

**Harnessing Rural Banking Potential In India**  
***Expanding Scope & Scale of Innovative Concepts & Programs***  
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Rural areas in India have been endowed with significant physical, biological and natural resources in the form of climate, solar energy, land, labor, livestock, water, vegetation, fisheries, forestry etc. Development of these resources by blending appropriate policies with application of science & technology and supported by finance can substantially improve country's GDP. The Government, RBI, Banks and NABARD have since 1969 developed and implemented several innovative concepts, policies, plans, programs and procedure to accelerate the development of primary, secondary and tertiary sectors of rural economy that have yielded rich dividends. Rural banking system has favorably and instantly responded to the following few innovative concepts & programs, among others, introduced by NABARD, a unique for-profit apex development bank & an innovative institution. Potential of Rural Banking in India has been unfathomable that needs to be harnessed through expanding the scope & scale of innovative concepts & programs and developing business models, which can significantly step up banking sector's revenues from current 30% to 40% by the end of 12<sup>th</sup> Five Year Plan.

**Village Development Program:** The concept of Village Development program operationalised in 2007 aims at developing identified villages in a holistic and integrated manner by involving the local people & their institutions, Government departments, banks, NGOs etc. The program envisages developing one village in each district in which district development manager of NABARD is stationed and five villages in each of the Pilot Project for Integrated Development of tribal blocks. The program sharply focuses on [i] identification of village and its socio-economic & infrastructure needs [ii] awareness creation among stakeholders [iii] constituting Village Development Committee comprising knowledgeable progressive villagers to formulate, implement & monitor the village development plan by pooling together various available resources & involving local people & their institutions through participatory approach [iv] conducting baseline survey and [v] formulating, implementing & monitoring the village development plan. While the plan is dovetailed with banks' credit plan, support from RIDF & Farmers' Technology Transfer Fund is also provided.

As on 31 March 2010, the program is being implemented in 953 villages of 437 districts across 25 States. Program has mobilized villagers, brought them under financial inclusion, provided better road connectivity, infrastructure in the form of school building, health care, clean drinking water, sanitation and cleaner environment. Program has helped improving farm productivity & income by adopting better soil & water conservation techniques, proven methods of cultivation and better knowledge of modern farm tools & equipment. In phase-2 the coverage is extended to 1500 additional villages.

**Farmers' Clubs:** Vikas Volunteer Vahinee [VVV] was launched in November 1982 to promote voluntary adoption of five cardinal principles of *Development Through Credit* [DTC] among borrowers, namely [i] Credit must be used in accordance with the most suitable methods of science & technology [ii] Terms and conditions of sanction of credit must be fully respected [iii] Work must be done with skill so as to increase productivity and income [iv] A part of the income generated by using credit must be saved and [v] Loan installments must be repaid in time so as to recycle credit. Since 2005, VVV has been renamed as *Farmers' Club Program* by redesigning its mission as *Development of rural areas through credit, technology transfer, awareness and capacity building*. While VVV/DTC aimed at instilling credit discipline among borrowers, the objective of the Farmers' Club Program has been to organize farmers into informal associations for facilitating easy and uninterrupted access to institutional credit and generate adequate bargaining power to deal with agricultural input suppliers and bulk produce buyers. Forum of Farmers' Club envisages creating opportunities for developing knowledge & sharing with others by facilitating networks between individuals, farmers' exposure to agricultural technology and best practices, which are most appropriate to their agro-climate and motivate them to adopt for enhancing productivity, output & profitability. Scope has been enlarged to facilitate transfer of technology, propagation & popularization of seed & pulse village concept, collective purchasing & distribution of inputs, aggregation and marketing of produce, capacity building of members to act as change agents, Business Facilitators/Correspondents of banks, formation of SHGs, Joint Liability Groups, Producer-Groups/associations, Federation of Farmers' Clubs, undertake community works, leadership development. The forum is also utilized to propagate financial literacy & credit counseling.

