore, they must be recognized by the Department of Industrial Policy and Promotion (DIPP) before availing these benefits. Also, they should be certified by the Inter-Ministerial Board (IMB) to be eligible for IPR related benefits.
5. After successful registration and verification of the documents, you will be immediately provided with a recognition number for your startup along with a certificate of recognition.

Who is eligible to apply under the Startup India scheme

An entity is eligible to apply when:

- It is incorporated as a private limited company or partnership firm or a limited liability partnership in India
- It has less than 10 years of history i.e. less than 10 years have elapsed from the date of its incorporation/registration
- The turnover for all of the financial years, since the incorporation/ registration has been less than INR 100 crores

Note: An entity formed by splitting up or reconstruction of a business already in existence shall not be considered a 'Startup'.

Startup India Benefits

After the launch of the Startup India scheme, a new program was launched by the government named the I-MADE program which focused on helping the Indian entrepreneurs in building 1 million mobile app start-ups. The government of India had also launched the Pradhan Mantri Mudra Yojana which aimed to provide financial supports to entrepreneurs from low socioeconomic backgrounds through low-interest rate loans. Some of the key benefits of Startup India are as follows:

1. To reduce the patent registration fees.
2. Improvement of the Bankruptcy Code ensuring a 90-day exit window.

3. To provide freedom from mystifying inspections and capital gain tax for the first 3 years of operation.
4. To create an innovation hub under the Atal Innovation Mission.
5. Targeting 5 lakh schools along with the involvement of 10 lakh children in innovation-related programs.
6. To develop new schemes that will provide IPR protection to startup firms.
7. To encourage entrepreneurship throughout the country.
8. To promote India as a start-up hub across the world.

Government Measures to Promote Startup Culture in the Country

1. As part of the "Make in India" initiative, the government proposes to hold one Start-Up fest at the national level annually to enable all the stakeholders of the Start-up ecosystem to come together on one platform. You can know in detail about the Make In India program on the linked page.
2. Launch of Atal Innovation Mission AIM – to promote Entrepreneurship through Self-Employment and Talent Utilization (SETU), wherein innovators would be supported and mentored to become successful entrepreneurs. It also provides a platform where innovative ideas are generated. Relevant details on Atal Innovation Mission AIM are available on the linked page.
3. Incubator set up by PPP – To ensure professional management of Government-sponsored or funded incubators, the government will create a policy and framework for setting-up of incubators across the country in public-private partnerships. The incubator shall be managed and operated by the private sector. Read more on Public-Private Partnership on the link provided here.
   - 35 new incubators in existing institutions. Funding support of 40% shall be provided by the Central Government, 40% funding by the respective State Government and 20% funding by the private sector for establishment of new incubators.
   - 35 new private sector incubators. A grant of 50% (subject to a maximum of INR 10 crore) shall be provided by Central Government for incubators established by the private sector in existing institutions.

A Startup India Seed Fund Scheme has been implemented with effect from April 1, 2021. The scheme aims to provide financial assistance to startups for proof of concept, prototype development, product trials, market entry and commercialisation.

PMMY (Prime Minister Mudra Yojana):

Pradhan Mantri Mudra Yojana (PMMY) is a flagship scheme of Government of India. The scheme facilitates micro credit/Loan up to Rs. 10 lakhs to income generating micro enterprises engaged in the non farm sector in manufacturing, trading or service sectors including activities allied to agriculture such as poultry, dairy, beekeeping, etc. The Scheme provides financial assistance extended by Member Lending Institutions to the non-corporate, non-farm sector income generating activities of micro and small entities.

These micro and small entities comprise of millions of proprietorship / partnership firms running as small manufacturing units, service sector units, shopkeepers, fruits / vegetable vendors, truck operators, food-service units, repair shops, machine operators, small industries, artisans, food processors and others.

The loans under Pradhan Mantri Mudra Yojana can be availed through eligible Member Lending Institutions (MLIs), which include:

- Public Sector Banks
- Private Sector Banks
- State operated cooperative banks
- Rural banks from regional sector
- Micro Finance Institution (MFI)
- Non-Banking Finance Company (NBFC)
- Small Finance Banks (SFBs)
- Other financial intermediary approved by Mudra Ltd. as member financial institutions

Digital India Mission:

Digital India Mission is an initiative that encompasses plans to connect the rural areas of the country with high-speed internet networks. Public Internet Access Programme is one among the nine pillars of digital India.

Nine pillars of Digital India

- Broadband Highways.
- Universal Access to Mobile Connectivity.
- Public Internet Access Programme.
- e-Governance: Reforming Government through Technology.
- e-Kranti - Electronic Delivery of Services.

- Information for All.
- Electronics Manufacturing.
- IT for Jobs.

Unit – III

Institutional sources of finance in rural areas:

The rapid increase in the banking sector particularly after the green revolution, the rural sector had a positive impact on farming and non-farming output, employment, and income. These banking opportunities allowed farmers to take different credit services, facilities and various loans to meet their production requirements.

Here are a few major credit sources of rural credit in India.

- **Co-operative Credit Societies**- This source of credit is the most economical and important source of rural credit. It was set up with the aim of facilitating the complete credit needs for small and medium farmers. Co-operative Credit Societies progressed steadily after a few years for inception. They started supporting the farmers in a significant way with short-term loans issued by Primary Agricultural Credit Societies (PACs), which progressed from ₹305 crores in 1965-66 to ₹5,200 crores in 1999-00. At the same time, the loans granted raised from ₹37 crores to ₹2,100 crores. However, the co-operatives could not meet the credit needs completely, so the moneylenders kept on controlling the rural economic markets.

