

ECONOMICS

(Indian Economic Development)

Chapter 6: Rural Development



RURAL DEVELOPMENT

Rural Development:

Rural Development refers to a situation in which an individual is unable to fulfill the basic necessities of life. In other words, it is the ability of a individual to fulfill the minimum requirement of life like food, clothing, shelter, education and health facilities etc.

It is a continuous and comprehensive socio-economic process trying to improve all the aspects of rural life.

In other words, Rural development is a comprehensive term which essentially focus on action for the development of area which is lacking behind in the overall development of village economy.

The overall development of rural economy comes under rural development.

Such as:

- Development of human resources.
- Development of infrastructure.
- Land reforms.
- Poverty Alleviation program etc.

Agricultural credit:

It refers to the credit for the farming. Due to involvement of long time period and uneven distribution of land, credit becomes the lifeline of Indian agriculture.

Sources of Agricultural credit:

There exist 2 types of sources which provide agricultural credit in rural areas.

- Non institutional sources
- Institutional sources

Non-Institutional sources:It is the most common source of rural credit.

- Money lenders
- Zamindar
- Sahukar
- Relatives
- Trades

Merits of taking credit from Non institutional sources:

- No legal formalities are required.
- Loan is provided anytime.
- Ease in taking loan.

Demerits of taking credit from Non institutional sources:

- High rate of interest
- Exploitation of farmers
- Farmers were forced to sell their products to the lenders at low price.

Institutional sources:

It refers to organizations which are legally meant to provide credit.

- **Co-operative credit societies:**They provide adequate credit to the farmers at reasonable rate of interest. They also provide directions in agricultural operations to the farmers so that they can increase their productivity.
- **Commercial banks:**It is an institution which performs the functions of accepting deposit, granting loans and making investment, with the aim of earning profit. **Example:** SBI (State Bank of India), PNB (Punjab National Bank), Canara Bank etc. The government realized that agricultural credit needs cannot be solely met by cooperative credit societies and commercial banks should play an important role.
- **Regional rural bank (RRB):** These banks are set up to promote credit facilities in rural and backward areas of the country. They operate at district level and focus on the credit requirements of the weaker sections of the societies.
- **NABARD (National Bank for Agriculture and Rural Development):**It is an apex bank in agricultural and rural credit (established in 1982). The bank has been entrusted with the matters concerning policy, planning and operations in the field of credit for agricultural and other economic activities in rural areas of the country. The basic objective of this is to promote the strength of agricultural credit in rural areas.
- **Self help groups (SHGs):**Self help groups are small groups of poor people. They help each other to solve their problems. SHGs promote small savings among their members. The savings are kept with the bank with the name of the self help groups. Later on this common fund is used to give small loans its members. The government also provides partial financial assistance to SHGs.

Agriculture marketing:

Indian farmers always faces the problem of selling their products in the market at the right price. The basic deficit they face is the problem to market their products, and hence the requirement of agriculture marketing arises. Agriculture marketing is a process that includes assembling, storage, processing transportation, packaging, grading and distribution of different agriculture commodities across the country.

In other words, it includes the services involved in moving the agricultural products from farm to the ultimate consumer.

A good marketing system is essential to mobilize the surplus agricultural products (food grains and raw materials) to feed urban populations and industries.

Defects of agriculture marketing:

- Lack of storage facility
- Lack of effective transportation in rural areas
- Lack of marketing information in farmers
- Lack of adequate finance
- Inadequate communication

Measures taken for agriculture marketing:

- **Regulated market:** It is a type of market which was established by the government of India for transparency in buying and selling of agriculture commodities. The buying and selling of commodities under this market is monitored by the committee which includes the representatives of government, farmers and traders. It is established just for protecting farmers from fraud by middleman and to provide them adequate price for their commodities.
- **Co-operative agriculture marketing societies:** It refers to the type of marketing societies are formed by the farmers to sell the output collectively and to take advantage of collective bargaining in order to get better price for the crops.
- **Minimum support price (MSP):** In order to give better price and to increase the incentive for producing agriculture products the government of India gives minimum support price to the farmers for their crops. It can be treated as the offer price by the government to the farmers for their crops. The government purchases the products from the farmers at Minimum Support Price and stores it in the godowns of Food Corporation of India (FCI).
- **Subsidized transport:** In order to promote and strengthen agriculture in the economy, the government introduced subsidized transport system for the farmers. Railway offer low rate transport to the farmers for bringing their produce to the urban markets where they may get a better deal.
- **Public distribution system:** Concept of ration shops and fair price shops operates the public distribution system in the economy. Fair price shops offer essential commodities like rice, wheat, pulses, kerosene etc, at a lower price to the financially lower sections (below poverty line) of the societies.
- **Standardization and grading:** Grading is the process of dividing the products into different lots which have similar characteristics in shape, size, type, quality, performance etc. Products of different qualities should be separated into groups

and similar quality products are put into a Grading and quality helps the farmers to secure more price for better quality of products and to earn more. Example- different grades of rice are Basmati, Arborio, Brown, Jasmine, White etc.

Diversification of Agricultural activities:

Due to huge amount of rise and sole dependence of rural areas on agriculture there exist a need to diversify the agricultural activities.

Diversification refers to the shift from crop farming to other areas of production for employment; It raises the level of income and reduces the heavy rise. Finding livelihood away from crop farming becomes more important when it is realizes that crop farming sector is overburdened.

It has 2 aspects:

- **Diversification of crop production:**It refers to changing the single cropping system into multi-cropping system. Earlier a single food grain is produced on a piece of land; the basic agenda of diversifying this is to change the cropping pattern from food grains to cash crops. Multi-cropping refers to production of more than 1 crop in a year. It decreases the dependence of farmers on one or 2 crops as they are now engaged in production of variety of crops.
- **Diversification of productive activities:**Due to overburden of crop farming sector, major portion of the increasing workforce were given employment opportunities in non-farming sectors.

Non-farming primary sector includes:

- Animal husbandry (includes breeding, caring and rearing of farm animals, like cattle's, goats, duck etc).
- Fisheries (includes catching, processing and selling of water animals).
- Horticulture (includes cultivation of fruits, vegetables, flowers, medicinal plants etc). (the revolution connected to horticulture is known as golden revolution).

Sustainable development and organic farming: The development of our present generation without hampering the development of future generation is known as Sustainable Development.

Organic farming:

It is a process of producing food naturally; under such farming the use of chemical fertilizers and highly yielding variety of seeds is totally prohibited.

It is an eco-friendly method of cultivation which brings Sustainable development in the country.

In other words, it a type of farming system in which the total farming restores, maintain and enhance the balance of ecological system.

This method of farming is very popular across the globe, many countries produces around 10% of their food output through organic farming.

Benefits of organic farming:

- Eco-friendly system of production.(Due to non-involvement of fertilizers)
- It is a less expensive method because of use of traditional technique of production.
- Increases the level of income, as the demand for organic products is increasing rapidly in international market.
- It provides healthier and tastier food.
- Provides more employment opportunities as it is labour intensive.

