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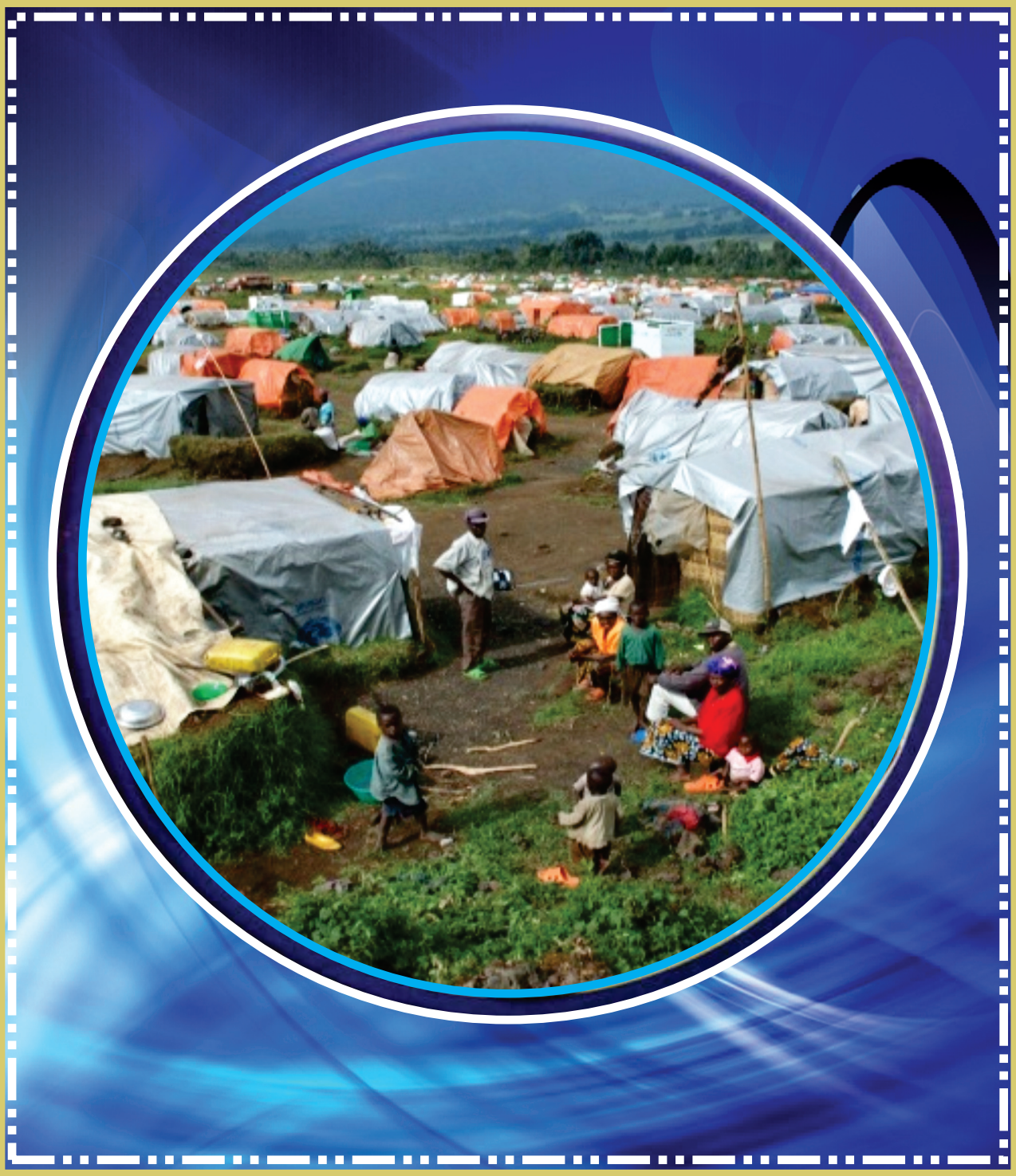
MDV - 102
Dynamics of Development



Dynamics of Development - I

2

Indira Gandhi National Open University
School of Extension and Development Studies

MDV-102
Dynamics of Development

Block

2

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ORIGINAL PROGRAMME DESIGN COMMITTEE

Prof. Amita Shah
Gujarat Institute of Development Research
Ahmedabad

Prof. S. K. Bhati
Jamia Millia Islamia University, New Delhi

Prof. J. S. Gandhi (Rtd)
Jawaharlal Nehru University, New Delhi

Prof. Gopal Krishnan (Rtd)
Punjab University, Chandigarh

Prof. S. Janakrajan (Rtd)
Madras Institute of Development Studies Chennai.

Prof. Kumar B. Das
Utkal University, Bhubaneswar

Prof. Nadeem Mohsin (Rtd)
A.N.Sinha Institute of Social Sciences, Patna

Prof. P. Radhakrishan
Madras Institute of Development Studies, Chennai

Prof. Ramashray Roy (Rtd)
Centre for Study of Developing Societies
New Delhi

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Ex-Vice-Chancellor, MPUAT, Udaipur

Prof. K. Vijayaraghavan
Indian Agriculture Research Institute, New Delhi

Dr. Nilima Shrivastava, IGONU, New Delhi

Prof. B. K. Pattanaik, IGNOU, New Delhi

Prof. Nehal A. Farooquee, IGNOU, New Delhi

Prof. P. V. K. Sasidhar, IGNOU, New Delhi

REVISED PROGRAMME DESIGN COMMITTEE

Late Prof. T S Papola(Rtd)
Institute of Studies in Industrial Development
New Delhi

Prof. S. Janakrajan (Rtd)
Madras Institute of Development Studies Chennai.

Prof. S. K. Bhati
Jamia Millia Islamia University, New Delhi

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Institute of Human Development, New Delhi

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Jawaharlal Nehru University, New Delhi

Dr, S, Rubina Naqvi
Hindu College, University of Delhi, Delhi

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A.N.Sinha Institute of Social Sciences, Patna

Prof. Rajesh, Delhi University, New Delhi

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Prof. Nehal A. Farooquee, IGNOU, New Delhi

Prof. P. V. K. Sasidhar, IGNOU, New Delhi

Dr. Pradeep Kumar, IGNOU, New Delhi

Dr. Grace Don Nemching, IGNOU, New Delhi

Dr. Nisha Varghese, IGNOU, New Delhi

COURSE PREPARATION TEAM

Units Writers:

Dr Mukesh Anand (Unit 1 & 2)
and
Mr.Prabhat Kumar
NIPFP,New Delhi

Dr. Nehal A.Farooquee (Unit 3)
IGNOU,New Delhi

Prof. Nadeem Mohsin(Rtd.) (Unit 4)
A.N.Sinha Institute of Social Sciences

Editors:

Prof. S.K. Bhati (Content Editor)
Mr.Praveer Shukla (Language Editor), New Delhi
Prof.B.K.Pattanaik, IGNOU, New Delhi
Prof. P.V.K.Sasidhar, IGNOU, New Delhi
Dr Grace Don Nemching, IGNOU, New Delhi

Programme Coordinators : Prof. P.V.K. Sasidhar, Prof. B.K. Pattanaik, Prof. Nehal A. Farooquee

Course Coordinator: Dr Grace Don Nemching, gdnemching@ignou.ac.in

PRODUCTION TEAM

Mr. S. Burman
Dy. Registrar (Publication)
MPDD, IGNOU, New Delhi

Mr. K.N. Mohanan
Asst. Registrar (Publication)
MPDD, IGNOU, New Delhi

Mr. Babu Lal Rewadia
Section Officer (Publication)
MPDD, IGNOU, New Delhi

May, 2018

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ISBN:

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Further information on the Indira Gandhi National Open University courses may be obtained from the University's office at Maidan Garhi, New Delhi.