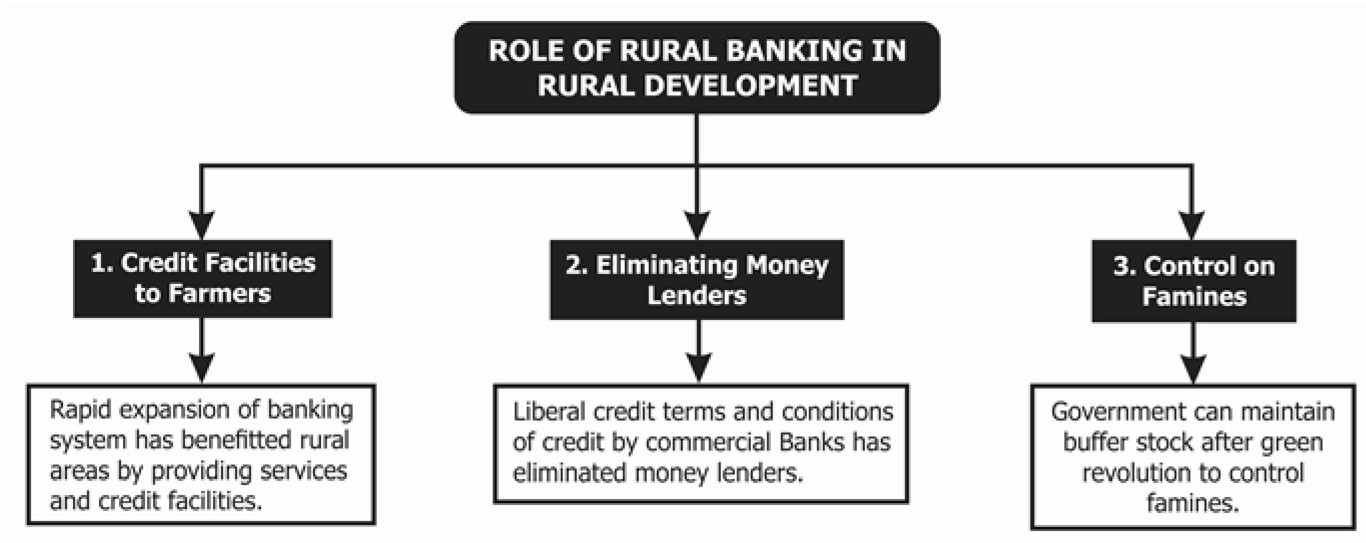
- **Land Development Bank**- This source of credit is also known as a land mortgage. It essentially gives farmers a long-term loan option upon the mortgage of their land at low-interest rates over a period of 15 to 20 years. These type of loans are usually taken if the farmers have some land developments work or digging of wells, etc, if extra land is to be taken through out-and-out purchase, or if previous dues are to be repaid. Though land development bank has made notable progress still the contribution is insignificant because most of the farmers are not aware of the existence of such land schemes or the importance and use of such banks. However, such a bank set up by the primary banks and the government has increased immensely over the years.

- **Commercial Banks**- Earlier, these banks were only received deposits from the urban population and issued loans only for trade and industry. They generally neglected agriculture and rural industries because by nature agriculture is a high-risk venture. However, today these banks give both direct and indirect investment to agriculture. Here, direct finance is issued for a small and medium term allowing farmers to conduct agricultural operations easily. Indirect finance is given in advances form to purchase things like grains and fertilisers. Commercial banks also grant finance to the Food Corporation of India, and State food agencies for operations like food procurement. These banks also give credit options for stocking and delivery of agricultural inputs. They have also executed the 'village adoption scheme', firstly initiated by the State Bank of India, to examine into credit and additional requirements of the farmers.

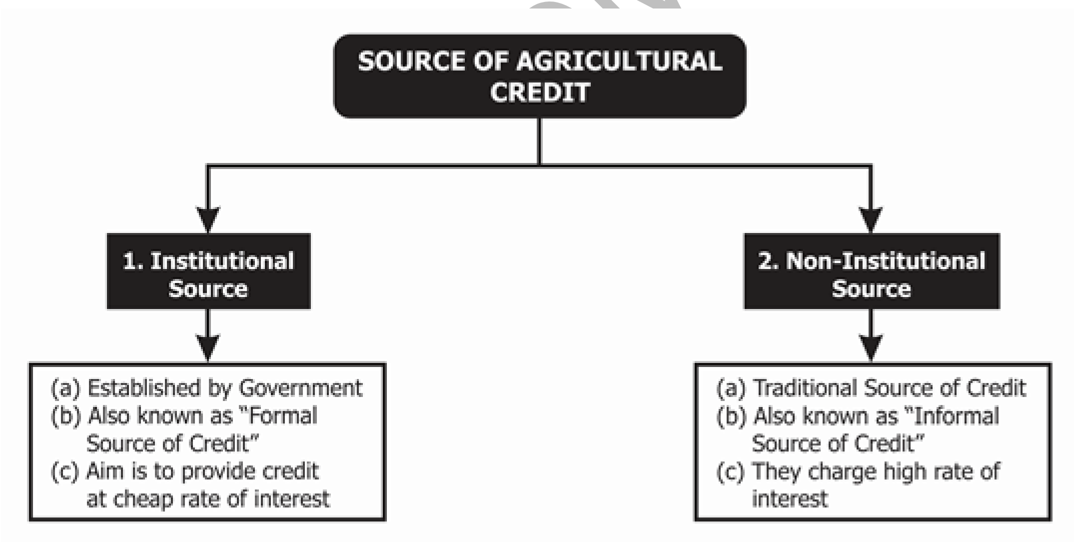
- **Regional Rural Banks**- Government initiated regional rural bank was set up to examine the specific needs of landless workers, small and marginal farmers, rural poor and artesian.

- **The Government**- The Government provides short and long term goals to farmers if there is an emergency like famine and flood. These type of loans are also known as Taccavo loans.