As on 31 March 2010, 54,805 Farmers' Clubs have been established & functional covering 1,04,648 villages in 587 districts.

**Farmers' Technology Transfer Fund:** NABARD established FTTF with a corpus of Rs.25 crore on 1 April 2008 and enhanced to Rs.50 crore on 1 April 2009 with the objective of promoting & transferring technology, information dissemination, establishing linkages with markets, enhancing productivity & income in agriculture, animal husbandry & fisheries through area based projects, conducting workshops, seminars, capacity building programs by organizing farmers' informal associations, producer groups, joint liability groups etc.

As on 31 March 2010, cumulative disbursements touched Rs.14.60 crore covering major proposals, among others, promotion of organic cotton cultivation, integrated pest & nutrient management in rice, establishment of Science Museum, promotion of sustainable organic crop farming through demonstration, production & distribution of eco-friendly inputs, transfer of technology for seed production & certification under Seed Village Program, promotion of indigenous honey bee deploying fixed beehives with moveable frames, project on management of fruit flies in mango & cucurbits using male annihilation technology by forming producer groups, improving sericulture productivity & profitability through technological interventions, livelihood support through cultivation & dehydration of vegetables, farm productivity improvement through comprehensive technology transfer & capacity building initiatives and scientific integrated pig-cum-fish farming,. Also support from FTTF was provided to an ICT initiative for providing information on market prices, crops & weather to farmers in States of Karnataka, Maharashtra & Rajasthan through SMS facility of mobile phones, which was extended by provision of prepaid vouchers of Reuters Market Light to Farmers' Clubs. Volunteers of Farmers' Clubs have, as a part of knowledge management, shared the garnered information with others in villages.

**Farm Innovation & Promotion Fund:** NABARD established FIPF with a corpus of Rs. five crore in 2005 & enhanced to Rs.50 crore from 1 April 2009 to promote innovative concepts and support feasible projects in agriculture & allied activities, development of marketable prototypes, technology, patenting, extension support, marketing etc. Some of the achievements under FIPF are pilot plant for extraction of zero calorie white powder sweetener from stevia; study and documentation of successful commercial dairy units; development of prototype machinery for filling feed pits for vermin-compost production; rainwater harvesting structures and treadle pump for micro irrigation; promoting system of wheat intensification; demonstrating hand held device, mobile TV for online technology transfer [Tata Eixsi]; cost-effective shrimp farming and increasing productivity of sugarcane through trench planting.

As on 31 March 2010, 78 projects were sanctioned with financial support of Rs.6.18 crore, of which 25 projects with financial assistance of Rs.1.04 crore have been completed. Of the completed projects, five were in Maharashtra, three each in Tamil Nadu and Uttarakhand, two each in Chhatisgarh, Jharkhand, Karnataka, Orissa and Uttar Pradesh and one each in Gujarat, Meghalaya, New Delhi & West Bengal.

**NABARD-Swiss Development Corporation Rural Innovation Fund:** This Fund was set up in October 2005 with an initial corpus of Rs.139.9 crore for supporting innovative, risk mitigating, unconventional experiments in farm, non-farm & micro-finance sectors to generate employment opportunities in rural areas. The focus has been on rural poor and innovations covering processes, technology & products.

As on 31 March 2010, 16 projects, including a diagnostic study on collection & marketing of minor forest produce by tribal families in Andhra Pradesh, were completed and 48 were in advanced stages of implementation. Workshops were arranged for capacity building of staff and for dissemination of information to partner institutions. Following is one, among others, a successful case on Solar Lanterns for Weavers.

