Financing in Rural Development

Financing of Rural Development: Source, Budgeting and Finance Control

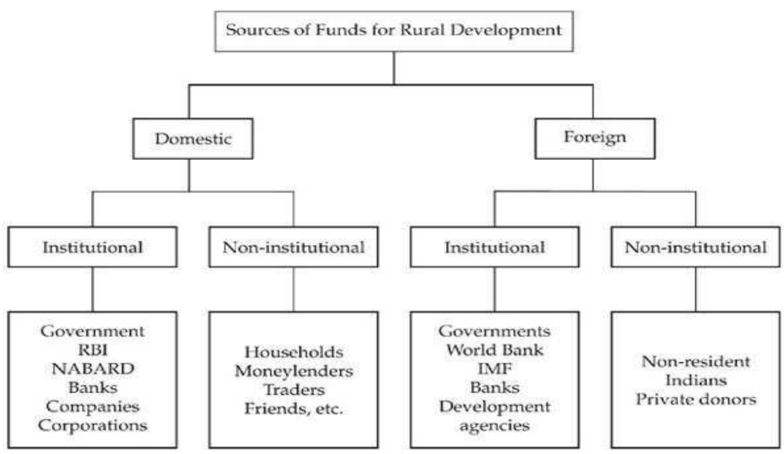
Financing of Rural Development:

The majority of people in rural India have no access to demand-oriented banking services which might help them to improve their economic situation. This is especially true of poorer households, smallholder farmers and women. Cooperative banks and other regionally active banks, as well as credit cooperatives and self-help groups would be able to provide financial services for these population groups. However, such institutions generally have only low operative and innovative capacities. For this reason, the Government of India has charged the National Bank for Agriculture and Rural Development (NABARD) with the implementation of programmes to promote rural finance and financial inclusion.

Objective:

Rural financial institutions offer demand-oriented financial services for smallholder farmers, women and poorer households.

Source of Funds for Rural Development:



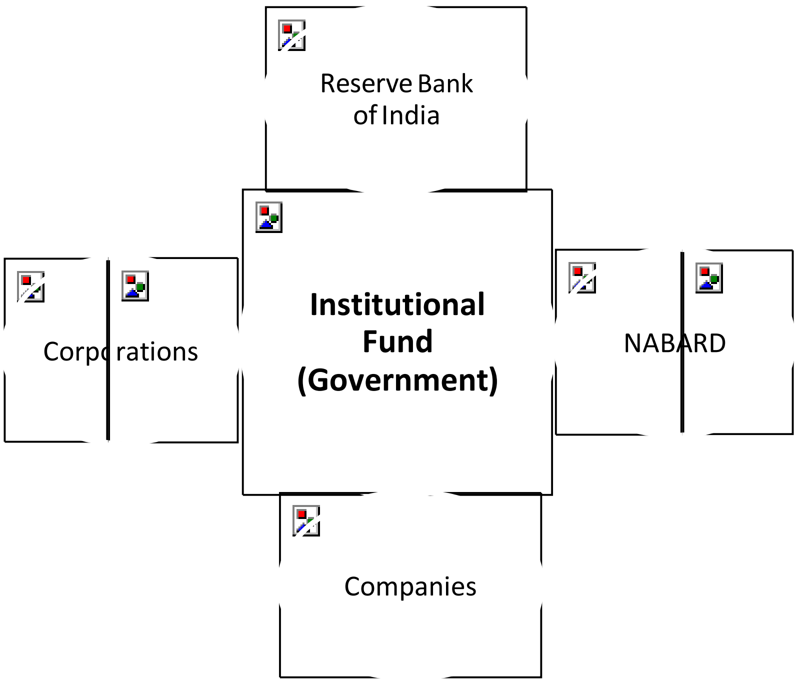
Domestic Institutional Sources:

Domestic Institutional sources of rural credit include the government, the Reserve Bank of India, National Bank for Agriculture and Rural Development

(NABARD), Cooperative Banks, Commercial Banks (CB's) Regional Rural Banks (RRB) and Self-Help Groups (SHG).

- Institutional
- Non Institutional

- **Institutional Fund (Government):**
    - Reserve Bank of India
    - NABARD
    - Companies
    - Corporations



Government (Central & State):

The government in the past has been, still is, and in future will continue to be the most important source of funds for rural development. At the national level, the Union Ministry of Finance is responsible for mobilization and administration of financial resources in rural development. It also regulates the expenditure of the government, including transfer of resources to the states. Power to raise and disburse public funds has been divided under the constitution between union and state governments. The sources of revenue for union and the states are, by and large, mutually exclusive, if sharable taxes and duties between the two are excluded. The constitution provides that; (a) no tax can be levied or collected except by authority of law; (b) no expenditure can be incurred from public funds except in the manner provided in the constitutions; and (c) executive authorities must spend public money only in the manner sanctioned by parliament in case of union and by the state legislatures in the state.