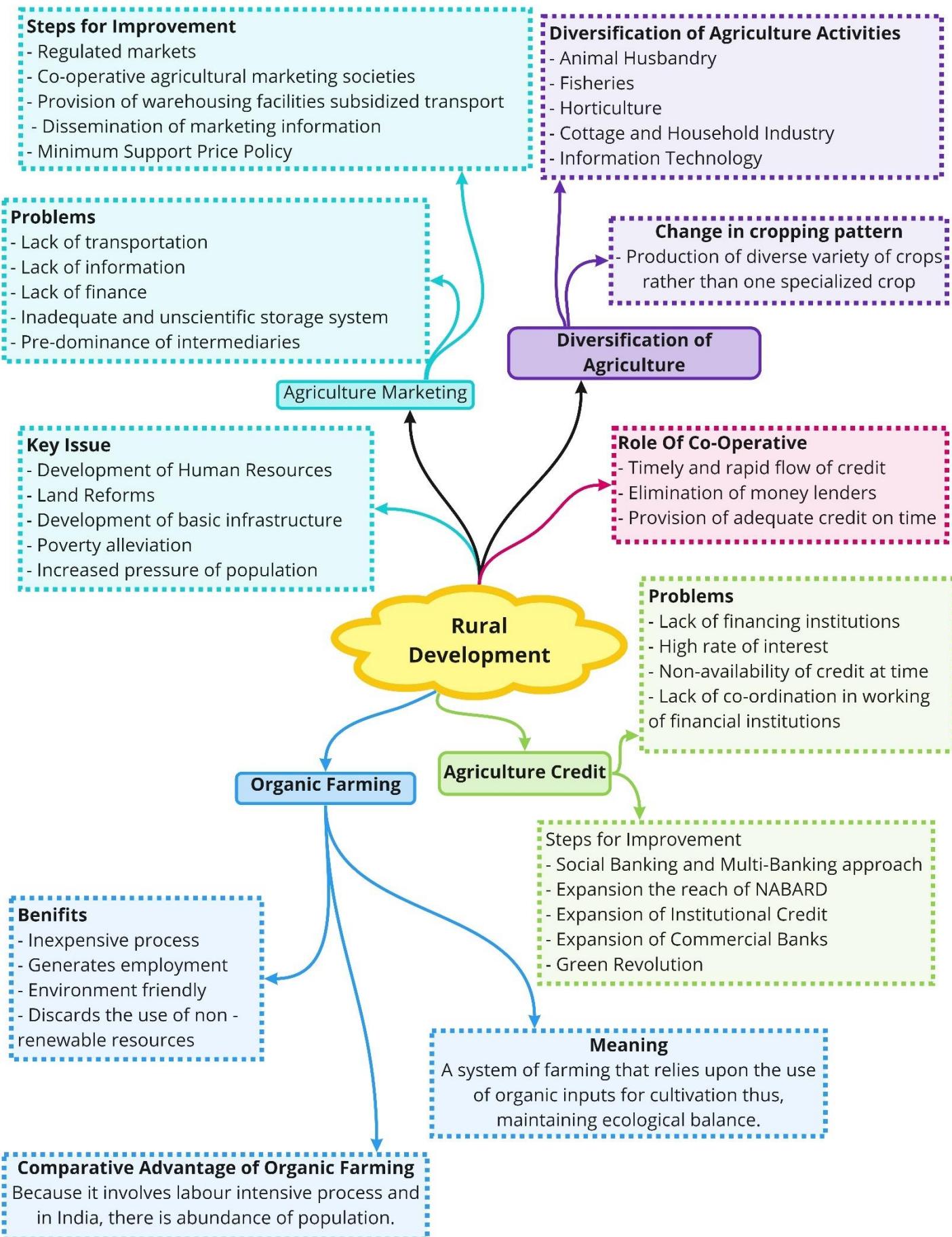
Labour intensive technique:It refers to the technique which requires large amount of labour to produce the goods.

Labour force:It refers to the actual number of people available for work.

Summary:

- Development of human resources
- Development of infrastructure
- Land reforms
- Poverty Alleviation program etc.
- Agricultural credit
- Sources of Agricultural credit
- Non institutional sources
- Institutional sources
- Agriculture marketing
- Defects of agriculture marketing
- Lack of storage facility
- Lack of effective transportation in rural areas
- Lack of marketing information in farmers
- Lack of adequate finance
- Inadequate communication
- Measures taken for agriculture marketing
- Regulated market
- Co-operative agriculture marketing societies
- Minimum support price (MSP)
- Subsidised transport

- Public distribution system
- Standardization and grading
- Diversification of Agricultural activities
- Sustainable development
- Organic farming
- Benefits of organic farming



Important Questions

Multiple Choice questions-

Q1. The scheme of microfinance is extended through

- (a) Self-help Groups
- (b) Land Development Banks
- (c) NABARD
- (d) Regional Rural Banks

Q2. Name the state which is held as a success story in the efficient implementation of milk cooperative.

- (a) Maharashtra
- (b) Jammu and Kashmir
- (c) Gujarat
- (d) Andhra Pradesh

Q3. Which one of the following is not a non-institutional source of credit?

- (a) Moneylenders
- (b) Relatives
- (c) Traders and commission agents
- (d) Land Development Bank

Q4. Why is the minimum support price fixed by the government?

