ECONOMIC FEATURES

IIBF

RURAL BANKING

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ECONOMIC FEATURES

- The economic life of rural people is based on agriculture and related activities.
- Other farm activities are allied activities like dairy, poultry, and fisheries.

AGRICULTURE

- The proportion of workers in the agricultural sector in India showed a **decline over the last few decades**
- The share of the agricultural sector in GDP has been declining over the years
- It provides food and fodder and raw materials to industry.
- In 2020, there were around a 501million workers in India. Out of **which 26.18 percent were in the industry sector, 41.19 percent were in the agricultural industry, and 32.33 percent were in the service sector**.

NON-FARM ACTIVITIES

- It includes all non-agricultural activities **like mining & quarrying, household manufacturing, processing, repairs, construction, trade, transport, and other services** in villages and rural towns.
- the sector has been contending with several factors like **inadequate rural infrastructure, particularly roads, electricity, and communication facilities, lack of sufficient skilled labor, and adequate access to credit, information, and training facilities.**
- Many agricultural households, in addition to engaging in agriculture, also take up non-farm activities to augment their income.
- Services create 60 percent of NFS jobs, followed by **manufacturing, construction, and mining. Important activities under RNFS are**

cotton textile, woolen textile, pottery, food, tobacco, metal products, repairs & construction, retail trade, education, public administration, personal services, land transport, miscellaneous services, restaurants, and hotels, and medical services.

GROSS DOMESTIC PRODUCTS (GDP) AND PER CAPITA NET NATIONAL PRODUCT (NNP)

- India's financial year 2022 GDP growth is seen **at 9.2 percent**.
- Agriculture sector to **grow 3.9 percent**
- Industrial sector to **grow 11.8 percent**
- Services sector to **grow 8.2 percent**

RURAL MONEY MARKETS - FORMAL AND INFORMAL RURAL

MONEY MARKETS

Farmers' credit need is met by institutional (formal agencies) or non-institutional sources (informal agencies). **The formal agencies are mainly banks and cooperatives and informal agencies are moneylenders, traders, relatives, friends, landlords, and others.**

Formal Credit Institutions

In India, the banking structure for institutional credit in rural areas consists mainly of Commercial Banks, Regional Rural Banks, and, Cooperatives.

Non-institutional or Informal Sources

Moneylenders

- Moneylenders are classified into **agriculturist moneylenders and professional moneylenders.**
- Agriculturist moneylenders combine farming with money lending.
- Professional moneylenders are those whose main occupation is money lending.
- Moneylenders have certain advantages over institutional sources. They are **accessible to the farmers whenever they want**.
- They stay in the village, have intimate **knowledge of the borrowers, and have almost no lengthy formalities for lending.**
- These informal credit providers gave loans against the **security of gold jewelry, land documents, cultivation rights, Promissory Note, and even utensils.**

Landlords and Others

- Small farmers and tenants depend upon landlords and others for their financial requirements.
- **The interest rates are very high, many a time leading to farmers losing their land, and being unable to repay their loans**.
- The share of landlords and others gradually declined from 4 percent of outstanding debt to 1 percent.

Traders and Commission Agents

- Traders and commission agents provide credit during the growing season, their only condition for **lending is that farmers should sell the produce at low prices to them.**
- **They also deduct commission and other charges further reducing the price received by the farmer.**
- Traders and commission agents are more active in the case of commercial crops like **groundnut, tobacco, cotton, as also in the case of horticulture crops like mango, and orange.**

Relatives

- Farmers generally borrow from their relatives for **getting over temporary difficulties or when they are not able to raise loans from moneylenders and other sources.**
- These loans generally do not carry any interest or carry very **low interest.**
- This is an uncertain source and farmers cannot depend upon this source for productive purposes.

Self-Help Groups

- **They are supported by commercial banks, voluntary agencies, and development financial institutions like NABARD and SIDBI**.
- A small group of like-minded individuals of **12 to 25 local women between the ages of 18 and 50 is encouraged to come together and start saving a small amount every week; every fortnight or every month.**
- The amount to be saved and **frequencies of saving are decided by the members.**
- **The members periodically meet to discuss their mutual problems and to find solutions to those problems**.

- They have laid down their own **set of rules for attending the meeting**, paying or not paying interest on the amount saved and interest to be charged for the amount lent.

RURAL INDEBTEDNESS

The group analyzed the rising agricultural indebtedness in the country in two dimensions:

(1) an **agricultural crisis because of low growth and declining productivity;** and

(2) an agrarian crisis characterized by the rural population's **high dependence on farm income.**

- The group concluded that rural indebtedness is commonly cited as the proximate cause for the disturbing phenomenon of farmer suicides.
- The **root causes included stagnation, a growing institutional vacuum, and a lack of alternative livelihood opportunities**.
- the average household borrowing in rural India **was not excessive, and the credit needs of agriculture grew considerably following its commercialization and modernization.**

RURAL POVERTY

Even after so many years of independence, the removal of poverty remained like a dream.

Concept of Rural Poverty

- One of the ways of measuring poverty is using the concept of the poverty line; **the estimated number of persons below the poverty line can be identified as poor**.
- Several methods were made to define the poverty line, using mainly **income or consumption as relevant variables**.

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Different Methods of Measuring Poverty Line

- Estimates of the number of poor were made based on **low per capita income and micro-surveys of villages and towns.**
- statistical techniques were used.
- The simplest method of determining the poverty line, known as the **'headcount approach'**, is to decide on a **level of income or consumption expenditure as necessary for meeting the basic needs of life.**
- Poverty is measured by the proportion of the population having per capita income or consumption expenditure below this specified level.
- **In urban areas, it is 1,286 Indian rupees, and in rural areas, it is 1059.42 Indian rupees per month.**

Trends in Poverty

- The proportion of India's population below the poverty line has **fluctuated widely in the past, but the overall trend has been downward.** there have been roughly three periods of trends in income poverty.
- 1950 to Mid-1970s: Income poverty reduction shows no discernible trend. In 1951, 47% of India's rural population was below the poverty line. The proportion went up to 64% in 1954-55; it came down to 45% in 1960-61 but in 1977-78, it went up again to 51%.
- Rural income poverty increased from 34% in 1989-90 to 43% in 1992 and then fell to 37% in 1993-94.
- **India's extreme poverty has declined by 12.3 percent in 2019 from 2011. That is rural poverty declined from 26.3 percent in 2011 to 11.6 percent in 2019.**

Causes of Poverty in India

- A Large Number of Illiterates
- Caste System
- British Era
- India's Economic Policies
- Over-reliance on Agriculture

Poverty Status

- **India’s extreme poverty has declined by 12.3 percent in 2019 from 2011. That is rural poverty declined from 26.3 percent in 2011 to 11.6 percent in 2019**.
- Human poverty on the HPI has declined considerably during the eighties. The decline was from nearly 47 percent in the early eighties to about 39 percent in the early nineties.
- The decline has been marginally more in rural areas in comparison to urban areas, resulting in a **narrowing down of the rural-urban gap.**

NCAER Report on Capability Index of Poverty

- NCAER (National Council of Applied Economic Research) conducted a study by using the capability poverty measure (CPM), **introduced by the Human Development Report of 1996.**
- The PM considers the lack of three basic capabilities. The first is the capability to be well-nourished and healthy - **represented by the percentage of children under five who are underweight.**
- The second is the capability for healthy reproduction measured by a proxy such as **the percentage of births unattended by trained healthy personnel.**
- The third is the capability to be educated and knowledge represented by **the percentage of women aged 15 years and above who are illiterate.**
- It may be noted that the index emphasizes the deprivation of women.