

# RURAL DEVELOPMENT

## Multiple Choice Type Questions

1. Which among the following is an initiative taken for the development of rural India?
  - a. Human Capital Formation
  - b. Land Reforms
  - c. Poverty Alleviation
  - d. All of these
2. What was the growth rate of agricultural output during 2007-12?
  - a. 32% per annum
  - b. 6% per annum
  - c. 1.5% per annum
  - d. 5% per annum
3. When was the National Bank for Agricultural and Rural Development set up?
  - a. 1962
  - b. 1972
  - c. 1982
  - d. 1992
4. Which of the following is an institutional source of rural credit?
  - a. Moneylenders
  - b. Regional Rural Banks
  - c. Traders
  - d. Landlords
5. Which source of credit had emerged to fully integrate the formal credit system into the overall rural social and community development?
  - a. Self-help Groups
  - b. Regional Rural Banks
  - c. Commercial Banks
  - d. Land Development Banks

## Answer

1.(d)                      2. (a)                      3. (c)                      4. (b)                      5. (a)

## SHORT ANSWER QUESTIONS

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

### Answer:

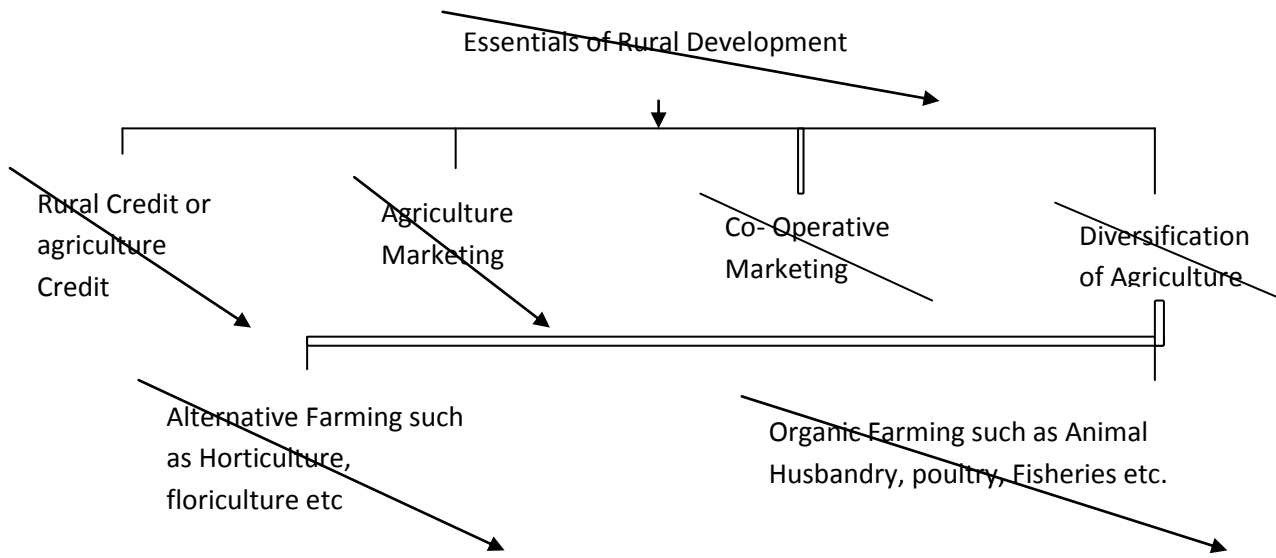
The following are the limitations of non-institutional sources of credit are:

- (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

2. What are the essentials of rural development?

**Answer:**

The essentials of rural development have been shown with the help of a diagram.



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

**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.

4. Discuss in brief the defects of agricultural credit.

**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.

5. Write a short note on the role and performance of SHGs as a source of credit. ;

**Answer:**

The formal credit delivery mechanism has not only proven inadequate but has also not been fully integrated into the overall rural social and community development. A vast proportion of poor rural households tend to remain out of the credit network as some kind of collateral is required to take loan from banks.

Self-Help Groups (SHGs) have emerged to fill the gap in the formal credit system. A typical SHG consists of 15-20 members. These members usually belong to one neighborhood, who meet and save regularly. Saving per member depends on the ability of the people to save.

The SHG can extend these savings as small loans or micro credit to the needy members from the group itself. Although the group charges interest on these loans, it is still less than what the moneylenders charge. Total SHG savings with banks increased from ₹ 23.9 billion as on 31st March, 2006 to around ₹ 70 billion as on 31st March, 2011.

### **LONG ANSWER QUESTION**

1. Discuss the key issues of action plan for rural development in India.

**Answer:** The following are the key issues of action plan for rural development in India:

(i) **Land Reforms:** Land reforms are the measures to bring about changes in the ownership of land holdings to encourage equity. Land reforms providing a land system conducive for agricultural development should not only be enacted but also be faithfully implemented. The official land tenure system must aim at land to the tiller as self-cultivation can induce maximum improvement in farming.

(ii) **Poverty Alleviation:** Action plan for rural development includes high priority to poverty alleviation in the rural areas. For the overall development of each locality and in the rural areas special schemes like MNREGA should be launched.

(iii) **Human Capital Formation:** Human capital formation is still a major task in rural areas of the Indian economy. India has a huge pool of manpower resources but the available manpower lacks basic skill and training. Therefore, in order to make the available resources strong and efficient, the action plan for rural development should consider the challenging issues like literacy, healthcare, education, on the job training, etc.

(iv) **Development of Infrastructure:** Development of infrastructure includes the following:

- Provision of credit facilities to the farmers in the rural areas
- Permanent water supply throughout the year in the areas receiving less or low rainfall
- Availability of agricultural research facilities to enhance the crop yield and productivity
- Development of efficient means of transport, communication and power resources.

2. Explain the various non-institutional sources of rural credit in India.

**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.

3. What are the sources of institutional credit in India? Explain.

**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 nationalization 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.

4. Suggest some measures for the improvement of rural credit.

**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 minimized.

(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.

5. Explain the significance of agricultural marketing in rural development.

**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 industrialization 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.