Printed and published on behalf of the Indira Gandhi National Open University, New Delhi by the Registrar, MPDD, IGNOU, New Delhi.

Laser Typeset by Tessa Media & Computers, C-206, A.F.E.-II, Okhla, New Delhi.

Printed at:

BLOCK 2 DYNAMICS OF DEVELOPMENT-I

Block 2 is "Dynamics of Development I" It has four units namely; Development Dynamics: An Overview; Development Processes, Approaches and Strategies; Social and Cultural Dynamics of Development and Development Agencies.

Unit 1 on '**Development Dynamics: An Overview'** covers the role of market in Development, the role of community in Development and Dualism in Development Dynamics.

Unit 2 on '**Development Processes, Approaches and Strategies**' gives an illustration about various processes, alternative approaches possible to development. It also covers various strategies of development.

Unit 3 on '**Social and Cultural Dynamics of Development**' deals with the emerging concepts of social and cultural development, social development theory, social development index, cultural obstacles to economic development, social aspiration in the determinants of development and summary of social development principles.

Unit 4 on '**Development Agencies'** which gives an illustration of role played by the national and international agencies in development.

UNIT 1 DEVELOPMENT DYNAMICS: AN OVERVIEW

Structure

1.1 Introduction

1.2 The Role of Market and State in Development

1.3 The Role of Community in Development

1.4 Dualism in Development Dynamics

1.5 Let Us Sum Up

1.6 References and Selected Readings

1.7 Check Your Progress - Possible Answers

1.1 INTRODUCTION

In course 1, you studied introduction to development and development theories, and now you are aware that development is a dynamic concept. Therefore, it is very important to learn about the dynamics of development. As you know, there are many actors who are playing their roles in the process of development. Here, in this unit, you will get to know the main actors who play important roles in the development process: the government, the market, and the community. This unit will also cover dualism in development dynamics.

After studying this unit, you will be able to

- explain about the market and state as institutions for economic development
- discuss the essence of a community as an institution that lubricates the functioning of markets and governments
- describe modernization as a process that enhances the efficiency and effectiveness of traditional and customary institutions.

1.2 THE ROLE OF MARKET AND STATE IN DEVELOPMENT

You are familiar with the term, market, where there are two actors, one called the buyer, and the other, the seller. A market is an organisation which coordinates voluntary transactions between producers and consumers of goods and services. A simple example is the morning bazaar for vegetables where producers and consumers transact directly amongst themselves. It can acquire more complex forms where consumers' demand meets producers' supply, after passing through various stages of transportation and storage activities, across space, and over time. Transactions in a free market are voluntary by definition, and based upon the free will of buyers and sellers. However, a free market, to be perfectly competitive, also envisages that information is perfectly accessible to all participants. In such a situation, economic gains are distributed by coordinating the activities of self-interest seeking participants.

The state, in contrast, is an organisation that lays down the rules and regulations for coordinating economic activities. The state is bestowed with legitimate coercive power to enforce these rules and regulations. The state may also enforce conscription of certain resources, say by military draft, or through taxation, irrespective of an individual's will, and assume responsibility for the provisioning of public goods, such as defence and security, law and justice, and roads, that may not be supplied by a free market.

Despite the apparently opposing mechanisms in distributing economic gains that promote social welfare, both market and state are inseparable. Market transactions could be efficiently undertaken by establishing conflict resolution mechanisms to facilitate the execution of contractual obligations between transacting parties. An important pre-condition for the functioning of markets is a clear understanding and assignment of property rights on goods and services. On the other hand, police and judicial services are important functions of the state to uphold property rights, and, to enforce contracts according to laws stipulated by the state. The state draws, to varying degrees, upon its authority to conscript resources from transacting parties, or, transaction proceeds. This often has a profound influence on the outcomes relating to the distribution of economic gains for the parties.

Economies of any contemporary significance can hardly be visualised to exist without the essential elements of a state and markets. Although, their interdependence may vary widely, this may not be negligible, even in small subsistence economies. A nationwide market and a nation state are, thus, the core organisations in a modern world. Economic systems differ significantly in their combinations of the size and form of the state and markets. A pertinent question, then, is to ask what combination of these two organisations may promote development. A useful starting point may lie in our understanding of the relative merits and demerits of the market and the state.

Orthodox economics from Adam Smith onwards and, the neoclassical school postulate that competition in a free market induces an allocation of resources that achieves a social optimum. The building block of neoclassical theory is the market mechanism of adjustment in prices to equate demand and supply of a commodity (or service). To understand this mechanism of competition, assume that a commodity (that satisfies a particular need, or, want has a homogenous form, and is otherwise indistinguishable from products in the same category) is sold at different prices, by different sellers. All buyers would flock to the lowest priced product seller, thus, bidding up its price. There would be no buyer for higher priced products, forcing such sellers to bid down their prices. This mechanism continually operates to adjust the prevalent price, until demand equates supply of the commodity. If the price is too high, demand falls short of supply. As a result, unsold stocks pile up, forcing sellers to lower the price. On the other hand, if the price is too low and attracts too many buyers, the price would be bid up to induce more supply, or, to curtail demand. Total demand and supply are, thus, equated, and a free market establishes a single price.

The demand curve for a commodity in a competitive market, according to Alfred Marshall, is the schedule of decreasing marginal utility from additional units of consumption. Analogously, the supply curve is a schedule of rising marginal cost for additional units of production. Therefore, the point at which marginal utility and marginal costs intersect on the demand-supply curves represents an

equilibrium that optimises utility. This equilibrium, according to neoclassical economics, in a free and competitive market, also represents efficient resource allocation, and maximizes, as well, societal (economic) welfare.

1.2.1 Market Failure

Left to itself, if markets could achieve a socially desirable allocation of resources, then there should be no need for coercive government intervention to nudge economic activities. However, markets by themselves are seldom able to achieve optimality in all economic activities. The divergence of market equilibrium from the point of Marshallian net utility maximization (or, Pareto optimality, where nobody can be made better off without making someone else worse off), is termed market failure. Government has a role to correct such failures. The market may, however, facilitate efficient allocation of resources only in private goods, that is, those for which individual property rights are well established. Those assigned such rights are entitled to use the goods (and services), while others are obliged to pay for their use. But, market failure is observed commonly in the supply of public goods. For example, the services provided by police and judicial courts to maintain law and order, could be utilised jointly (non-rivalry) by an unidentifiable number of people (potentially the entire population). But, it may be difficult to impose appropriate charges on actual users, only (non-excludability). There exists, then, an incentive for all to utilise such public goods, albeit without sharing the cost (free riders). Private entities, seeking profit, may not care to produce such goods (and services), and they would have to be provided by a government.

In reality, there are no pure public goods (completely non-rival and non-excludable), or, pure private goods. For example, automobiles that serve transportation needs are private goods, as only those who pay the costs can utilise them. But, exhaust from running automobiles also pollutes the air that we breathe, and these vehicles may also be dangerous when involved in accidents. In that sense, the use of automobiles may produce negative public goods (or, 'public bads'). The Market equilibrium level for automobile production, therefore, tends to be higher than the socially optimum level. To correct this market failure, a government could enforce measures that raise costs of automobile use, such as an anti-pollution tax, or an accident insurance charge.