**Solar Lanterns for Weavers:** If handloom weavers in cluster villages in Bihar had adequate and uninterrupted supply of light their output would increase by 20% to 30%. Provision of solar lanterns was considered to be a good & clean source of lighting. As advised by the Energy Resources Institute, New Delhi a project through Ujjala Nawaz SHG of village Bade Longiyan was sanctioned in August 2009 with a grant assistance of Rs.4,65,000 for setting up of central charging station with 50 solar stations and back up battery support for cloudy days. Bihar's first community-based solar lantern centralized charging station was installed at Bade Longiyan, a non-descript village situated on the bank of river Chaandan in Jagdishpur block of Bhagalpur. The TERI provided training to Ujjala SHG members immediately after installation. The Ujjala SHG implementing/operating the project levies user charges for each solar lantern for providing adequate light for 4-5 hours at a cost of Rupee one per day for SHG with 12 members whereas other 38 members use lanterns for augmenting income of SHG. Between September and March 2010 the Ujjala SHG earned additional income of more than Rs.11,000. Users reported getting clean light [free from smoke associated with kerosene] in their homes and male members of their families who undertake weaving now have no fear of any harm to their eyesight because of the improved lighting. The Ujjala Nawaz SHG is now

capable to help other SHGs for similar projects. They also like to graduate to a solar mobile charging unit, which is in great demand in the village.

**Watershed development by Village Committees:** Indo-German Watershed Development Program [IGWDP] being implemented in Maharashtra, by Village Watershed Committees [VWC] in association with NGOs is an integrated program for regeneration of natural resources. While Phase-1 [1990-2000] and Phase-2 [2001-2007] covered 113 watersheds of 1,00,000 hectares in 25 districts, under Phase-3 [2005-12], 109 projects are under implementation. Mid-course evaluation by CRIDA revealed that

- Almost all dried up wells has significant water-recharge and number of wells increased from 17 to 26.
- Total area under waste, pasture and fallow lands in six watersheds reduced by 50%
- Vegetative cover studied using satellite images indicates improvement
- In Asarkheda, Mandwa and Kacchigati watersheds, area under rabi crops increased by five fold and in others by 1.5 to 2 times.
- Yields of cereal crops increased by 70% to 80%, pulses and oil seeds increased two folds.
- Number of cross-bred cows increased by 94% and indigenous cows reduced by 60%
- Average annual household income from agriculture increased two to three fold
- Per watershed employment of 1,19,000 man-days generated.
- Women development was reflected in the improvement of drinking water availability, drudgery reduction, kitchen sanitation, community hall etc.

The KFW has approved IGWDP with a grant of [i] Rs.48.66 crore in Andhra Pradesh for rehabilitation of watersheds in four districts of Adilabad, Karimnagar, Medak and Warangal and Rs.11 crore for capacity building of stakeholders. Thirty-seven projects are under implementation.[ii] Rs.51.52 crore in Gujarat for rehabilitation of watersheds in four districts of Dahod, Panchmahals, Sabarkantha and Vadodara. Thirty-five projects are under implementation. SHG federations were constituted in two watersheds and provided support for onlending to women SHGs [iii] Rs.61.60 crore in Rajasthan for watershed development in five districts of Banswara, Chitorgarh, Dungarpur, Pratapgarh and Udaipur. Thirty-two projects are under implementation. Project Management Institute India honored IGWDP, Rajasthan with Contribution to Community 2009 Award for its sustained performance and innovations that improved the livelihood of the rural poor.