- (a) For the government's own benefit
- (b) To safeguard the interest of farmers
- (c) To save the interest of consumers
- (d) None of these

Q5. Blue revolution is associated with

- (a) Indigo cultivation
- (b) Poultry farming
- (c) Fisheries
- (d) Availability of drinking water

Q6. Which of the following falls under unorganized sector?

- (a) Gramin Bank
- (b) Cooperative banks
- (c) Moneylenders and traders
- (d) Land development Banks

Q7. Which Indian state has been held as a success story in the efficient implementation of milk cooperatives?

- (a) Punjab
- (b) Gujarat
- (c) Uttar Pradesh
- (d) West Bengal

Q8. What is the name of the vegetable and fruit market in Andhra Pradesh?

- (a) Apni Mandi
- (b) Hadaspur Mandi
- (c) Rythu Bazars
- (d) Uzhavar Sandies

Q9. How much do the “inland sources” contribute to the total fish production in India?

- (a) 64 percent
- (b) 39 percent
- (c) 50 percent
- (d) 75 percent

Q10. Which status has been accorded to the retail chains and supermarkets for selling organic food?

- (a) Eco Status
- (b) Sustainable Status
- (c) Nutritional Status
- (d) Green Status

Q11. Growth in rural marketing relates to

- (a) Provision of physical infrastructure
- (b) Regulation of markets
- (c) Cooperative farming
- (d) All of these

Q12. From the following which is not a non-institutional source of credit in India.

- (a) Money lenders
- (b) Traders
- (c) Commission agents
- (d) Commercial banks

Q13. The ‘Golden Revolution’ was a period of very high productivity in:

- (a) Foodgrain production

(b) Horticulture

(c) Organic farming

(d) Pisciculture

Q14. AMUL stands for:

(a) Anand Multiple Union Ltd.

(b) Agriculture and Milk Union Ltd.

(c) Anand Mil Union Ltd.

(d) Anand Manufacturing Union Ltd.

Q15. Organic farming uses

(a) Organic manure

(b) Bio-fertilisers

(c) Organic pesticides

(d) All of these

Very Short:

1. Define rural development.

2. What has happened to the agriculture output during 2007-12?

3. Define credit.

4. What is the function of micro-credit programme?

5. Why are moneylenders a popular source of rural credit?

6. When was NABARD set up?

7. What is agricultural marketing?

8. What is cooperative marketing?

9. What is agricultural diversification?

10. Name the category that accounts for the largest share in livestock in India.

Short Questions:

1. Why is rural development important?

2. What efforts has the government made for rural development?

3. Discuss the changes that have taken place in Indian agriculture and rural sector since initiation of reforms.

4. What should the rural banking sector do to improve the situation of rural credit in India?

5. What are the limitations of non-institutional sources of credit?

6. What are significant features of moneylenders as a source of rural credit?

7. Discuss in brief the defects of agricultural credit.

8. What was the need for state intervention to regulate the activities of the private traders?

State intervention is required to regulate the activities of the private traders.

Long Questions:

1. Explain the various non-institutional sources of rural credit in India.
2. What are the sources of institutional credit in India? Explain.
3. Suggest some measures for the improvement of rural credit.
4. Explain the significance of agricultural marketing in rural development.
5. Discuss the conditions required for efficient agriculture marketing in India.

6. Case Study Based Question-

1. In agriculture, due to long time gap between crop sowing and realisation of income, farmers are in strong need for credit. Farmers need money to meet initial investment on seeds, fertilisers, implements and other family expenses of marriage, death, religious ceremonies, etc. So, credit is one of the important factors, which contribute to agricultural production. An efficient and effective rural credit delivery system is crucial for raising agricultural productivity and incomes.

Questions:

1. Which one of the following is not a non-institutional source of credit?
 - (a) Money lenders
 - (b) Co-operative Credit
 - (c) Trader and commission agents
 - (d) Land development bank
2. _____ (NABARD/RBI) is the Apex Bank which coordinates the functioning of different financial institutions, working for expansion of rural credit.
3. Regulated markets were organised to protect the farmers from the malpractices of consumers. (True/ False)
2. Prior to independence, farmers, while selling their produce to traders, suffered from faulty weighing and manipulation of accounts. Farmers who did not have the required information on prices prevailing in markets were often forced to sell at low prices. They also did not have proper storage facilities to keep back their produce for selling later at a better price. Measures that were initiated to improve the marketing aspect.