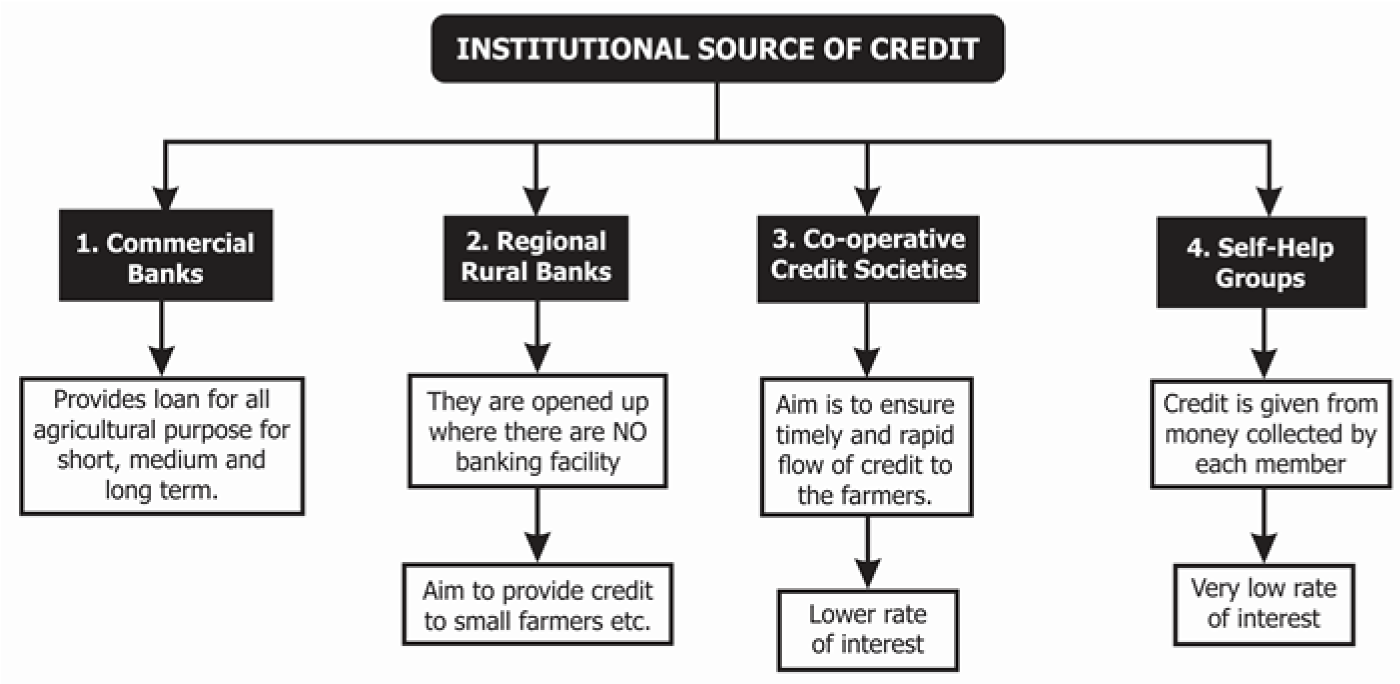
Role of Rural Banking in Rural Development



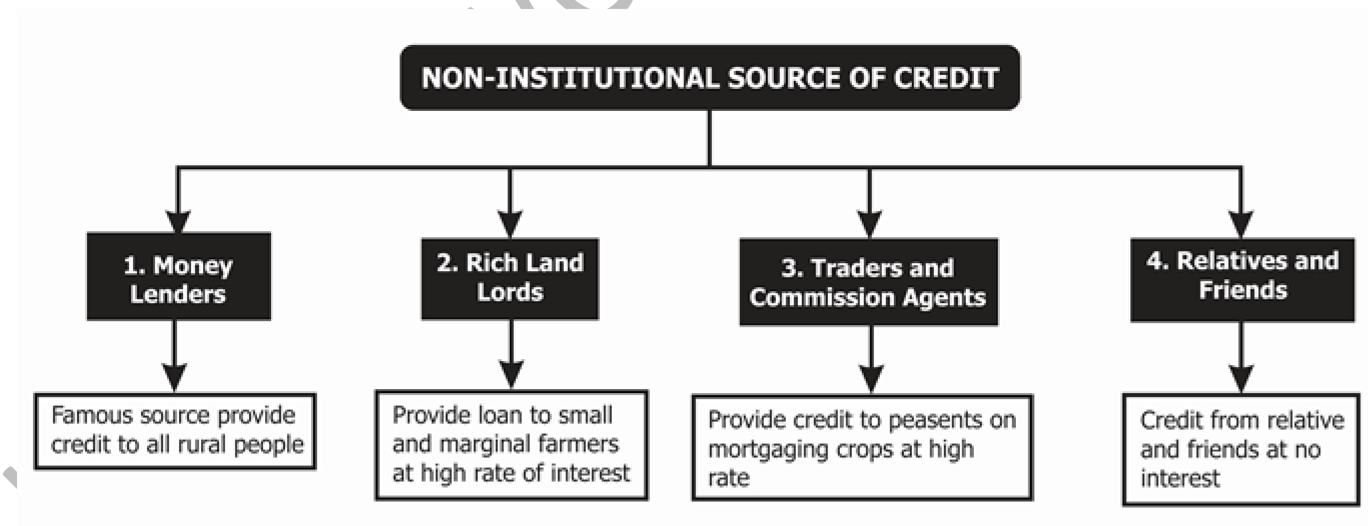
Source of Agricultural Credit



Institutional Source of Credit



Non- Institutional Source of Credit



Regional Rural Banks – Overview

1. The Regional Rural Banks, or RRBs, are the third layer of commercial banking organization, after commercial and cooperative banks.
2. The RRBs were established as per the recommendations of the Narasimham Committee to cater to the rural credit needs of the farming and other rural communities.
3. The main aim of the RRBs is to provide credit and other banking facilities to the small and marginal farmers, agricultural laborers, and small artisans who form an evident part of the development of the rural economy.
4. The RRBs are a new form of commercial banks, backed by commercially strong banks to serve within a limited local area.