**Umbrella Program on Natural Resource Management:** This is a loan-cum- grant based program being implemented since 2007-08 under Indo-German collaboration with a policy shift from project based to program based funding and grant based to loan based funding. Technical cooperation agreement with GTZ was executed for Euro three million in 2008-09 and additional component for Public Private Partnership of Euro five million in 2009-10. The total fund for the program is Euro 30.40 million [Euro19.4 m from KFW, Euro eight m from GTZ and Euro three m from NABARD]. As on 31 March 2010, 30 community managed sustainable NRM based livelihood projects were sanctioned with assistance of Rs.79.36 crore in 10 States of Andhra Pradesh, Bihar, Gujarat, Himachal Pradesh, Jharkhand, Karnataka, Maharashtra, Orissa, Tamil Nadu and West Bengal and in the UT of Andaman and Nicobar Islands to be implemented by NGOs, producers' companies, private limited companies and cooperatives. Cumulative disbursement of Rs.14.33 crore as loan and Rs.122 lakh as grant was made. While exposure visits-cum-sensitization programs and on-site capacity building workshops for NABARD officers and potential channel partners were conducted marketing efforts were made through workshops, meetings, publishing marketing flyers and one-to-one contact among NGOs, corporate, State Governments and micro-finance institutes. Tasar Silk Yarn Producers of Bihar and Jharkhand [MASUTA Producers Company Ltd of Tribal Women] is one of several initiatives under UPNRM projects. Under UPNRM loan-cum-grant assistance of Rs.488 lakh has been sanctioned to MASUTA to help 2600 tribal women [tasar silk yarn producers] in Bihar and Jharkhand, who are dependent on cocoons of tasar silk worms for their livelihood. MASUTA procures tasar and provides treatment, storage, and handling facilities to the tribal women guaranteeing them employment and income throughout the year. This has resulted in increased income to the tribal women. NABARD provided funds for 'Arjun' tree plantation and rearing of tasar worms from Tribal Development Fund and watershed development in the area to facilitate convergence for improved and sustainable livelihoods to rural poor.

**Pilot Project for Integrated Development of Backward Blocks:** This pilot project was launched in 2003 with the objective to bring about integrated development of backward blocks through credit and convergence of development programs of various agencies. The focus has been on economic & infrastructure development and development of human aspects [education, health, clean drinking water &

sanitation etc], which emphasized active involvement of Government departments, panchayats, banks, NGOs, people's organizations and other agencies. Primarily, the district development managers & regional offices of NABARD were actively involved in implementing the program. Later on the project is expanded to 139 blocks of 16 States.

As on 31 March 2009, it was being implemented in 40 blocks across six States. In view of identical nature of interventions under this pilot project and Village Development Program [VDP], NABARD decided to restrict the duration of the pilot project to three years only, except wherever it was felt necessary to merge with VDP.

The Government introduced Integrated Development Plan [IDP] process for 250 poorer districts under the Backward Regions Grants Fund [BRGF] to embed the participatory planning process and provide funds to local Governments for filling gaps in flagship programs. NABARD in association with the Planning Commission prepared the Manual of Guidelines and conducted regional workshops to orient State & district level officials for preparing IDP. NABARD is also involved as a Technical Support Institute [TSI] in IDP preparation in 17 districts of Andhra Pradesh, Jharkhand, Maharashtra, Tripura and Uttar Pradesh.

**Wadi Concept of Tribal Development:** The KFW [Germany]-NABARD-Adivasi Development Program of Rs.62.89 crore, being implemented since 1994-95 in Valsad and Dangs districts of Gujarat through BAIF, focuses development of wadi, water resources, agricultural activities, women, health and sanitation. The program rehabilitated 13,663 families [against target of 10,000] by establishing cashew and mango wadis along with boundary plantations of fuel wood and fodder on their 12,732 acres of land and benefited 9300 farmers with water resources. The program reduced distress mitigation, changed cropping pattern favoring vegetables and pulses, generated regular income, inculcated savings habit through SHGs and helped 488 SHGs take up income generation activities [nursery raising, vermin-compost, leaf cup making, hill brooms etc]. During 2009-10, 11 tribal cooperatives facilitated collection of cashew, mango and karonda and processed 410 tons cashew. Under Phase-2 [2006-14] with grant assistance of Rs.42.47 crore targeting 4700 families, as on 31 March 2010, 5922 families were identified, 5789.5 acre of wadi established and 253 wadi groups, each of 8-10 wadi holders formed.