Market failure may also occur with private goods without an accompanying public bad by-product (or joint product). For example, for a market mechanism to achieve social optimality, it must satisfy the conditions for perfect competition. Among others, such conditions include free and perfect information among all participants, especially on the price and quality dimensions of commodities. Further, no participant can be allowed to muster enough power to influence market prices. In reality, though, wide information asymmetries exist between buyers and sellers, especially on product or service quality. For example, it is often difficult for consumers to judge the quality of professional services, such as those of medical or legal practitioners. Similarly with certain financial services by banks or insurance companies, especially on safety of deposits, or, on risk coverage. If information asymmetry bestows special advantages to the sellers and suppliers, or, exposes buyers to disadvantages, then market transactions may likely be smaller than the socially optimum level. In certain cases, market transactions may even disappear completely. Such forms of market failure may need to be corrected by government intervention to limit permits for undertaking

business, government guarantees to eliminate disadvantages, subsidies to reduce private costs, etc.

In case market equilibrium diverges significantly from a socially optimal equilibrium, due to concentration of market power (say due to seller monopoly or buyer monopoly), then, correctives, such as anti-trust laws may be required. In contrast, in the case of industries that are characterised by network-based delivery systems and / or increasing returns to scale (such as electricity, drinking water, etc.,) allowing for a regional monopoly may be socially desirable and efficient. However, the government may, then, regulate prices, or, undertake production in the public sector to circumscribe monopoly pricing.

Government activities that correct for market failures acquire public good characteristics. An even more important role for the government relates to redistribution that promotes fairness. Equity is a social objective that is as important as efficiency in economic production. Often, equitable distribution of benefits may enhance economic efficiency by promoting social stability. Inequity often raises societal costs by fomenting crime and disrupting normal economic transactions. While a market mechanism may be desirable to promote economic efficiency, it is unlikely to achieve socially desirable income distribution. Governments then use their coercive power to promote redistribution. Among others, such redistributive measures include a progressive income tax system and social security provisions that enhance economic welfare.

1.2.2 Government Failure

Often, the supply of public goods is determined through a political process, and there is no guarantee that this supply will be socially optimal. It is a commonly held view that supply shortages in public goods present a major bottleneck for growth in developing economies. However, the dangers in oversupply of public good may hardly be overstated. It must be recognised that the supply of public goods entails costs that are ultimately financed through taxation. If a government activity designed to correct for market failure entails higher budgetary cost than social benefits from that corrective measure, it may likely result in oversupply. In addition, governments in developing economies are prone to oversupply public goods of relatively low social demand, often to the neglect of those vital for economic development.

Advances in areas of political economy, public choice theory, theory of incentives, etc., throw some light on the behaviour of governments constituted of political leaders who would follow an objective to maximise their likelihood of continuing in office. In such a situation, budgetary allocations among various public goods may be based on considerations that are significantly different from what may contribute to maximise gains in social and economic welfare. In particular, issues that strengthen political support often hijack the economic welfare agenda. For example, a public good such as basic scientific research that benefits society as a whole is likely to be undersupplied. Benefits from such goods may likely be distributed widely among a large number of people in future. But, it is unlikely that a strong pressure group may emerge to press forth this demand. On the other hand, pressure groups may emerge easily for some infrastructure projects (that may could, also, result in oversupply) if there exists an opportunity for large private benefits to a few contractors and / or a relatively small number of residents in a community.

Governments, especially in developing economies, often acquire monopoly characteristics while drawing constitutionally determined legitimate coercive powers. There is, thus, a strong incentive for the size of governments to expand if only for the sake of greater power and position of bureaucrats. The government is a repository of a large body of information. Often, there lies an incentive to manipulate this information that ordinary citizens may find difficult to comprehend, in favour of certain goods. For example, national security issues may be exaggerated to increase the size of military, while fiscal profligacy concerns may be underplayed. Unlike in a private sector entity, the perception on bankruptcy of governments may be nuanced and difficult to visualise. In the absence of profit incentives and weak perception on bankruptcy, government organisations are susceptible to falter on efficiency issues. Further, bureaucrats and pressure groups with vested interests may resist expenditure reduction, or, budget re-allocations from one category of public goods to another. These conditions conspire to yield an oversupply of unnecessary public goods, often, in combination with undersupply of public goods that are critically needed for economic development. Such inefficient budget allocation is a typical case of government failure.

Government failure however, is not limited to misuse of budgetary allocation. It may also arise out of certain regulations that may bias resource allocations. Regulatory interventions contributed positively towards pollution control and vehicular safety. For example, the compulsory and regular checks on automobiles by authorised garages in Japan promoted safety of both drivers and pedestrians, as well as controlled emissions of noxious gas. These regulations made significant social contribution when automobiles made in Japan were, relatively speaking, of low quality, and prone to trouble. Over a period of time, while the quality of cars improved significantly, assuaging both safety and emission concerns, the garages organised themselves in a manner that protected only their vested interests, and, perhaps made for negative social contribution.

Regulatory interventions may become entrenched with vested interests seeking institutional rents, or, skimming excess profits. Firms protected by regulation may raise funds and ballots to support politicians in exchange for their support to continue with the regulation. Often firms are seen to reemploy officials retiring from regulating agencies. Several regulatory prescriptions survive long beyond their useful lives, negating most of the gains brought forth when first introduced. Quite often regulations and regulatory agencies morph into another avenue for corrupt practices. It is common to cite incidents of failure and, as the case may be, to deride governments or markets. In reality, however, it may be extremely difficult to exculpate any one. It is also common to pit the market against government, giving rise to a perception that these are substitutes, when indeed they play a complementary role. It is less often that we adequately appreciate the success of these respective institutions. Developing societies need to evolve sufficiently to transform their perception of markets and governments as being parasitically disposed, into one where they share a predominantly symbiotic disposition.

In this section you studied the role of market and state in development. Now, answer the questions given in Check Your Progress-1.

Check Your Progress 1

Note: a) Answer the following questions in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What is a market? Explain the role of the market in development.

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2) Does failure of government lead to the rise of the market? Illustrate.

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1.3 THE ROLE OF COMMUNITY IN DEVELOPMENT

In the continually evolving nature of societies, economic institutions, such as the market and the state, always face a distinct probability of failure on certain aspects. Such failures occur on account of the relative inertia of the institutions that prevents them from keeping pace with the ever-changing needs of a society. However, failures in these circumstances also provide the requisite incentive to look for tools and options to set them right.

Asymmetry in information across various agents such as NGOs (Non-Governmental Organizations), Civil Society groups, etc. is a typical reason for several lapses observed in markets or governments. There is growing consensus that democratic systems, are, perhaps best suited to acknowledge the lapses and facilitate appropriate triggers for correctives. Often, ideologies that have withstood the tests of time, and may come to be grounded in religious (customary) practices, also play a vital role.

Up till now, you have studied the role of the market in development and the success and failure to effectively deal with development. Besides, these two actors, today, community and community based organizations also play an important role. In your locality you might have seen that community organisations like youth clubs, mahila mandals, and panchayats collect fund for various welfare activities, such as education of the poor, healthcare of the poor, preparation of a common club house, etc. Thus, community organisations now play an important role in development.