The RRBS were set up under the regional rural bank act of 1976. The prathama grameen bank was the first bank to be established on 02nd october 1975. The syndicate bank became the first commercial

Functions of the RRBs in India

As the Regional Rural Bank is a scheduled commercial bank, it is primarily responsible for accepting deposits and disbursing loans. The important functions of the RRBs are as below:

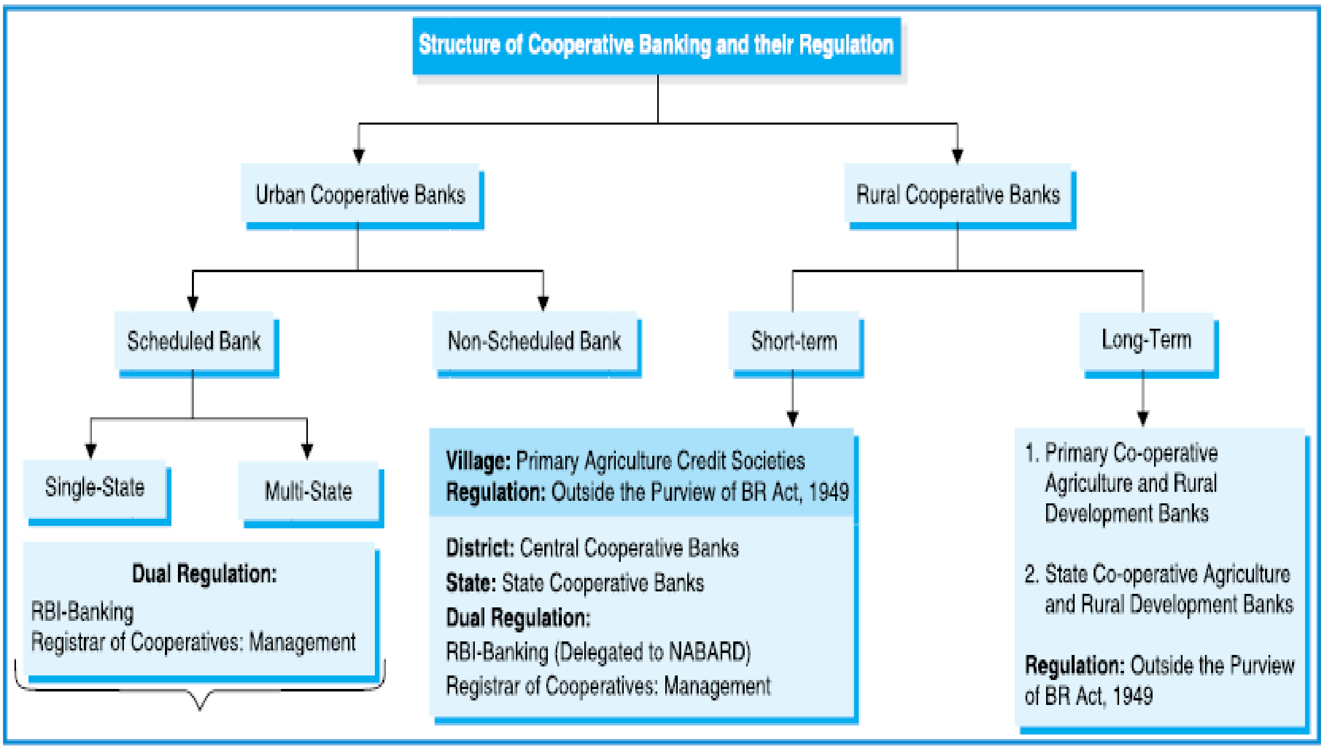
1. **Accepting deposits** from members in current or savings accounts. They can also be made in fixed or recurring deposits.
2. **Extending loans** to the small and marginal farmers, craftsmen and artisans, medium and small scale enterprises, housing, local traders, renewable energy, etc. that need development and financial assistance.
3. **Disbursing wages** is an important RRB function under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) and the Pradhan Mantri Gram Sadak Yojana (PMGSY). It also disburses pensions under the poverty alleviation schemes.
4. **Secondary functions**
    1. Providing agency services and general utility services to the customers
    2. Assisting in foreign exchange, money wire transfer, bill payments, etc
    3. Utility services like the ATM, issuance of debit cards, locker facilities, UPI, etc.
5. Bank to sponsor the Prathama Grameen Bank RRB.

Co-operative bank:

Cooperative Banks refer to those financial institutions under the Banking System in India that operate on the principles of cooperation and mutual benefit for their members.

Features of Cooperative Banks in India

- They belong to their members who are both the owners and customers of the bank.
    - Thus, it can be said that the customers are the owners of these banks.
- Cooperative Banks are named so because these have the cooperation of stakeholders as the motive.
- They operate on the principle of "one person, one vote" in decision making in decision-making and are managed on the basis of cooperation, self-help, and no profit no loss.
- Along with lending, these banks also accept deposits.
- These banks, under the Banking System in India, are primarily categorized into – Rural Cooperative Banks (RCBS), and Urban Cooperative Banks (UCBS). They are further sub-categorised as shown below:



State Cooperative Banks

- Each state has its own State Cooperative Bank, which is the apex body for cooperative banks in that particular state.
- They operate at the state level.
- It acts as the mediator between RBI and NABARD on the one side and Central or District Cooperative Bank and Primary Agricultural Credit Societies on the other side.

District Cooperative Central Banks (DCCBs)

- They operate at the District level.
- They get loans from the State Cooperative Bank and grant loans to Primary Agricultural Credit Societies and individuals.

Primary Agricultural Credit Societies (PACS)

- Primary Agricultural Credit Society (PACS) is a basic unit and smallest cooperative credit institution in India.
- They operate at the Gram Panchayat and village level.
- They provide short-term loans (1 year to 3 years) to its members for agricultural purposes.

Significance of Cooperative Banks in India

Due to their very nature of working, they play crucial roles in the Indian economy. Some of their major roles can be seen as follows:

- **Financial Inclusion:** By reaching out to the unbanked and underbanked sections of society, they play a crucial role in promoting financial inclusion.
- **Easy Access to Credit:** They offer easy access to credit to their customers that too at competitive interest rates.
- **Promoting Savings:** They encourage saving habits by offering deposit accounts tailored to rural needs.
- **Local Development:** These banks understand local needs better and thus play a significant role in rural development by funding various agricultural and rural development activities.
- **Rural Development:** The majority of these banks operate in rural areas, catering to the specific needs of farmers, small businesses, and low-income households.

Commercial bank:

A commercial bank is a kind of financial institution that carries all the operations related to deposit and withdrawal of money for the general public, providing loans for investment, and other such activities. These banks are profit-making institutions and do business only to make a profit.

The two primary characteristics of a commercial bank are lending and borrowing. The bank receives the deposits and gives money to various projects to earn interest (profit). The rate of interest that a bank offers to the depositors is known as the borrowing rate, while the rate at which a bank lends money is known as the lending rate.