Reserve Bank of India:

The RBI was assigned a crucial role in the scheme of integrated credit and in the building up of the co-operative credit organization. The RBI's role was not only a conventional central banker but it was an active agency that takes all necessary measures for enabling the cooperative system to provide a growingly larger share of rural credit. The adoption of special programs for increasing agricultural production and the spread of green revolution based largely on intensive use of fertilizers, water, better seeds and machine power have enhanced the RBI's responsibilities further. The RBI had also started offering greater financial assistance to co-operatives for credit facilities to small farmers and other weaker sections and four minimizing disparities in flow of credit to various regions. With the setting up of the national bank of agricultural and rural development (NABARD) in July 1982, The RBI's functions relating to the co-operative movement have been taken over by the NABARD. Besides, the RBI still offers loans and advances to SCB's.

NABARD:

NABARD was established in July 1982 to oversee and develop the entire rural credit system including agricultural credit. Consequent, the major of the agricultural credit Department of the RBI and the entire undertaking of the ARDC, was taken over by it. Also it took over from the RBI the refinance, development and statutory inspection of co-operative banks and RRB's. The NABARD provides rural credit by way of refinance and loans and advances to state co-operative banks, land development banks, RRB's and other approved financial institutions for financing production, marketing and investment activities relating to agriculture and other allied economic activities in rural areas.

Companies:

Small businesses are small in size are owned & controlled by limited people. These are privately owned business. These may be sole proprietorship, corporation or partnership firm. There are a small number of people involved & working in these businesses. Small businesses enjoy several rights from the government in terms of financial aid & tax exemptions. These businesses require less amount of capital to start. Even a single person can start & run these businesses. Small businesses work on low-profit margins & have low annual turnover.

There exists to provide profits to its owners & to serve the local community where it exists. These are generally situated & operated in rural parts of the country. It helps in providing employment to large peoples & removes poverty from the rural economy.

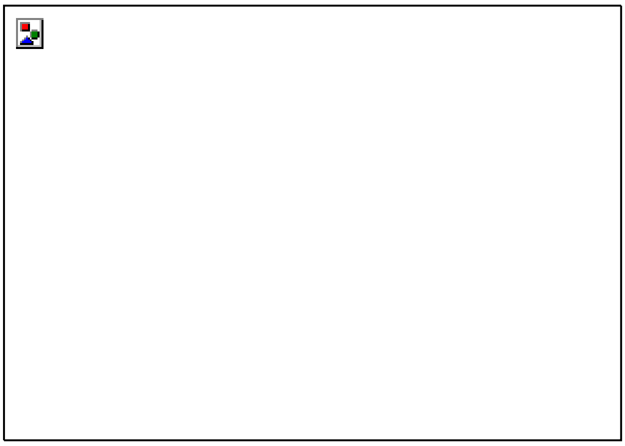
Role of Company in Rural Development:

- Generate Employment
- Reduce rural and urban migration
- Best utilization of local resources
- Promote rural development growth
- Equal distribution of income
- Improve standard of living
- Increase tax revenue

Corporations:

An agricultural co-operative, also known as a farmer's coop, is a co-operative where farmers pool there recourses in certain areas of activity. Co-operative credit societies acts of 1904 and 1912 was the first important land mark in the agricultural credit policy in India. In the subsequent period, the co-operative credit becomes more and more significant. It becomes the most important sources of farm credit in the country. Organizationally, the rural cooperative credit system has a unique structure with some specializing in short –term credit and some other in long term credit. In the field of short-term and medium –term rural credit, the cooperative have three-tire structure with primary agricultural credit societies (PACAs) at the base, District Central cooperative Banks (DCCBs) at the middle level and State Cooperative Banks (SCBs) at the apex. The PACs are affiliated to DCCBs and the later to SCBs with the super tire functioning as a balancing institution of funds for the lower tire. In the sphere of the long term credit, the cooperatives have a two-tier setup with Primary Land Development Banks at the base and State Land Development Banks at the apex level. The organizational structure of the rural cooperative credit system.