Asymmetry in information presents a dichotomy in the incentives facing differing agents and may give rise to the problem of moral hazard. Simply stated, moral hazard refers to a situation where an individual's rational actions to preserve her self interest conflicts with another agent's (rational) actions. The other agent is also acting in her own self-interest. Self interest, however, risks a connotation of selfishness, and may not be the best description of an individuals' disposition as an economic agent. The frequency of moral hazard situations, it is believed, may be reduced among people when they undergo intense personal interactions. Such interactions nurture mutual trust, thus, enhancing individual capacity to predict another's behaviour. Further, these may serve as useful and effective brakes in preventing a downward slide along the slippery path of moral hazard. Intense personal interactions bring forth issues of mutual interest that often result in the formation of communities held together by mutual trust.

Theoretically, community may have a wide domain ranging from the family to the national community. It is not uncommon to also hear about an international community. In developing economies, however, a community typically signifies a tribe or, a village with individuals bonded by blood and locational affinities. According to Populin, "a community is a unit of social and territorial organisation in which people live, work and attend school and carry on many other activities which are a part of daily living". In relatively urbanised developed economies, community relationships (or, interest groups) are formed through channels such as workplace, schools, colleges, church, sport, hobby clubs, etc. Communities often exhibit a significant influence on business transactions and political activities. Recent controversies relating to land acquisition for industrialisation have queered the pitch by portraying certain communities as fetters on modernisation. However, these communities are critical to avert failures in the market mechanism and in the role of the state to support development.

Three important reasons for which community participation in the development process become essential, are as follows

i) at first, the market mechanism co-ordinates the actions of profit seeking individuals through competition, by signalling price changes

ii) second, the state induces people to adjust resource allocation by using coercive powers at its command

iii) last, a community, however, works differently from a market, or, a state, to guide members towards voluntary consensual cooperation.

Community participation is a process by which a community identifies its needs, or, objectives, gives priorities to them, develops the confidence and will to work at them, finds resources to deal with them, and, in doing so, extends and develops cooperative and collaborative attitudes and practices within the community.

In several subtle ways, the community and state may assume similar forms. For example, a village is a community where villagers cooperate voluntarily. However, villagers may chose to authorise particular individuals to exercise certain coercive powers in the administration of village affairs when it assumes the form of a small state. However, a community and a state are functionally separable. In what follows, we attempt to illustrate the role of community in development by: (a) fostering cooperative action; (b) promoting trust as social capital; and (c) supply of local public goods.

a) Cooperation

The importance of cooperation to improve efficiency in resource allocation and improve benefits (or minimise costs to individuals), may be illustrated by what is popularly known as the Prisoners' dilemma in game theory. The Prisoners' Dilemma (in this specific situation, highlighting benefits from cooperation) may be illustrated as follows. Assume that there are two suspects (A and B) who have been charged with committing a crime. They are taken into custody and confined in separate cells. In their cells, they are respectively interrogated by a prosecutor. The prosecutor threatens each suspect with a heavy penalty, should he continue to deny the charges, while the other suspect confesses. Alternatively, the interrogator tempts each suspect with a small reward, should he confess to the offence while the other party maintains denial. A typical pay-off matrix for such a game may be the following.

B's Strategy

A's Strategy

Strategies	**Cooperation**	**Non-Cooperation**
Cooperation	3, 3	-5, 1
Non-Cooperation	1, -5	-3, -3

Both A and B are faced with two strategic choices, to either cooperate (with each other) or not. Note that cooperation here refers to cooperation between the suspects, not, cooperation of a suspect with the investigation agency. Non cooperation of a suspect with the other may be interpreted as defection from the community. If both A and B cooperate with each other and continue to deny, they may be set free and enjoy a positive pay off of 3 units each. Alternatively, if A decides to cooperate while B chooses to defect, then A ends with a penalty of 5 units while B gets a small reward of 1 unit. The situation gets reversed if A decides to defect while B chooses to cooperate. Note that the suspects are isolated and act simultaneously without any information on other's action. If both A and B choose to defect, they end up with a penalty of 3 units each.

Typically, in such a situation, suspects would adopt a maximin approach whereby they adopt a strategy that maximises their pay-off from among the minimum pay-offs for their alternative strategies. The minimum expected pay off if A chooses to cooperate is -5, while the minimum pay off if he chooses to defect is -3. The maximum between these two pay-off (that is -5 and -3), is -3 and, therefore, A chooses to exercise the strategy which assures this, and he defects. A similar approach is adopted by B. As a result both end up defecting and with a penalty of 3 units each. Thus, while it is possible for the two suspects to gain 3 units each, in the absence of cooperation (alternatively interpreted as presence of moral hazard) they end up with penalties.

This example of Prisoner's Dilemma illustrates how inability to establish cooperative relationships, due to the absence of communication and trust, may push society to a worse outcome than hitherto possible.

b) Trust as Social Capital

The example cited above pertains to an undesirable activity, or, a public bad, but, contrary to what one may like to believe, such situations occur with greater frequency in the context of public goods. Situation analogous to Prisoners' Dilemma are faced commonly by various transacting agents in a society. Is it then possible to improve the outcome of economic transactions say, by use of the legal apparatus provided by the state? In theory, the dilemma can be prevented, if contractual terms and penal clauses against possible violation (non cooperation) could be detailed in a written agreement. This further envisages that a mechanism to appeal for mediation by a third party, such as a court, is possible should a conflict arise. In practice, however, it is difficult to lay down a complete contract detailing all possible situations of conflict, say about product quality, delivery time, etc. with all considerations for future contingencies. The problem is especially confounding for new products that may be technologically complicated and where it is difficult to predict beforehand the contingencies that may arise in development and production stages. In hiring labour, it may be difficult to express clearly, and, in detail, the specific skills and knowledge that a prospective employee may be required to possess. Contingencies that may possibly influence such a transaction are theoretically infinite. Thus, it may not be possible to stipulate, in advance, all appropriate counter measures for all contingencies under the 'bounded rationality' of human beings.

Next, third party mediation, especially formal court procedures may entail significant costs. This could often be inhibiting for arbitration on conflicts involving small sums of money. The scale of production and transactions may be typically small in developing economies. Thus, in developing economies, legal means may have only limited utility in solving a typical problem of prisoners' dilemma. The difficulty may be compounded in economies where formal laws and judicial system are less than adequately evolved.

The basic tenet of prisoners' dilemma is lack of communication and mutual trust between transacting parties. It is possible to prevent such situations by developing trust through formation of community relationships. One possible mechanism for such relationships involves a move away from spot and isolated transactions (between anonymous agents based solely on the price parameter) to long term continuous transactions (repeated games). Mutual trust, created from long term continuous transactions, could be further reinforced by multiple interlinked transactions. For example, a trader may not only purchase a commodity from a particular producer continuously, year after year, but supply him with materials and credits, too. Mutual trust, enhanced by intensified interactions and communication, along with the threat of losing a multifaceted cooperative relationship, may be a strong force to curb moral hazard for both parties. The psychological basis of mutual trust could be strengthened by incorporating personal elements in business transactions, such as exchanges of gifts and attendance at weddings and funerals, etc. Such mutual trust facilitates other collaborative relationships promoting the scope for widening of a community. Mutual trust between transacting individuals when elevated to a moral code in society, induces large reductions in transaction costs. Transaction costs typically include the cost of contract negotiation and enforcement. If one could trust the other party in a contract, the potential for worries from possible default may be commensurately reduced. Thus, trust accumulated through personal interactions

in a community, increases efficiency and reduces costs associated with the division of labour. In this regard, trust is a kind of social capital similar to physical capital, such as roads and harbours.

c) Supply of Local Public Goods

Mutual trust gained from personal interaction comprises social capital for the community. Such trust is a form of local public good that benefits a limited group. In this sense, a community possess a comparative advantage, over markets, or, even a state, in supply of local public goods. This supplements the comparative advantage of a market mechanism to supply private goods, and, of a state to supply national public goods. Indeed, a community may be most effective in discouraging free riding (or identifying and excluding potential free riders).