Function of Commercial Bank:

The functions of commercial banks are classified into two main divisions.

(a) Primary functions

Accepts deposit : The bank takes deposits in the form of saving, current, and fixed deposits. The surplus balances collected from the firm and individuals are lent to the temporary requirements of the commercial transactions.

Provides loan and advances : Another critical function of this bank is to offer loans and advances to the entrepreneurs and business people, and collect interest. For every bank, it is the primary source of making profits. In this process, a bank retains a small number of deposits as a reserve and offers (lends) the remaining amount to the borrowers in demand loans, overdraft, cash credit, short-run loans, and more such banks.

Credit cash: When a customer is provided with credit or loan, they are not provided with liquid cash. First, a bank account is opened for the customer and then the money is transferred to the account. This process allows the bank to create money.

(b) Secondary functions

Discounting bills of exchange: It is a written agreement acknowledging the amount of money to be paid against the goods purchased at a given point of time in the future. The amount can also be cleared before the quoted time through a discounting method of a commercial bank.

Overdraft facility: It is an advance given to a customer by keeping the current account to overdraw up to the given limit.

Purchasing and selling of the securities: The bank offers you with the facility of selling and buying the securities.

Locker facilities: A bank provides locker facilities to the customers to keep their valuables or documents safely. The banks charge a minimum of an annual fee for this service.

Paying and gathering the credit : It uses different instruments like a promissory note, cheques, and bill of exchange.

Examples of Commercial Banks

Few examples of commercial banks in India are as follows:

1. State Bank of India (SBI)
2. Housing Development Finance Corporation (HDFC) Bank
3. Industrial Credit and Investment Corporation of India (ICICI) Bank
4. Dena Bank
5. Corporation Bank

Unit - IV

Credit Planning at the grass root level:

Grass roots planning, also known as micro-level planning, is a technique, which helps in identifying developmental needs of the community people, prioritizing them and formulating viable projects, so that with limited resources maximum development could be achieved in a stipulated time period.

In the post independence period, systematic efforts were made from time to time for the overall development of rural areas. Community Development Programmes (CDP) were launched in the first five year plan period. Agricultural development was one of the core issues of CDP. People's participation through certain grassroots level institutions like the block level institutions, village panchayats, gram sabhas, mahila mandali, youth clubs, krishi charcha mandali, was tried. But these grass roots level institutions were largely voluntary, without any statutory back-up. A vast sum of money was spent on rural development through different sectoral departments trying to reach the rural people directly with skeletal field level functionaries. Several new programmes and schemes were launched every now and then without paying any attention to the ground realities and needs and priorities of the rural masses. Weak planning capabilities at the block level and absence of effective village based institutions of the people's participation compounded the problems of grass roots level planning.

The entire process of 1 block-level planning passes through seven stages. These include:

(i) identification phase,

(ii) resource inventory phase,

(iii) plan formulation phase,

(iv) employment plan phase,

(v) areal or layout plan phase,

(vi) credit plan phase, and

(vii) integration and implementation phase. Block Level Planning

Block is an important unit of micro level planning. These development blocks were created to supervise the implementation of development plans under the Community Development Programme initiated during the first five year plan. Each district was divided into a number of blocks and each block comprised about 100 villages, with a population of about 60,000.

The programme visualized mobilization of local resources, participation of the people in the decision making and implementation of the development schemes. Hence, a new unit of planning was created at block level under the leadership of a block development officer and a team of various specialists and village level workers (officers).The Fifth Five Year Plan) (1978-1983) opted for area planning with a preferment for block level planning for achieving employment objectives and emphasis on rural development.

The main objective of this planning was to absorb local labour surpluses and greater involvement of people in the formulation and implementation of development plans. Hence, by the end of 1983 adopt system of block level planning integrated into national system was available

It is an action oriented planning pertaining to the development of agriculture, irrigation (mainly minor irrigation), soil conservation, animal husbandry, pisciculture, forestry, minor processing of agricultural products, small and cottage industries, creation of local level infrastructure, and development of social services like water supply, health, education, shelter, sanitation, local transport, and welfare plans. The entire process of block level planning passes through seven stages. These include

- Identification phase
- Resource inventory phase
- Plan formulation phase
- Employment plan phase
- Areal or layout plan phase
- Credit plan phase
- Integration and implementation phase

The main objectives of such planning include, creation of skill to promote self-employment and self-reliance, improvement in productivity and optimum utilization of local resources. Thus the main focus of such planning is the identification of target group, introduction of development plans to generate employment, popularization of minimum need programmes and implementation of special programmes for weaker section of the society.

Objectives of Block Level Planning

The objectives of block planning should, to the extent possible, be in harmony with national planning goals. The following are the key objectives of block level planning.

- Increase in employment and income, particularly of the poor, through optimal growth in the area and through public employment programmes
- Distribution of gains from development in a manner that they reach the weaker sections, i.e. marginal farmers, agricultural labourers etc.
- Building social and economic infrastructure in the area
- Increasing the availability and accessibility of social services through minimum need and other programmes and extending the reach of the public distribution system

- Building institutions/organizations to protect the interests of the poor and the vulnerable in the area
- Upgrading technology, increasing productivity and contributing to skill formation
- Optimum utilization of the development potentials of the region
- Solution to the problems of unemployment
- Self-reliance
- Removal of socio economic disparities

The following activities are planned at the block level.

- Agriculture and allied activities
- Minor irrigation
- Soil conservation and water management
- Animal husbandry and poultry
- Fisheries
- Forestry
- Processing of agricultural produce
- Organizing input supply, credit, and marketing
- Cottage and small industries
- Local infrastructure
- Social services
- Drinking water supply
- Health and nutrition
- Education
- Housing
- Sanitation
- Local transport
- Welfare programme
- Training of local youth and updating of skills of local population

Panchayat Level Planning

The Panchayat Raj System involves a three tier structure: village level, block level and district level. The first tier at village level is commonly known as Gram Panchayat (village assembly), the second tier at block level as Panchayat Samiti and the third tier at district level as Zila Parishad.