Questions:

1. Government improve agriculture marketing system through (Control/Regulate).

2. Agricultural marketing is a process that involves the:

- (a) Transportation
- (b) Packaging
- (c) Grading
- (d) All of these

3. The first step was regulation of markets to create orderly and transparent marketing conditions (True/Falls).

Assertion Reason Type Question-

1. In these questions, a statement of assertion followed by a statement of reason is given. Choose the correct answer out of the following choices.

- a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
- b. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
- c. Assertion (A) is true but Reason (R) is false.
- d. Assertion (A) is false but Reason (R) is true.

Assertion: Rural development is an action plan for complete and comprehensive development of rural area.

Reason: It is required to increase the standard of living of Indians as two third of the population of India lives in rural area.

2. In these questions, a statement of assertion followed by a statement of reason is given. Choose the correct answer out of the following choices.

- a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
- b. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
- c. Assertion (A) is true but Reason (R) is false.
- d. Assertion (A) is false but Reason (R) is true.

Assertion: Rapid expansion of the banking system had a positive effect on rural farm and non-farm output, income and employment.

Reason: The institutional credit arrangement continues to be inadequate as they have failed to cover the entire rural farmers of the country.

Answers key

MCQ answers:

1. (a) Self-help Groups

2. (c) Gujarat
3. (d) Land Development Bank
4. (b) To safeguard the interest of farmers
5. (c) Fisheries
6. (c) Moneylenders and traders
7. (b) Gujarat
8. (c) Rythu Bazars
9. (a) 64 percent
10. (d) Green Status
11. (d) All of these
12. (d) Commercial banks
13. (b) Horticulture
14. (c) Anand Mil Union Ltd.
15. (d) All of these

Very Short Answers:

1. Answer: Rural development refers to the action plan for the economic and social upliftment of rural areas.
2. Answer: During 2007-12, agricultural output has grown at 3.2 percent.
3. Answer: Credit is the amount of money available to be borrowed by an individual, which must be paid back to the lender at some point in the future.
4. Answer: Micro-credit programme provides small loans to the needy for self-employment projects that generate income.
5. Answer: The moneylenders are a popular source of rural credit due to easy availability of credit.
6. Answer: NABARD was set up in 1982.
7. Answer: Agricultural marketing is a process that involves the assembling, storage, processing, transportation, packaging, grading and distribution of different agricultural commodities across the country.
8. Answer: Cooperative marketing is a system through which a group of farmers join together to undertake some or all the processes involved in bringing goods to the consumer instead of individual sale.
9. Answer: Agricultural diversification refers to change in cropping pattern and/ or a shift of workforce from agriculture to other allied activities and non-agriculture sector.
10. Answer: Poultry accounts for the largest share in livestock in India with 58 per cent (in 2012).

Short Answers:

1. Answer: The real progress of a country does not mean simply the growth and expansion of industrial urban centres. It is mainly the development of the villages, the rural sector. Development of rural sector is important because:

- (i) agriculture is the major source of livelihood in the rural sector of India;
- (ii) more than two-third of India's population depends on agriculture; and
- (iii) bulks of raw materials for industries come from agriculture and rural sector.

However, the level of agricultural productivity is so low that one-third of rural India still lives in abject poverty. Thus, it is important to develop rural India if our nation has to realise real economic and social progress.

2. Answer: The government has made the following efforts for rural development:

- (i) Prepared a road map for agricultural diversification with focus on horticulture, floriculture, animal husbandry and fisheries
- (ii) Started Vishesh Krishi Upaj Yojana on 1 st April, 2004 as a special agricultural produce scheme with the objective of promoting exports of fruits, vegetables, flowers, minor forest produce, dairy and poultry'
- (iii) Focused on micro irrigation, finance, insurance and rural credit
- (iv) Strengthened agricultural marketing infrastructure

3. Answer: After the initiation of reforms, the growth rate of agriculture sector decelerated to about 3 percent per annum during the 1991 -2012. Decline in public investment has been the major reason for this. The share of agriculture sector's contribution to GDP has been declining while the population dependent on this sector has not shown any significant change.