While there is always some opportunity for free riding (that is, enjoying the benefits of say a village road, but not contributing to its costs, say voluntary labour), trust forged amongst members of a community often works towards raising the supply of local public goods to a social optimum. Efficiency in this supply depends on the effectiveness of the likely social sanctions facing those who violate the community's implicit agreement. Any social formation lacking the requisite, or critical, level of trust capital would fail to provision adequately for local public goods. A higher level of government, like the state, then has to intervene to bridge this deficiency. In most cases this inevitably leads to undersupply of local public goods or high cost, inefficient provisioning.

In this section, you read about the importance of community in development dynamics. Now, answer the questions given in Check Your Progress-2.

Check Your Progress 2

Note: a) Answer the following questions in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What is meant by community?

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2) How is the role of community different from that of a market or a state?

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1.4 DUALISM IN DEVELOPMENT DYNAMICS

In the previous section you studied the role of various actors such as the market, state, and community in development dynamics. Another important aspect of development dynamics is dualism, where two opposite system coexist. The two types of dualism discussed in this section of development dynamics are

i) traditional versus modern sector

ii) the one sector model versus the dual sector model of growth

1.4.1 The Traditional versus the Modern Sector

The process of transforming an economy to portray development involves significantly more than a mere increase in incomes and subsequently, consumption levels. It includes certain aspects that make for a living standard, or, quality of life. This constitutes, among others, changes in the way people conduct their life and social relations, manage their wants by commercialisation and urbanisation, organise their political roles, etc. This process of change in the form of institutions and customs embodies modernisation.

Economic change and modernisation are often viewed as autonomous processes that interact in a myriad ways. These interactions, under various conditions either synergise, or, negate the march towards development.

Consider an economy consisting of two sectors that are distinguished in two ways: technological and institutional. One sector has a modern technology, and is assumed to be relatively more productive. People engaged in this sector are geographically scattered, function anonymously, and possess poor information about each other. In contrast, the other sector is traditional, and uses less productive technology. However, people engaged in this sector are relatively less dispersed geographically, and have relatively good information on their neighbours.

Now, consider a situation when some people in the economy seek loans (either to augment current consumption, or, to enhance capital infusion in their activity). Loan transactions, in any situation, run some risk of default by some borrowers. As a result, lenders may be reluctant to lend to those unable to furnish sufficient collateral. In such a situation, superior information in the traditional sector that enables lenders to monitor borrowers better, extends worthy borrowers as good, or better access to credit than they may hope for in the modern sector.

The quality of credit may, thus, be better in the traditional sector. In contrast, credit in the modern sector would be more productive, albeit associated with higher risk. There appears to be a trade off in the traditional sector and the modern sector, between relatively better quality of credit, and the relative potential to raise productivity. Now, consider the possibility of migration, which is arguably a one way flow from the traditional to the modern sector. Only those facing strong incentives would move out of the traditional sector. Two groups, at the extreme ends on an income (or wealth) scale are likely to make this transition.

First, the wealthy, also assumed to be more productive, may be motivated to exercise the option to migrate, and further raise their productivity. On the contrary, the poorest may also migrate as they have nothing to lose from the transition. This, however, assumes that transition is costless. In reality, though, there are

likely to be some transition costs that may inhibit migration. Second, more people transit to the modern sector if the interest rate is either very low, or, very high. At low interest rates, the temptation to default is weak and, therefore, the advantage in the traditional sector from better monitoring is small. In contrast, when interest rates are very high, consumption loans may be unaffordable. In the absence of any uptake, such loans may be rendered redundant. As long as there are a sufficiently large number of people in the traditional sector, high quality information may exist for most of the people, and on average the economy-wide market for consumption loans may work well. This allows lenders to charge a higher rate of interest than otherwise. If the rate of interest in the modern sector is higher, people may then be reluctant to transit from the traditional sector. This may consist of equilibrium with a lower than desirable socially optimal rate of transition out of the traditional sector.

Now, suppose everyone in the traditional sector was forced to move to the modern sector. From the lenders point of view, because of lower quality of information, there may be fewer credit-worthy people, that is, those who present lower credit risks. But, competition among lenders to patronise these (more reliable / less risky) people may drive down interest rates. Then, more people may access consumption loans, even in the modern sector. The number of people working in more productive sectors may rise, and social surplus could be larger.

The dynamics of development in this model is a two-way interaction between the process of growth and the process of institutional change. On one hand, the rate of growth of the economy depends on the number of people who take advantage of new technology. Growth, then, may be constrained by the institutional difference between traditional and modern sectors. On the other hand, long term survival of traditional institutions depends on the rate of growth. As the economy grows, capital becomes abundant and the price of loans in both sectors falls. Declining interest rates reduce agency costs in modern sector, and comparative advantage of the traditional sector in provision of loans also diminishes. People may be further encouraged to migrate to the modern sector. Therefore, in development dynamics, both the traditional and modern sector co-exist and complement and supplement each other. For faster development, the growth rate of both the sectors is essential.

1.4.2 One Sector vs. Two Sector Models

The Ramsey-Cass-Koopmans (RCK) model, sometimes referred to as the one sector model of growth, is a simple, flexible model amenable to a wide range of assumptions. The RCK model continues to be popular in modern economics with its representation of the economy as an optimal control problem. It is utilised to analyse the performance of an economy with rational and utility maximising individuals. It constitutes a representative household, or, individual, who has time for labour, and an endowment of capital from a previous period. Such a household or, person may choose between labour and leisure, and between consuming, or, saving current output. Labour produces output and saving this output generates wealth.

Attributes of the representative household, or individual are inherent throughout the economic system. Individuals have endowments of labour (l) and capital (k). Let, labour earn a wage, w, and capital commands an interest rate, r. The income (y) of the individual is then $y = wl + rk$. However, capital also depreciates at a

rate ä. It is further assumed that r > ä, or else there would be little incentive to hold capital. All income that is not immediately consumed is saved, and invested in the form of k.

Now, rational individuals value future consumption less than present consumption. This is referred to as time discounting. Assume that the representative household discounts future consumption at the rate, ñ. It, then, follows that r must equal ñ + ä. Suppose, r exceeds ñ + ä, then this may lead to excessive saving by postponing current consumption. On the contrary, if r is less than ñ + ä, then people may consume excessively leaving very little savings. Every individual is intuitively driven to maximise utility (Ut) over time (t). Utility is derived out of current consumption and leisure. Growth in this model is essentially determined by savings that are ploughed back into the Economy.

On the contrary, the Dual Sector model, developed by Lewis, is a model framed to explain the growth of a developing economy. The two sectors in such an economy are: (i) a traditional agricultural sector; and (ii) a modern industrial sector. The traditional agricultural sector is characterised by surplus labour that transits to the modern industrial sector. Over time, growth of the industrial sector absorbs surplus labour from the traditional agricultural sector, fostering further industrialisation and stimulating sustained development.