According to the provisions of the Panchayats Act 1996 the election to the village Panchyat is held at an interval of 5 years. Through the Constitution Amendment Act 1992 the Panchayat (also called Gram Sabha) has been authorized to look after the preparation and implementation of plans for economic development and social justice. The respective state has been given discretionary powers to prescribe powers and functions to the Gram Sabha to act as an institution of self-government.

It has also been advised to constitute a District Planning Committee to consolidate the plans prepared by the Panchyats and Municipalities and prepare an integrated development plan for the district as a whole. It has also been directed to constitute a State Finance Commission (SFC) to review every five years, the financial position of Panchayats and to make recommendations about the principle governing the distribution of revenues between the state and the Panchyats, and determination of the grants in aid to the Panchayats from the consolidated funds of the state.

The implementation of the plan at the Panchayat level is the responsibility of the Village Development Officer (VDO) and the secretary and is supervised by the Gram Sabha. Under the existing provisions, funds for the Gram Sabha (Village Panchayat) are directly being allocated from the centre to execute rural development programmes like Integrated Rural Development Programme (IRDP) and Jawahar Rozgar Yojna (JRY) etc.

The Panchayat has also been entrusted with the responsibility for the promotion of agriculture, rural industries, provision of medical relief, maternity, women and child welfare, maintaining common grazing grounds, village roads, tanks, wells, sanitation and execution of other socio-economic programmes. In some places, they are also authorized to supervise primary education and collect land revenue. Presently, Gram Panchayats are involved in the identification of beneficiaries in antipoverty programmes. There are about 2.20 lakh Gram Panchayats, 5,300 Panchayat Samitis and 400 Zila Parishads in the country.

It has been found that elected representatives of Panchayat Raj Institutions are largely unaware of the political and economic dimensions of development issues and lack planning and managerial skills.

Multi-level Planning opposed to centralized planning is an exercise where local institutions are actively involved not only at the implementation level but MLP is a more integrative effort that seeks to involve all hierarchies of administrative, geographical, political and regional levels in planning process. It seeks to involve active participation of the lower hierarchical levels in information generation, data collection, policy suggestion, plan implementation & monitoring of all developmental activities.

A planning process can be either single level or multi-level. In the single level planning, the formulation of plans and decision making are done at the national level; the process is centralized and the lower territorial levels come into the picture only at the implementation stage. On the other hand, in the multi-level planning process, the national territory is divided into small territorial units, their number depending upon the size of the country, the administrative, the geographical and cultural settings. The Panchayat has also been entrusted with the responsibility for the following.

- Promotion of agriculture
- Rural industries
- Provision of medical facilities
- Maternity, women and child welfare
- Maintaining common grazing grounds, village roads, tanks, wells
- Sanitation
- Execution of other socio-economic development programmes
- Anti-poverty programmes

Lead bank scheme:

The Reserve Bank of India launched the Lead Bank Scheme. The objective was to ensure financial inclusion and provide banking services. The scheme aimed to serve all sections of society. The Lead Bank Scheme aimed to establish a lead bank in every district of India. The lead bank would coordinate with other banks and financial institutions in the area. The purpose was to ensure effective and efficient utilization of banking facilities. The scheme also aimed to increase credit flow to priority sectors. The scheme aimed to promote rural development.

Objectives of the Lead Bank Scheme

Objectives of the Lead Bank Scheme are explained in the following table:

Objectives of the Lead Bank Scheme	Importance/ Advantages	Means of Achievement
Identify unbanked and underbanked regions in districts	Important to extend banking facilities to all regions	Economic survey and identification of regions
Evaluate physiographic, agro-climatic, and socio-economic conditions through economic survey	Necessary to understand the conditions and needs of the region	Conducting an economic survey

Remove regional imbalances through appropriate credit deployment	Essential to promote balanced development	Appropriate credit deployment
Extend banking facilities to unbanked areas	Important to ensure financial inclusion	Establishment of banking facilities in unbanked areas
Address credit gaps in various sectors through a credit plan	Necessary to address the needs of various sectors	Development and implementation of a credit plan
Identify economically viable and technically feasible schemes	Essential to ensure effective use of credit	Identification and evaluation of schemes
Implement structural and procedural changes in the banking sector	Necessary to improve banking operations	Introduction of structural and procedural changes
Foster cooperation among financial and non-financial institutions	Essential for coordinated development	Promotion of cooperation between financial and non-financial institutions
Promote overall development of the districts	Essential for overall growth and progress	Implementation of development programs

District credit plan:

District Credit Plans are simply aggregation of the Block Credit Plans of the blocks falling in a district. These aggregates are compiled, collated, reviewed and finalized in DCC meetings and given the final shape of annual District Credit Plans.

Unit - V

RBI:

The Reserve Bank of India (RBI) is India's central bank. It controls the monetary policy concerning the national currency, the Indian rupee. The basic functions of RBI are the issuance of currency, sustaining monetary stability in India, operating the currency, and maintaining the country's credit system.

Functions of Reserve Bank of India

In this section, we discuss the functions of RBI in detail.

The Reserve Bank of India works as:

Monetary Authority

- Implementation of monetary policies.
- Monitoring the monetary policies
- Ensuring price stability in the country considering the economic growth of the country

Also, read about the Monetary Policy Committee (MPC) and know more about this six-member committee.

Regulator and Administrator of the Financial System

- The RBI determines the comprehensive parameters of banking operations.
- These methods are responsible for the functioning of the country's banking and financial system. Methods such as:
    - License issuing
    - Liquidity of assets
    - Bank mergers
    - Branch expansion, etc.

Managing Foreign Exchange

- RBI manages the FOREX Reserves of India.
- It is responsible for maintaining the value of the Rupee outside the country.
- It aids foreign trade payments.

Issuer of currency

- The Reserve Bank of India is responsible for providing the public with a sufficient supply of currency notes and coins.

- The quality of currency notes and coins is also taken care of by the RBI.
- RBI is in charge of issuing and exchanging of currency and coins.
- Also, the destruction of currency and coins that are not fit for circulation.

RBI's Developmental Role

- Promotional functions that support national objectives are organized by RBI that encourage rural and agricultural economic development.
- The RBI will regularly issue directives to commercial banks to lend loans to small-scale industrial units.