Successful wadi business model of Gujarat is replicated in Nasik and Thane districts through Maharashtra Institute of Technology Transfer for Rural Areas, Nasik. The program [2000-11], helped 13,848 tribal families, against targeted 13,000, for cultivation of cashew and mango in 258 villages, covering a wadi area of 12,293.5 acres and establishing five village cashew-processing units. To increase income, 23,864 families cultivated vegetable [tomato, spinach, radish, brinjal, bitter gourd, ridge gourd, fenugreek etc] on 3923 acres of land. Tribal families received bank credit of Rs.344.72 lakh to undertake drip irrigation system, improved methods of vegetables & flower cultivation and non-farm activities [tailoring, masonry etc.]

**Tribal Development Fund:** NABARD established TDF on 1 April 2004, with a corpus of Rs.50 crore & enhanced from time to time to support development models for integrated tribal development, raising suitable species of horticultural crops, soil & water conservation measures through people's participation and various social sector interventions, namely women development, health and sanitation, training, capacity building and building people's organizations etc, for achieving sustainable development of tribal families. The Projects provide sustainable livelihood for tribal families through orchard-based farming along with social welfare measures to improve their living standards. GIS-GPS based monitoring systems were introduced on a pilot basis in Madhya Pradesh to intensify monitoring. While projects support significant improvement on minor forest produce like tasar silk, lac, gums and bee-keeping, which are traditional tribal occupations and capable of income generation, support was extended to cover new crops like pineapple, kinnow, mandarins, clover, jackfruits. For upscaling the program, projects were taken up in collaboration with Commodity Boards, namely Coconut Development Board & Central Silk Board as also corporate houses.

As on 31 March 2010, outstanding balance stood at Rs.1150.80 crore and cumulative disbursement of Rs.543.62 crore benefited 56,330 tribal families in 191 projects across 22 States & two UTs.

**District Rural Industries Project:** The DRIP was launched in 1993-94 in five districts of Gwalior [Madhya Pradesh], Kurnool [Andhra Pradesh], Ganjam [Orissa], SwaiMadhopur [Rajasthan] and Sabarkantha [Gujarat] with the objective of generating sustainable employment opportunities through promotional measures combined with enhanced credit flow to rural industries and coordinating with other agencies in the district. Under the project, action plan was formulated in coordination with the Government departments and NGOs involved in the promotion of rural industries in these districts. The success of DRIP

encouraged NABARD to expand it from 2001-02 for five years covering 106 districts by 31 March 2007, of which 43 projects were phased out by 2007-08 on successful completion.

As on 31 March 2010, ground level credit flow aggregated to Rs.24,295.11 crore [with refinance of Rs.3458.46 crore], facilitating establishment of 19.5 lakh units and generating employment for 44.48 lakh persons. In 1999, Rural Haat scheme was launched in DRIP districts to help rural households market their farm and non-farm products. The scheme was subsequently extended in 2008-09 to all districts in the country to be implanted by Village Bazaar Boards, SHGs, NGOs, Panchayats, & PACS. The grant assistance at 90% of the project cost or Rs.5,00,000 whichever is lower was provided to implementing agencies for providing minimum infrastructure facilities, which included, among others, raised platforms with shed, permanent structure, cycle stand, drinking water facilities, toilets etc.

As on 31 March 2010, cumulative grant assistance of Rs.629.53 lakh was provided in 188 rural hats across 22 States.

**Cluster Development Program:** The CDP being implemented in 56 clusters under the National Program on Rural Industrialization from 1999-2000 aims at holistic development of clusters, raising income levels and living standards through various interventions. Considering the potential of cluster approach for rural industrialization NABARD in 2005-06 launched CDP on its own and set a corporate target of 50 clusters of participatory model, partnering with other agencies. Besides, NABARD decided to intensively develop five clusters exclusively by its own involvement during a period of three to five years beginning 2005-06. Under participatory model the grant was limited to Rs.15 lakh per cluster over a period of three years, whereas under intensive development model the maximum implementation period was five years with grant not exceeding Rs.100 lakh. The broad sectors identified for development are Agri & Allied Activities, Food Processing, Small & Micro Enterprises in rural areas; Traditional arts, such as, handicrafts, Handlooms rural tourism etc. Cluster Development Approach included interventions related to Social, Technological, Infrastructure, Financial and Marketing. As on 31 March 2010, 107 clusters across 84 districts in 22 States were approved. As many as 22 clusters are being supported in the NER alone and a large number of clusters are being developed in backward States [Chhatisgarh, Jharkhand, Orissa and Madhya Pradesh]. Capacity building programs and 25 location-specific cluster-workshops were organized for the participants from banks, Government departments and NGOs, VAs for smooth implementation.