Apart from abundant labour, the traditional agricultural sector is also characterised by relatively low wages and low productivity, although it utilises a labour intensive production process. In contrast, the modern industrial sector is characterised by a relatively higher wage rate, and rising productivity. Initially, there exists a demand for more workers in the industrial sector, though, it is assumed to be utilising a relatively capital intensive production process. Profits made by capitalists are reinvested as capital stock in the modern industrial sector. However, the traditional agricultural sector is less amenable to investment and capital formation, and a low priority is accorded to improving the marginal productivity of labour in this sector. Thus, the hypothetical developing nation's investment goes towards physical capital stock in the industrial sector.

The traditional agricultural sector which is traditional in nature is constrained by the availability of cultivable land. Further, the marginal product of labour in the traditional agricultural sector (that is, the increase in farm output from employing an additional farm labourer) is assumed to be zero. This follows from the law of diminishing marginal returns that runs out its full course on the fixed land input. With marginal productivity set at zero, there exist a number of farm workers who do not contribute to agricultural output. This group is denoted as surplus labour and this cohort could move to another sector without any decline in agricultural output.

To take advantage of higher wages from the industrial sectors, over time, workers may tend to transition from the agricultural to industrial sector. Total agricultural product would remain unchanged, while total industrial product would rise due to the additional labour force. But, additional labour may also drive down marginal productivity and wages in the industrial sector. Over time, the marginal productivity of workers in the industrial sector would be determined by two factors: (a) an increase due to investment fostering capital formation; and (b) a decline, due to more workers transiting from the traditional agricultural sector.

Eventually, the wage rate in the agricultural and industrial sectors would equalise, as workers leaving the agricultural sector would drive down productivity and wages in the industrial sector, while raising marginal productivity and wages in the agricultural sector. The end result of this transition process is that, agricultural wage equals industrial wage, and the marginal product of labour equates across agricultural and industrial sectors.

Growth in this model is, therefore, driven by a continuous supply of labour from the traditional agricultural sector. As long as the number of workers transiting to the industrial sector equals the number of surplus labourers in the agricultural sector, then, regardless of who actually transits, general welfare and productivity continue to rise.

Reality, however, is more complicated than what the theory may predict. The introduction of new productivity enhancing technologies in agriculture, and, intensive (as opposed to extensive) use of labour render more of them as surplus. The differential between agricultural and industrial wages should be sufficient to incentivise transition between the sectors. Industrial sector expansion comes to a halt when this monetary incentive is not strong enough for labour to transit. In other words, transition may not be costless. The relative bargaining power of workers also influences the cost of labour. In practice again, some relatively strong assumptions on individual rationality, perfect information, and almost limitless capital formation potential in industry, may not be realised. However, the model presents a general theory of labour transiting to modern sector in developing economies.

In this section, you have studied dualism in development dynamics. Now, answer the questions given in Check Your Progress-3.

Check Your Progress 3

Note: a) Answer the following questions in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What are the two essential differences between the traditional and modern sectors?

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2) What are the differences between the one sector growth model and the dual sector growth model?

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1.5 LET US SUM UP

This unit began by defining the specific domains of the essential institutions of development, namely, markets and governments. This was followed by examples highlighting the common causes of failures, or, of limitations in effectiveness of these institutions, especially in less developed countries. The role of community-based interactions to lubricate the functioning of markets and governments was discussed. Special emphasis was laid on the mechanism to build trust that can ultimately lead to realising certain goals of development by fostering growth by reducing the costs of transactions. A common economic activity that relies significantly on trust, apart from other observable attributes, or, quantifiable inputs, concerns the market for credit and debt. Access to, or, availability of credit is often seen as an important factor to facilitate resource allocation. Efficiency in resource allocation, in turn, is the principal ingredient of development. Further, the process of modernisation is vacuous if it fails to reduce the cost of credit, or, to motivate improved productivity of labour. Finally, simple models were described, where growth is led by ploughing back savings as investments, or, by labour transiting to more productive sectors of the economy.

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1.7 CHECK YOUR PROGRESS-POSSIBLE ANSWERS

Check Your Progress- 1

1) What is a market? Explain the role of market in development.

Answer. Market is a place where the buyers and sellers meet and buying and selling activities takes place. Market plays an important role in development. As the prices of goods are determined as per their demand in the market, therefore, the sellers those who are largely the private actors emphasise on the quality of goods and services in order to fetch a competitive price in the market. Thus market many a time fulfils the qualitative dimension of development.

2) Does failure of government lead to the rise of the market? Illustrate?

Answer. The monopoly in the market sometimes hampers the wellbeing of the disadvantaged. Therefore, the intervention of state has become imminent. The state interventions in public health, health and education has helped the development of the socio-economically disadvantaged section of the society.

Check Your Progress -2

1) What do you mean by community?

Answer. Customarily, community means a tribe or a village with individuals bonded by blood or locational affinities. In Indian context, the community can also be defined in terms of religion and location such as Muslim community, Hindu community, Tribal community, etc. Each community tries to develop their own community when they perceive it in the prism of parochialism.

2) How is the role of community different from that of a market or a state?

Answer. The role of community is different from those of the market and government, in the following ways:

i) At the outset, they initiate co-operative action through consultation and mutual understanding; and

ii) Secondly, they generate social capital through collection for public good; and

iii) Thirdly, they made available local public goods which are cost effective.

Check Your Progress- 3

1) What are the two essential differences between a traditional and a modern sector?

Answer. The one sector model is characterised by a sector which is governed by mainly the traditional economy, where labour is the fundamental factor of production. While in the dualistic model both labour and capital play important role. There are different types of dualism such as socio-cultural dualism, ecological dualism, technological dualism, enclave dualism, financial dualism, etc.

2) What are the differences between one sector and dual sector growth model?

Answer. The Ramsey-Cass-Koopmans (RCK) model, sometimes referred as one sector model of growth. It is utilised to analyse the performance of an economy with rational and utility maximising individuals. It constitutes of a representative household / individual, who has time (for labour**)** and an endowment of capital from previous period. On the contrary, the Dual Sector model comprising of traditional and industrial, developed by Lewis, is a model framed to explain growth of a developing economy. The traditional agricultural sector is characterised by surplus labour that transits to the modern industrial sector. Over time, growth of the industrial sector absorbs surplus labour from the traditional agricultural sector, fostering further industrialisation and stimulating sustained development.

UNIT 2 DEVELOPMENT PROCESSES, APPROACHES AND STRATEGIES

Structure

2.1 Introduction

2.2 The Evolution and Role of Development Economics

2.3 Alternative Approaches to Development

2.4 The Processes of Development: Theoretical Perspectives

2.5 Strategies for Development

2.6 Let Us Sum Up

2. 7 References and Selected Readings

2.8 Check Your Progress -- Possible Answers

2.1 INTRODUCTION

You might frequently hear and talk about development, which you normally measure in terms of increase in income, infrastructure, quality of life, etc. Development is a dynamic concept. The processes, approaches and strategies of development vary from one country to another. They also vary in different regions within the same country, and from one community to another. In this unit, you will read about the processes, approaches and strategies of development. Before narrating these three key aspects, we will discuss the evolution and role of development economics in development, in the first section.