Composition of RBI

- The Reserve Bank of India is controlled by a central board of directors. The directors are appointed for a 4-year term by the Government of India in keeping with the Reserve Bank of India Act.
- The Central Board consists of:
    - Governor
    - 4 Deputy Governors
    - 2 Finance Ministry representatives
    - 4 directors to represent local boards headquartered in Mumbai, Kolkata, Chennai, and New Delhi
- The executive head of RBI is the Governor.
- The Governor is accompanied by 4 deputy governors.
- The First Governor of RBI was Sir Osborne Smith and the First Indian Governor of RBI was C D Deshmukh.
- The First woman Deputy Governor of RBI was K J Udeshi.
- The only Prime Minister who had been the Governor of RBI was Manmohan Singh.
- The current governor of RBI is Shaktikanta Das. Get the list of RBI Governors in the linked article.

NABARD:

National Bank for Agriculture and Rural Development (NABARD) has released a study named, 'Achieving Nutritional Security in India: Vision 2030', in December 2020. The report assesses the trends for nutritional security and identifies determining factors that have a significant effect on reducing malnutrition levels in India. With this, it becomes important for IAS Exam candidates to learn what NABARD is and why is it an important entity in the Indian Economy.

NABARD is India's apex development bank – National Bank for Agriculture and Rural Development. With headquarters in Mumbai, NABARD has branches across India. This is an important topic in the section of Indian Economy as well as Indian Polity

Functions of NABARD

The functions of NABARD are described below.

- In order to build an empowered and financially inclusive rural India, NABARD has specific departments that work towards the desired goals. These departments can be collectively categorized into three majors units:
    - Financial
    - Developmental
    - Supervision

  The financial support necessary to build rural infrastructure is provided by NABARD.

Preparation of district-level credit plans by NABARD are used to guide and motivate the banking industry to achieve required targets.

NABARD also supervises the Regional Rural Banks (RRBs) and Cooperative Banks along with developing their banking practices and integrating them to the Core Banking Solution (CBS) platform.

- NABARD also helps handicraft artisans sell their products by training and providing a marketing platform for them.
- NABARD has partnered with various leading global organisations and institutions affiliated with the World Bank that have played a role in transforming agriculture.
    - It offers advisory services and financial assistance provided by these international partners to help in consultation with rural development and other agricultural practices.

DIC:

A District industries Centre is a district-level entity that assists in the establishment of small businesses in the rural areas of India. Before establishing a DIC, a potential entrepreneur must visit various organisations in order to obtain the necessary support and facilities, and in many instances, most of them will be located outside of their neighbourhood.

Role of District Industries Centres (DICs)

District Industry Centres exist only to promote and support the businesses of their respective states. The Department of Commerce and Industry in each state forms DICs. Alongside DICs, Sub-District Industries Centres provide assistance. DIC's responsibilities include:

- DIC assists an entrepreneur in the DIC programs and guarantees continuous support during the establishment of their business.
- DIC offers young business owners a single-window clearing system that allows them to settle their business-related problems quickly.
- DIC encourages the expansion and development of many manufacturing industries in rural and urban communities.
- Under the Standup India Scheme, DIC provides financing for MSMEs, start-ups and growing companies.
- DIC provides self-employed individuals with machinery and tools to help them with their businesses.
- DIC also carries out a periodic assessment of their programs and schemes to ensure proper implementation and operation.

Schemes Under the District Industries Centres (DICs)

Below is the list of DIC schemes:

- **Prime Minister's Employment Guarantee Program:** This program started its operations in 2008. This scheme's purpose is to assist educated but jobless persons in rural and urban regions. It offers adequate job related skills.
- **DIC Loan Scheme:** This scheme is accessible in cities and rural regions under one lakh people and a capital investment less than ₹2 lakhs. It assists the self-employed and smaller businesses in rural regions. Small size Industries Board and Village Industries locate similar businesses and aid them in obtaining an MSME loan.
- **Seed Money Scheme:** This program aids self-employed individuals who are part of self-employment initiatives or specialised wage jobs. The financing under the scheme is ₹25 lakhs. For ventures up to ₹10 lakhs, the seed money support will be 15 percent. A loan from a bank will cover 75 percent of the project costs, with a maximum aid limitation of ₹3.75 lakhs for all SC/ST/OBC and the total support will be 20 percent.
- **District Awards Scheme:** This scheme, as the name implies, boosts the morale of new and successful businesses by recognizing them with district-level prizes. Every year, the District Advisory Committee picks such businesses and honours them on Vishwakarma Jayanti.

- **Entrepreneurship Development Training Program:** This program prepares educated but jobless individuals to get self-employment or professional jobs. The Entrepreneurship Introductory Program (Udyojakta Paricha Karyakram), Entrepreneurship Development Training Program and the Technical Training Program are the 3 training programs offered under this scheme.

Functions of District Industries Centres (DICs)

- **Survey and Investigation:** The District Industries Centre surveys existing conventional and emerging businesses, raw materials, and people's capabilities who are employed in the business. It anticipates the market price for numerous items used in a manufacturing unit. It also develops techno-economic viability analysis in order to provide enterprises with investment recommendations.
- **Training Courses:** The DIC also offers training classes for smaller and modest business owners. It functions as a go to contact point for start-ups and small industry service institutions.
- **Machinery and Equipment:** The District Industries Centre advises where one can purchase machinery and tools and can also organise for the delivery of machinery on a rental basis.
- **Raw Materials:** The District Industries Centre gathers information about the resources needed by various units and arranges bulk purchases of those products. As a result, small business operations may obtain raw materials at inexpensive costs.
- **Arrangement for Loans:** It establishes the required agreements with Leading Banking and other Financial Firms to give small businesses financial support. It also evaluates applications and keeps track of the movement of industrial loans in its province.
- **Marketing:** Market studies and market development opportunities are carried out by the District Industries Centre. It also arranges marketing channels related to small businesses, maintains communications with government contracted organisations, and keeps enterprises up to date on market data.
- **Khadi and Village Industries:** District Industries Centres concentrate on the improvement of Khadi and village businesses, as well as other small producers. It also maintains a strong working relationship with the State Khadi Authority and organises training courses for rural craftsmen.