**Design Development & Skill Upgradation for Handloom Weavers:** This scheme was formulated to provide financial support for developing new designs for handloom products and upgrading the skill of traditional handloom weavers that can improve products quality and marketability within and outside the country. Grant assistance is provided to apex handloom cooperative societies and voluntary organizations involved in the promotion of handloom sector for conducting market surveys, design development, engaging design consultants, skill upgradation, training and marketing. NABARD, for reviving the handloom sector, financed weavers outside the cooperative fold by forming Handloom Weavers' Groups [HWGs] and financing Master Weavers.

As on 31 March 2009, 1781HWGs out of 2968 formed were credit linked.

**Financial Inclusion Fund:** Based on the recommendations of the Committee on Financial Inclusion, Government of India entrusted NABARD to establish two types of Funds, namely Financial Inclusion Fund [FIF] and Financial Inclusion Technology Fund [FITF]. While FIF is intended to support the development and promotional activities to secure greater financial inclusion, particularly among weaker sections, low-income groups in backward regions and unbanked areas, FITF is to enhance the ICT, stimulate the transfer of research & technology, increase the technological absorption capacity of financial service providers and encourage an environment of innovation among stakeholders aimed at promoting financial inclusion. Two Funds with corpus of Rs.500 crore each, to be contributed by Government, RBI & NABARD in the ratio of 40: 40:20 in a phased manner over five years depending on the utilization of funds, have been set up with NABARD.

As on 31 March 2010, the total contribution under FIF & FITF stood at Rs.50 crore each, of which Rs.19.47 crore & Rs.21.83 crore, respectively were sanctioned for a variety of purposes during 2009-10.

NABARD and UNDP have entered into collaboration for financial inclusion in seven focus States [Bihar, Chhatisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan & Uttar Pradesh] to provide better access to financial products and services to reduce risks and enhance livelihood for the poor in at least two States, especially women and men from SC/ST groups, minorities and displaced. A sensitization workshop was conducted for officers-in-charge of seven States and regional offices of NABARD and projects were initiated. Amount of Rs.47.50 lakh was sanctioned and Rs.17.04 lakh disbursed during 2009-10.

**MF Development & Equity Fund:** NABARD has set up MFDEF for promoting micro-finance through scaling up the SHG-Bank linkage program, extending Revolving Fund Assistance and Capital Support to MFIs and supporting various promotional activities. During 2009-10, Rs.80.91 crore were utilized towards micro-finance related activities as compared with Rs.34.66 crore in previous year.

**RIDF & SBLP:** NABARD has significantly demonstrated its capabilities in managing RIDF through efficient planning, implementing & monitoring projects supported by RIDF. For NABARD gender equality and women's empowerment has been a fundamental goal of development since women constitute almost half of the population & make up one third of the labor force. Besides firmly grounding SBLP for providing financial services to the poor in a sustainable manner & empowering SHG members, NABARD evolved projects such as Gender Sensitization, Assistance to Rural Women in Rural Non-Farm Development, Assistance for Marketing of Non-Farm Products of Rural Women & Development of Women through Area Program.

***Conclusion:** Commercial banks having significantly demonstrated their capabilities in delivering financial services in rural areas can now expand the scope & scale of innovative concepts & programs by applying technology, putting in place efficient human resources development & training policy for manning rural branches and establishing Rural Innovation Fund out of their annual profits & enhancing from time to time.*

***Reference:** Annual Reports of NABARD 2008-09 & 2009-10*