After studying this unit you should be able to

- Explain the evolution and role of development economics
- Discuss alternative approaches to development
- Narrate various process of development from theoretical perspectives
- Explain various strategies of development.

2.2 THE EVOLUTION AND ROLE OF DEVELOPMENT ECONOMICS

After World War II, some of the terms used to describe the economic situation in developing economies were 'vicious circle of poverty', or, a 'low-level equilibrium trap'. The goal of development is to take these economies out of this situation and settle them on a path of self-sustaining growth. This is what Schumpeter had in mind, even though, perhaps, he did not have contemporary developing countries in mind. He considered development, in contrast to mere growth, of an economy, as "a distinct phenomenon, entirely foreign to what may be observed in the circular flow, or in the tendency towards equilibrium. It is spontaneous and discontinuous change in the channels of flow, which forever alters and displaces the equilibrium previously existing". Schumpeter further emphasized the role of innovation and concomitant anticipation of private entrepreneurial profit as major factors in driving development. However, economists writing after the mid-1940s, and in the 1950s, visualized a dominant

role for the state in initiating, and sustaining the development process. As a corollary, comprehensive national development planning, under state patronage, gained currency. However, state interventions in one developing country after another appeared to open-up yawning gaps which resulted in an overemphasis on development planning.

Adam Smith's hypothesis of the 'invisible hand' was rigorously re-stated as a fundamental theorem of welfare economics under the neo-classical paradigm. This is discussed in a later section. First, under a set of mild restrictions on production technology and individual preferences, the equilibrium following from a laissez-faire (least intervention) policy is the Pareto Optimal. Pareto optimality is obtained when any departure from it cannot prevent at least one individual becoming worse-off. Simply put, benefits for some can come only at the expense, or loss in welfare of others. However, the Pareto optimal does not imply that equilibrium is fair. The distribution of income emerging from a laissez-faire policy could be unequal. Second, given a set of certain restrictive assumptions (including the absence of technological externalities, or of increasing returns to scale in production, and of convexity of consumer preferences), a Pareto optimum may be sustained as a competitive equilibrium, provided income (or initial endowments) could be redistributed through lump sum transfers, or other non-distortionary means. Thus, both, the efficiency of resource allocation and distributional equity, could possibly be achieved, although with redistribution, rather than laissez-faire, possibilities. Arrow and Debreu extended the 'static' or 'certainty' theorems to cover resource allocations in time, space, and in uncertain states of nature.

The focal subject in development economics attempts to explain differences in standards of living both within and between countries. Development economists also ask the question: why do standards of living change with varying speed, within, or across countries. They work with governments in less developed countries (LDCs) to help formulate policies that promote growth, or to remove hindrances to growth. Economic thinking on what policies work, or do not work, has also evolved significantly over the past several decades. For example, investing in assets such as machines and factories remained a priority for a long time, but in more recent decades, investment in education and health, for example, building more schools, and training more doctors and nurses, is considered to be more effective. While many economists view government planning as essential for development, several among them emphasise limited government intervention and a wider role for free markets.

Debates and controversies are a constant feature of economics, as indeed, they fashion almost all research. These debates have characterized development economics with constantly evolving views on what constitutes 'development' itself. Significant effort has gone into liberating its scope from the narrow confines of income, or wealth, to encompass hard-to-measure attributes of well-being, and happiness. A common approach has been to supplement the income, or wealth dimension, with several other dimensions that also serve a desirable social objective. In order to distinguish development from mere growth (in average incomes), and to lay emphasis on both inter and intra-generational aspects, the United Nations World Commission on Environment and Development defined sustainable development as: "In particular, sustainable development approach calls for a multi-dimensional metric along economic, environmental and social attributes".

Over the years, a clear trend has emerged, with gradual movement away from narrow measures of 'standards of living' as indicators of development, towards broader and arguably more comprehensive measures for 'quality of life'. However, assigning a line separating the 'less developed' from 'developed' countries involves large elements of subjectivity. While certain broad ranges of average per capita income are often used to categorize economies along the 'development' scale, countries that follow varying conventions to define the 'poor' (that is those for whom development remains elusive also used as indicators of development and backwardness). In absolute terms, the terms 'underdeveloped', 'developing' and 'developed' could be explained with examples. For example, there are three geographic clusters, arguably constituting the lower end on a development scale, which house a majority of relatively poor countries.

These are: (i) sub-Sahara African countries (located south of the Sahara Desert) such as Nigeria, Ethiopia, Kenya, and Zimbabwe; (ii) Central and South Asia, including some countries from the erstwhile Union of Soviet Socialist Republics (USSR) countries, such as Tajikistan and Uzbekistan, as well as densely populated countries, like India, and Bangladesh (iii) Latin America, including Mexico and Central American countries such as Nicaragua and Haiti, and South American countries, such as Brazil and Peru.

However, wide differences in standards of living are apparent even within these three areas. Broadly speaking, poverty is much more widespread and severe in sub-Saharan Africa than in Latin America which includes relatively richer countries, such as Chile and Argentina. Relatively poor countries also exist in East Asia (China and Vietnam), Eastern Europe (Bulgaria and Romania), the Middle East and North Africa (Iraq and Algeria). In recent years, though, some countries (namely, Mexico, Brazil, and China) have successfully transited to the group of middle income countries.At the upper end of the development scale are the relatively rich countries, also referred to as the more developed countries (MDCs). These include, (i) The United States of America and Canada, in North America, (ii) Several West European countries (for example, Germany, United Kingdom) (iii) Australia and New Zealand (iv) some EastAsian countries (for example, Japan, Singapore) (v) A few Middle Eastern countries (for example, Kuwait and Bahrain).

On the other hand, if we take the performance of various countries, in relative terms of development, then we can consider the following points: (a) The average income in Uganda more than doubled between 1975 and 2004, but during that period it has more than tripled in Chile, quadrupled in Thailand, and grew almost 11 times in China. Thus, some of these countries managed to break out of the category of LDCs, and safely perched themselves in the bracket of middle income countries (b) Not all LDCs experienced growth. For example the average income declined by more than 45, 60, and 75 per cent respectively in Zambia, Sierra Leone, and the Democratic Republic of Congo. Besides, wide differences are also observed in achievements along development indicators for quality of life. (c) The average expectation of life at birth (that is the number of years that a newborn child can expect to live), increased from 38 to 48 years in Mali, from 54 to 68 years in Honduras, and from 45 to 64 years in Bangladesh over nearly three decades since the early 1970s, but, it declined from 54 to 47 years in Kenya, from 50 to 37 years in Zambia, and from 56 to 37 years in Zimbabwe over the same interval (UNDP 2006). The search for explanations to such widely divergent outcomes constitutes an important agenda of studies in development economics.

2.3 ALTERNATIVE APPROACHES TO DEVELOPMENT

After studying the importance of development economics, you will learn about the alternative approaches to development, discussed in this section.