KVIC:

Khadi and Village Industries Commission (KVIC) is a statutory body of the Indian Constitution. It comes under the Ministry of Micro, Small and Medium Enterprises. It was established by Khadi and Village Industries Act, 1956. It has been amended twice, in 1965 and 2006. It is one among the important constitutional, statutory and quasi-judicial bodies of India.

Objectives of KVIC

The broad objectives of the Khadi Village and Industries Commission encompassing self-reliance and sustainability are:

1. To boost employment in the country.
2. To promote the promotion and sale of Khadi articles
3. To cater to the self-reliance doctrine of the country by empowering underprivileged and rural sections of the society.

Functions of KVIC

The following are the functions of Khadi Village and Industries Commission:

1. It plans, promotes, organizes, and implements programmes for the development of Khadi and Village Industries (KVI).
2. It coordinates with multiple agencies that are engaged in rural development for several initiatives w.r.t khadi and village industries in rural areas.
3. It maintains a reserve of raw materials that can be further promoted in the supply-chain.
4. It aids in creating common service facilities that help in processing of raw materials.
5. It aids the marketing of KVI products through artisans and other avenues.
6. It creates linkages with multiple marketing agencies for the promotion and sale of KVI products.
7. It encourages and promotes research and development in the KVI sector.
8. It brings solutions to the problems associated with the KVI products by promoting research study and enhancing competitive capacity.
9. It also helps in providing financial assistance to the individuals and institutions related to the khadi and village industries.
10. It enforces guidelines to comply with the product standards to eliminate the production of ingenuine products.
11. It is empowered to bring projects, programmes, schemes in relation to khadi and village industries' development.

Progress of KVIC

The development of Khadi and Village Industries can be asked in the form of Essay in UPSC Mains. Hence, aspirants can take help from the latest report of KVIC, 'Two Years' Progress Report (2016-2018)' for important facts.

Some important highlights taken from the KVIC report regarding the Khadi and Village industries and the commission are:

1. The Prime Minister of India, Narendra Modi quotes, "Earlier it was Khadi for the nation, Khadi for fashion, now it is becoming Khadi for transformation."
2. The Mission Solar Charkha has empowered women by bringing self-esteem and self-reliance among them.
3. The significant transformation both in Khadi production and Khadi sales are mentioned from the figures below:
    - The average Khadi production has grown from 6.52 percent in 2004-14 to 26.43 percent in 2015-18.
    - The average Khadi sales grew from 6.62 percent in 2004-14 to 31 percent in 2015-18.
    - The number of Khadi sales outlets funded for modernization stands at 728 between 2015-2018. There were no outlets reported between 2004-2014.
    - 400 computers, hardware and software have been supplied to Khadi institutions for digitalization between 2015 and 2018.
4. Khaadi Haat was set up for the first time in 2018 in New Delhi.
5. Digital India Pavilion was established by KVIC in the India International Trade Fair.
6. A larger steel charkha at East Champaran was inaugurated in April 2018 to commemorate the visit of Mahatma Gandhi.
7. KVIC gifted Gandhi Charkha to Uganda which was unveiled on the international day of non-violence. (Read about important national and international dates for UPSC from the linked article.)
8. KVIC envisages an artisan-centric vision for the transformation in Khadi and Village industries.

The five organs of the KVIC are mentioned in the report:

- Organization
- Community
- Village Industry
- Market
- Heritage

It has brought KVIC e-portal for Khadi institutions that help artisans promote and sell their KVI products across India.

KVIC is the nodal agency to develop clusters for Khadi production under Scheme of Fund for Regeneration of Traditional Industries (SFURTI).

1. Introduction Voluntary Organizations act as a catalyst of social development providing important services that complement Government efforts in this sector. Lead voluntary organizations play a vital role in the development process since they are actively involved in the social, economic and cultural development of our nation.

2. Concept of Voluntary Action According to the UN Voluntary organizations are also known as Third sector initiatives. In India Voluntary organizations can be registered as societies, as charitable trusts, or as non-profit companies under Central or State laws.

However any Voluntary Acton includes developmental, political and catalytic activities: Developmental activities aim at the poor directly by delivering various services for the benefit of the target group. Political activities are directed at a government activity. The aim is to influence the authority to take action to create such conditions as would improve the life of the poor A catalytic activity aims at influencing change in social systems that will be beneficial to the public. In India voluntary effort has always been an integral component of its culture. The origin and growth of the voluntary sector in India has been formed by two major influences: Indigenous traditions and value systems of Indian Society Result of the interaction between the Indian society and developed countries. The third sector has a long history of contribution to India's social growth and change. The State recognises the need and importance of Voluntary Organizations and therefore has initiated some registered societies like Council for Advancement of Peoples Action and Rural Technology (CAPART), National institute of Public Cooperation and Child Development (NIPCCD), National Dairy Development Board (NDDB)… At the same time Government also recognizes private voluntary initiatives like Voluntary Action Network in India (VANI) which works for the enhancement of and building linkages in the voluntary sector. 3. Profile and activities of Council for Advancement of Peoples Action and Rural Technology (CAPART) CAPART is an autonomous body under the Ministry of Rural Development Government of India set up in September 1986. CAPART was registered as a society under Societies Registration Act; 1860. Two societies have been amalgamated and merged into this society. They are People's Action for Development (India) and Council for Advancement of Rural Technology. The objective of CAPART is to involve people through voluntary organizations in the implementation of development programmes and need-based innovative projects. The main activities of CAPART are the following: Encouraging , promoting and assisting voluntary action in the implementation of projects for the enhancement of rural prosperity Promoting voluntary action through grass root planning, organizing seminars and workshops Providing financial support for innovative and need based projects Selecting and encouraging appropriate and need-based rural technologies Addressing the issues of rural poverty through various innovative strategies Carrying out research studies and promoting young professionals in the area of rural development. Respecting the ideas of Rural Voluntary Originations and listening to their voices.

Working hand in hand with rural voluntary organizations and strengthening their activities with the weaker sections of rural society, disabled, women, children.