- **Non-institutional (Households):**
    - Moneylenders
    - Traders
    - Friends

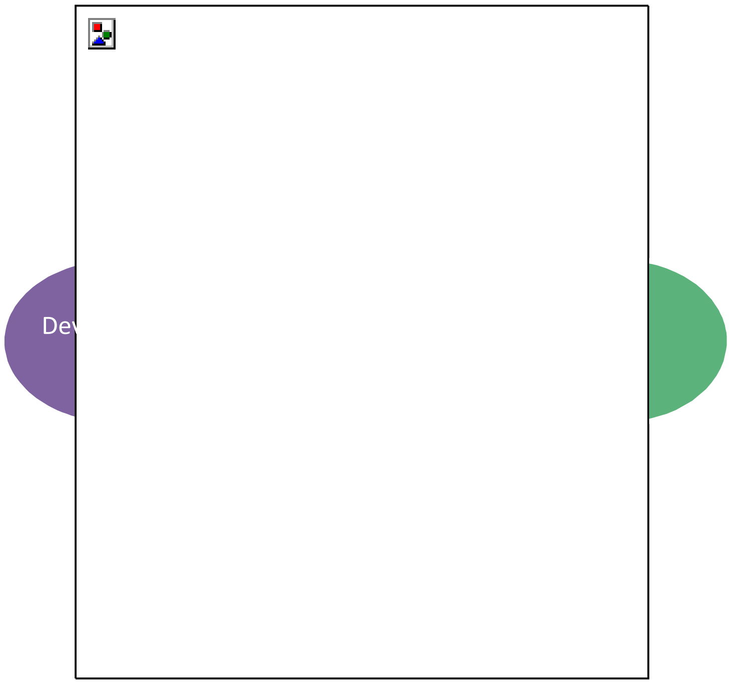


Source of Funds by Foreign:

Institutional (Governments):

- World Bank
- IMF (International Monetary Fund)
- Banks

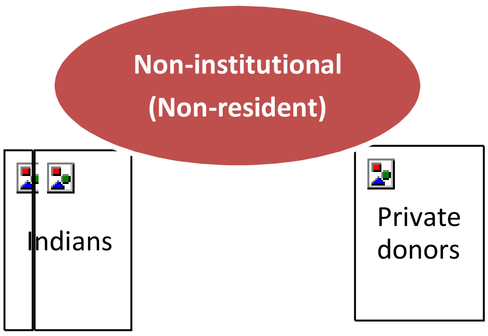
➢ Development Agencies



Non-institutional (Non-resident):

➢ Indians

➢ Private donors



Budget in Rural Development:

The Ministry of Rural Development is responsible for development and welfare activities in rural areas. The Ministry has two departments: (i) rural development, and (ii) land resources.

The Department of Rural Development under the Ministry is responsible for implementation of many major schemes in rural areas. These schemes are targeted at poverty reduction, provision of basic services, employment generation, rural infrastructure and habitation development.

The Department of Land Resources aims to increase productivity of degraded land through the process of integrated watershed management. It also aims to develop an integrated land information management system to improve real-time information on land, and to optimise use of land resources.

This note presents the budgetary allocations to the Ministry of Rural Development, and analyses various issues related to the schemes implemented by the Ministry.

Allocation in Union Budget 2020-21:

The Ministry of Rural Development has the fourth highest allocation across Ministries in 2020-21, at Rs 1,22,398 crore.

In 2020-21, the Department of Rural Development has an allocation of Rs 1,20,147 crore, accounting for 98% of the Ministry's allocation. It witnessed a 2% decrease in funds from revised estimates of 2019-20. In 2019-20, the Department was allocated Rs 1,17,647 crore, which increased by Rs 5,002 crore (4%) in the revised estimates stage for that year.

On the other hand, the Department of Land Resources has an allocation of Rs 2,251 crore, which is 18.5% more than the revised estimates of 2019-20. In 2019-20, the Department was allocated Rs 2,227 crore, which decreased by Rs 327 crore (15%) in the revised estimates stage for that year.

Table 1 gives the trend in budgetary allocation towards the Ministry over the past three years.