There has been inadequate infrastructure, lack of alternate employment opportunities in the industry or service sector and increasing casualisation of employment, which further impedes rural development. During 2007-12, agriculture output has grown only at 3.2 percent.

4. Answer: In order to improve the situation of rural credit in India, the rural banking sector should change their approach from being merely lenders to building up relationship banking with the borrowers. Developing the habit of savings and efficient utilisation of financial resources must be encouraged among the farmers.

5. Answer: The following are the limitations of non-institutional sources of credit are:

- (i) Moneylenders and traders exploit small farmers by charging very high rate of interest on loans.
- (ii) They manipulate poor farmers' credit accounts and keep them in debt trap.
- (iii) They compel the farmers to sell their produce to him at low prices.
- (iv) They do not issue any receipt after the payment is made by the farmer.
- (v) They get the word cone by members of farmers family without any wages

6. Answer: The significant features of moneylenders as a source of rural credit are:
 - (i) Moneylender provides credit both for productive and unproductive purposes.
 - (ii) The money lending method is very simple. He provides loans for short-term, medium-term as well as long-term requirements of the farmer, without any legal formalities.
 - (iii) Moneylender provides loans with or without security.
 - (iv) If the farmer pays the interest on a regular basis, the moneylender does not compel the farmer to pay back the principal amount.
7. Answer: In India, the main defects in the agricultural credit system are as given under:
 - (i) Agriculturist needs to pay a very high rate of interest.
 - (ii) Moneylenders and traders are still the prominent source of agricultural finance.
 - (iii) There is a lack of coordination among the various agencies of rural credit.
 - (iv) Despite many institutions, adequate agricultural credit is not available. The institutional finance is only 50 percent of the total requirements of the farmer.
 - (v) The commercial banks hesitate to provide credit to agriculturist. Banks demand collateral as the risk involved is greater.
 - (vi) There is no systematic arrangement in New Agricultural Finance Corporations for agricultural credit.
8. Answer:
 - (i) to ensure adherence to standardised and open marketing procedures
 - (ii) to avoid collusion between brokers and traders that may cause disadvantage to the farmers
 - (iii) to ensure use of standardised weights and measures
 - (iv) to promote fair marketing fees; and
 - (v) to keep a check regarding unauthorised deductions from the purchase price payable to the framers.

Long Answers:

1. Answer: The various non-institutional sources of rural credit in India are:
 - (i) **Moneylenders:** Moneylenders typically offer small personal loans to farmers at high rates of interest. They charge high interest rates due to the level of risk involved. They lend to people with limited access to banking activities.
 - (ii) **Traders and Commission Agents:** Traders and commission agents are also non-institutional source of agricultural finance. They advance loans to agriculturists for productive purposes against their crops without any legal agreement. They force them to sell their produce at low prices and charge heavy commission for themselves.

(iii) **Landlords:** Small and marginal farmers mostly depend on landlords for credit in order to satisfy their day-to-day requirements; However, with the abolition of zamindari system, this source has lost its importance to a large extent.

(iv) **Relatives:** Sometime the farmers have to borrow from their relatives and friends to meet their financial crisis. This type of loan does not carry interest.

2. Answer: The sources of institutional credit in India include the following:

(i) **Government:** The government provides loans to the farmer for his short-term as well as long term needs. Normally, these loans are given at the time of natural calamities such as droughts, floods, etc. Long-term loans are given for making permanent improvements and a very low rate of interest is charged for the same.

(ii) **Cooperative Credit:** The cooperative credit societies meet the requirements of only short-term credit. However, to bring about permanent improvement on land and to introduce modern technology, long-term heavy investment is required. Land development banks are supposed to advance long-term loans for this purpose.

(iii) **Commercial Banks:** After the nationalisation of 14 big banks in 1969, the commercial banks have also started taking keen interest in farm financing. A number of schemes have been introduced to help the farmers so that they may introduce the modern technology in agriculture. Most families covered by these banks are big landlords, who could give adequate security to the bank in the form of land mortgage.