Table 1: Budgetary allocation to the Ministry of Rural Development (Rs crore):

Department	**Actuals (18-19)**	**Revised (19-20)**	**Budgeted (20-21)**	**% change (RE to BE)**
Rural Development	1,11,842	1,22,649	1,20,147	-2.0%
Land Resources	1,864	1,900	2,251	18.5%
Total	1,13,706	1,24,549	1,22,398	-1.7%

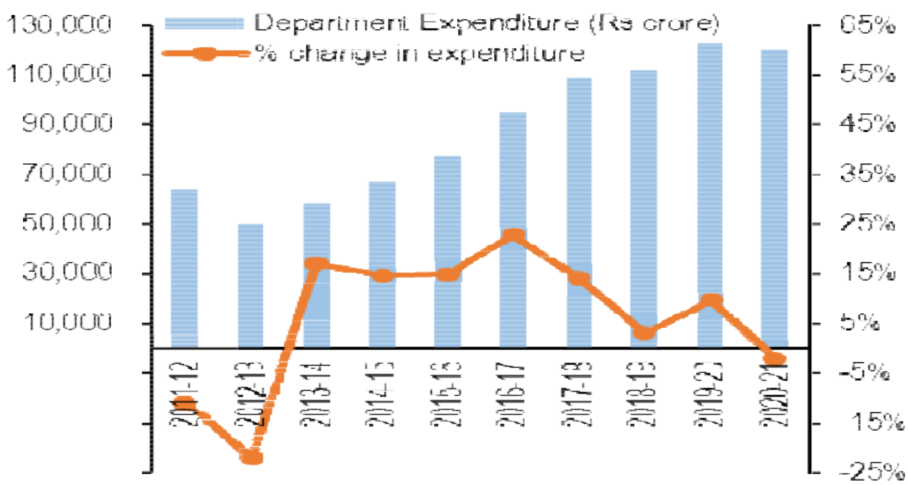
Note: BE is budget estimate and RE is revised estimate.

Sources: Demands for Grants 2020-21, Ministry of Rural Development; PRS.

Department of Rural Development:

In the past 10 years, the expenditure of the Department of Rural Development has seen an annual growth of 7.2%. Except in 2011-12 and 2012-13, when the Department reduced its spending, its expenditure increased in all other years up till 2019-20. In 2020-21 the estimated expenditure is 2% less than the revised estimates for the previous year.

Figure 1: Expenditure by the Department of Rural Development over the years (Rs crore):



Note: Values for 2019-20 and 2020-21 are revised estimates and budget estimates respectively.

Sources: Union Budgets 2011-12 to 2020-21; PRS.

Major schemes under the Department :

Table 2 represents the budgetary allocation for major schemes under the Department of Rural Development.

Table 2: Allocation to the Department of Rural Development (Rs crore):

Department	**Actuals (2018-19)**	**Revised (2019-20)**	**Budgeted (2020-21)**	**% change (RE to BE)**
MGNREGS	61,815	71,002	61,500	-13%
PMAY-G	19,308	18,475	19,500	6%
PMGSY	15,414	14,070	19,500	39%
NSAP	8,418	9,200	9,197	0%
NRLM	5,783	9,024	9,210	2%
Rurban	433	300	600	100%

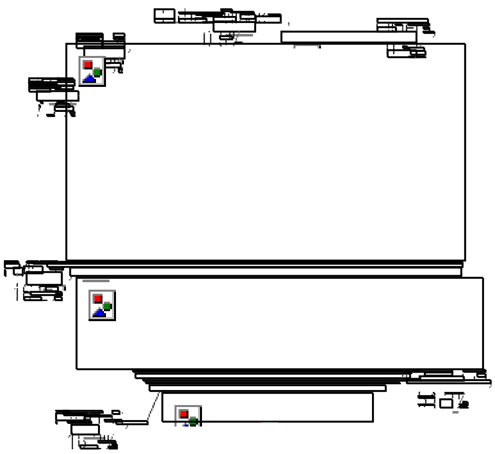
Mission				
Others	671	578	640	11%
Total	**1,11,842**	**1,22,649**	**1,20,147**	**-2%**

Note: BE is budget estimate and RE is revised estimate. Others include central sector projects like management support to rural development programs, socio-economic and caste census survey and centre's expenditure.

Sources: Demands for Grants 2020-21, Department of Rural Development, Ministry of Rural Development; PRS.

- Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), continues to account for more than half of the Department's budget. However, the funds allocated to it have decreased by 13% this year.
- Funds allocated for the rural roads scheme, Pradhan Mantri Gram Sadak Yojana (PMGSY) has seen an increase of 39% from the revised estimates of 2019-20.

Figure 2: Top expenditure heads in 2020-21, as a percentage of total departmental allocation



Sources: Demands for Grants 2020-21, Department of Rural Development, Ministry of Rural Development; PRS.

Figure 2 shows the composition of expenditure of the Department of Rural Development. In 2020- 21, 51% of the Department's expenditure is estimated to be on the MGNREGS. This is followed by the rural component of Pradhan Mantri Awaas Yojana – Gramin (16.2%), and PMGSY (16.2%).

Financial Control in Rural Development:

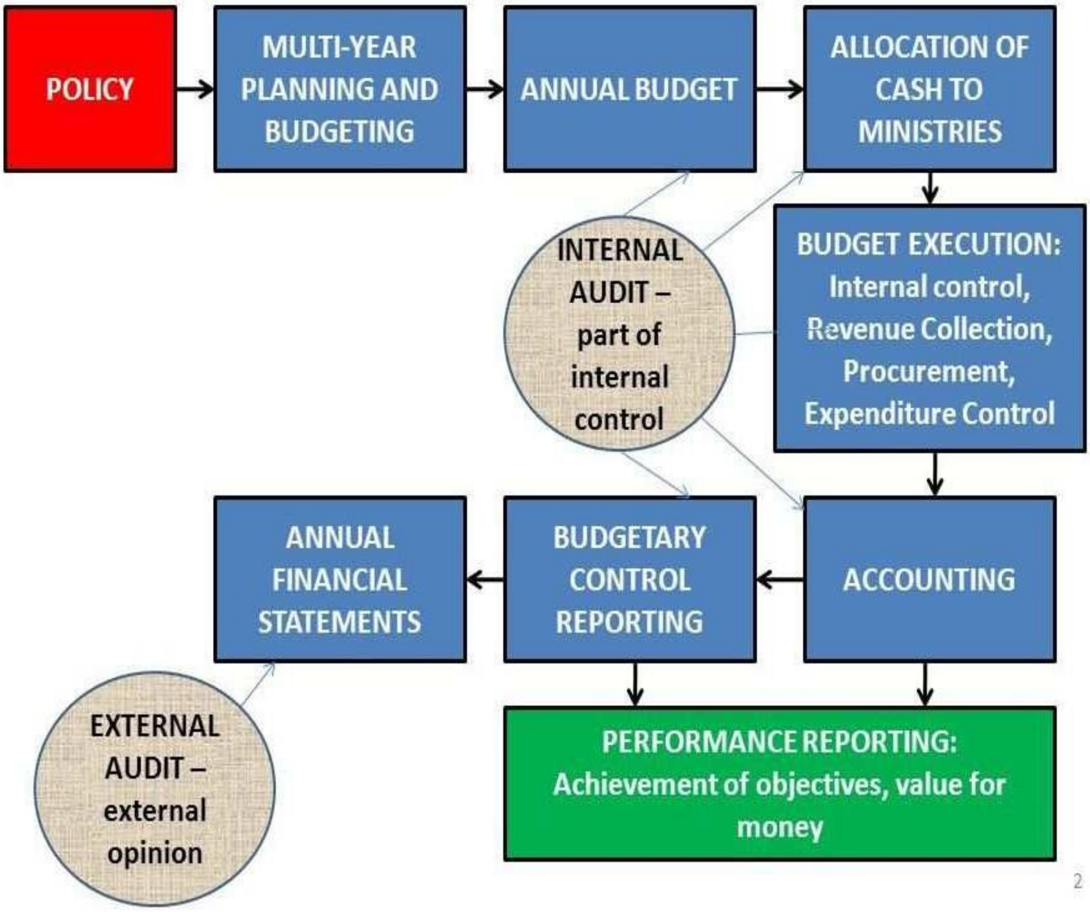
Financial control refers to the systems implemented in place to trace the directed resources of an organization with timely monitoring and measurement.

Control of financial activities carried out in an organization to achieve the desired objectives. They also provide a set of rules and regulations about the financial management systems followed in an organization.

All organizations have financial controls to ensure effective financial management. Most organizations have financial controls to ensure that everyone is aware of procedures to be followed and to ensure that there is a better understanding of each one's responsibility.

Concept of Financial Control:

It is concerned with the policies and procedures framed by an organization for managing, documenting, evaluating and reporting financial transactions of an organization. In other words, they indicate those tools and techniques adopted by a concern to control its various financial matters.



The PFM Cycle

Objectives of Financial Control:

- Economic Use of Resources
- Preparation of Budget
- Maintenance of Adequate Capital
- Maximization of Profit
- Survival of Business
- Reduction in Cost of Capital
- Fair Dividend Payment
- Strengthening Liquidity
- Checking that everything is running on the Right Lines
- Detecting Errors or Areas for Improvement
- Increase in Goodwill
- Increasing Confidence of Suppliers of Funds