(iv) **Regional Rural Banks:** A new rural credit agency has' been set up to provide loan to the agriculturists. RRBs have been opened by the joint efforts of the central and state governments and commercial banks. These banks have been set up-in the rural areas where enough credit has not been available but there are substantial potentialities of agricultural development.

(v) **National Bank for Agriculture and Rural Development:** NABARD was set up on 12th July, 1982 as an apex body to look after the credit needs of the rural sector. It has got an authority to oversee the functioning of the cooperative sector through its agricultural credit department. It provides long-term loans by way of refinance of land development banks, cooperative banks, commercial banks and regional rural banks.

(vi) **Kisan Credit Card (KCC) Scheme:** This scheme was introduced in 1998-99 and it has made rapid progress, with the banking system issuing more than 556 lakh cards by November, 2005. This scheme has helped in augmenting the flow of short-term crop loans for seasonal agricultural operations to farmers. Besides the existing facilities, the KCC scheme has been enlarged to include long-term loans for agriculture and allied activities along with a component to meet the consumption needs.

3. Answer: The following measures should be adopted for the improvement of rural credit:

- (i) **Coordination:** The different agencies of agricultural credit must be coordinated to facilitate efficient disbursal and utilisation of financial resources.
- (ii) **Deposit Insurance Scheme:** The cooperative banks should start the Deposit Insurance Scheme to attract the maximum deposits from the public.
- (iii) **Cooperative Marketing Societies:** The credit and cooperative marketing societies should be integrated. It will ensure the paying back of loans as the farmers sell their produce to cooperative markets.
- (iv) **Increase in Capital Resources:** It is necessary to increase capital resources of the cooperative credit societies to meet the need of the farmers.
- (v) **Easy Availability of Loans:** The loan process should be made simpler. The main reason for popularity of the moneylender is simple methods of lending the amount. The formalities should be minimised.
- (vi) **Efficient Management:** The credit agencies should be efficiently managed. The managers should have complete knowledge about agriculture and they should be sympathetic towards
- (vii) **Promotion of Savings:** To promote savings, the farmers should be given incentives. The government should use its mechanism to encourage farmers to save more and avoid unnecessary spending.

4. Answer: An efficient marketing system is of great significance for the development of agricultural economy like that of India. Proper marketing of agricultural products is undoubtedly favourable to the farmers because it ensures fair price for their produce. The fair price encourages them to produce for the market. The needs of urban sector are better satisfied and the process of industrialisation gets a boost.

As a result, the income of the farmers rises, increasing their demand for industrial output. Thus, improvement in farm marketing helps the process of development. Naturally, an important problem of Indian agriculture concerns the marketing of its produce. In order to increase the income of the farmers and to promote economic growth of India, it is necessary that the problem of agricultural marketing be solved.

It is a fact that economic prosperity depends upon a sound system of marketing. In India, it becomes important because some states produce much more than their requirements and have to supply to other deficit parts of the country.

5. Answer: Following are the conditions necessary for efficient marketing in India:

- (i) **Storage Facilities:** Efficient marketing needs adequate storage facilities so that they should be able to wait for times when they could get better prices of their produce. Moreover, they do not have to dispose off their surplus produce immediately after harvesting.
- (ii) **Freedom from Moneylenders:** In India, there is large number of moneylenders who compel farmers for distress sale. Thus, credit facilities should be extended to save them from the clutches of moneylenders.
- (iii) **Transportation Facilities:** Farmers should have cheap and adequate transport

facilities so that they may be able to take their surplus to the regulated markets instead of selling it away at the village level.

(iv) **Reduced Intermediaries:** The number of intermediaries should be minimised so that the profits of middlemen may be reduced. This in turn will increase the returns to the farmers.

(v) **Adequate Information:** Farmers should have adequate and clear information regarding the market conditions as well as about the prevailing prices otherwise they may be cheated. There should be organised and regulated markets where they can directly sell their produce.

Case Study Answer-

1. Answer:

1. (b) Co-operative Credit
2. NABARD
3. False

2. Answer:

1. Regulate
2. (d) All of these
3. True

Assertion Reason Answer-

1. a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
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