The three main approaches to development are as follows

i) The Marxian Approach

ii) The Structuralist Approach

iii) The Market versus Government Intervention Approach

i) The Marxian Approach

In the Marxian approach, the forces of production represented by available technology at any point in historical time, and the existing relations of production, represented by the institutions governing ownership and access to the means of production, determine equilibrium. Exogenous technical progress, that is, shifts in the forces of production, disturbs this equilibrium, inducing a realignment of relations of production that results in a new equilibrium which replaces the pre-existing equilibrium. In this linear view, capitalistic production relations supplant feudal relations, as changes in technology (particularly after the industrial revolution) make feudal relations obsolete. The recurrent crises predicted for mature capitalism were expected to lead to socialism and eventually to communism. The rational-choice school of Marxism (also known as neo classical Marxism) however, does not view the world in the rigidly deterministic way described above, and allows some scope of action for individuals.

ii) The Structuralist Approach

In the structuralist approach to development, rigidities of various kinds preclude the rapid and quantitatively significant response of an economy to changing incentives as conveyed by market signals. Thus, for example, the supply response to improved terms of trade for agriculture, the dominant sector in early stages of development, is said to be negligible, at least in the short to medium term. The prospects of acquiring growing amounts of foreign exchange through exports of traditional products, that are deemed essential for obtaining or financing vital imports, may then be considered to be low. Even if market failures, in the neo classical sense, were absent, development could be hampered, unless some strategy is adopted (for example, import substituting industrialisation) that alleviates structural rigidities. The dualism between traditional agriculture and modern industries or rural and urban sectors, is another example of structural rigidity. However, in behavioural terms, neither is the origin of the rigidities, nor is their persistence, satisfactorily explained in the structuralist approach.

iii) Market versus Government Intervention Approach

Whatever the approach, development remains the objective of any economy in the world. In Sen's words it is the 'expansion of choices' that has several dimensions, and this, can be only achieved through a concerted effort of the government, and a well-functioning market. Recent theoretical advances

investigate the origins and consequences of incomplete market, imperfect information, transaction costs, and imperfect competition to guide strategic behaviour. These postulate that the allocation of resources may not be Pareto optimal, and so, envisage a role for government intervention.

The analytical case for state intervention in developing economies was based on the arguments of all-pervasive externalities and significant scale-economies, particularly in network based infrastructure sectors, such as transport and communications. Further, developing economies are likely to have segmented and imperfect capital markets, with limited intermediation from the financial system. The entrepreneurial class in such economies is likely to be minuscule, both because of constraints on entrepreneurial activity, and stunted markets for risk pooling, or sharing. Under such circumstances, it was argued, that market failure may be the rule rather than an exception. The state may then have to perform the role of a Schumpeterian entrepreneur (indulging in creative destruction). It may further have to intervene in markets, through a mechanism of taxes and subsidies, to facilitate adequate accounting for externalities.

This also brought to question the 'trickle down' hypothesis which suggests that higher gains by a relative minority in the population could, eventually, lead to gradual sharing of these benefits with those who may not gain directly from a reform programme. Two forms of reform, or developmental change, may be deciphered. These have often been studied in the context of tax and subsidy policies, but are relevant, also, for more general policy analysis. First, a reform may be Pareto improving, if it improves the wellbeing of at least one individual, and reduces the wellbeing of none. That is, wellbeing, as measured by, say, the income level, or, say, the consumption level, should improve, or, at least not decline, for all, or at the least, for one, irrespective of their social merit. But, note that it makes no reference to ranking (along the income, or consumption scale) of households that might be altered due to these reforms. In reality, though, retaining the relative ranking may be an important concern. This, then, calls for an alternative form, described as Dalton improvement. According to Dalton's principle, there exists a prior social ranking of households. A transfer is approved, if it distributes from high-ranking (rich) to low-ranking (poor) households, without altering the ranking itself. For example, if one looks at taxation as a negative income transfer (burden), then the shifting of this burden from the poor (have-nots) to the rich (haves) can be considered to be fair, as long as it does not disturb the ordinality (as measured on the income scale) of the individuals (households) in the economy. In reality, adopting a policy programme, or finding a solution that satisfies either criterion (that is Pareto improving or Dalton improving) may be difficult to attain. In particular, consider the example of a revenue neutral tax reform programme. By definition, such a programme violates the Pareto criteria as it would involve some losers and some gainers. In the case of revenue-non-neutral programmes, there may be multiple solutions that satisfy both criteria, making it difficult to exercise an easy choice. These reform criteria, however, serve an important purpose. It may be stated that Dalton improving reforms are geared towards reducing inequality say, in income distribution, or in consumption, or of opportunities, or as in the example above, tax incidence, etc.. In contrast, Pareto improving reforms are geared towards increasing the size of the cake, but, are not necessarily geared to address the issue of inequality, and, are distinct from a programme of sharing (distribution) of the cake.

In a sense, a Pareto improving reform appears to be more in consonance with measures such as poverty reduction programmes that involve growth aspects, while Dalton improving reforms are geared towards addressing issues that relate to inequality reduction, and redistribution programmes. While desirable from a social perspective, programmes that could possibly deliver such outcomes often face severe administrative hurdles, and even opposition from certain groups.

In this section, you studied the evolution and role of development economics and alternate approaches to development. Now, answer the questions given in Check Your Progress 1.

Check Your Progress 1

Note: a) Answer the following questions in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What is Development Economics?

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2) Write a short note on the Structuralist approach.

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2.4 THE PROCESSES OF DEVELOPMENT: THEORETICAL PERSPECTIVES

Paul Rosenstein-Rodan, Kurt Mandelbaum, and Ragnar Nurksemade seminal contributions to modern development economics. The need for industrialisation, and the problems of Eastern Europe in the aftermath of World War II, added new dimensions to the literature. Simon Kuznets and W. Arthur Lewis, with their insightful analysis, highlighted the special concerns in Asia, Africa and Latin America. The theories discussed below go on to describe the process of development. However, given the complex nature of processes involved, most descriptions of this nature, are susceptible to limitations when they are applied to specific country situations. This should not be construed as a complete failure of the theory to identify, and, to describe the process of development. Further, the dynamic and evolving nature of the development defies the certainty that theoretical descriptions offer.

With this background, the following theoretical models attempt to classify various philosophical strands that theorize the processes underlying development in modern literature. These are:

i) The Linear Stages of Growth Model

ii) The Structural Change Theory

iii) The International Dependence Theory

iv) The Neo Classical Theory

2.4.1 The Linear Stages of Growth Model

The linear-stages-of-growth model was accorded a framework (in the 1950s) by W. W. Rostow in "The Stages of Growth: A Non-Communist Manifesto". The Rostow framework differed from Marx's earlier exposition, and focused on accelerated accumulation of capital. The manifesto said that both domestic and international savings are utilized to spur investment. This serves as the primary engine to promote economic growth and hence, development. The model posits five consecutive stages that all countries must pass through on the way to development. These stages are (i) Traditional society; (ii) Pre-conditions for take-off; (iii) Take-off ; (iv) Drive to maturity; and (v) Stage of high mass-consumption. Increase in capital investment that leads to greater economic growth is illustrated mathematically with simple versions of the Harrod-Domar Model.

This theory, developed in the early years of Cold War, largely derives its credence from the success of the Marshall Plan. The Marshall Plan (officially the European Recovery Program) was formulated in the United States of America to rebuild, create a stronger foundation for the countries of Western Europe, and to repel communism after World War II. The reconstruction plan, developed at a meeting of the participating European states, was established on June 5, 1947. The plan was in operation for four years beginning in April 1948. During that period nearly 13 billion USD in economic and technical assistance, were given to help the recovery of European countries that joined Organisation for European Economic Co-operation. By the time of the completion of this plan, the economy of every participating state, with the exception of Germany, had grown well beyond their pre-war levels. Over the following couple of decades, many regions of Western Europe enjoyed unprecedented growth and prosperity. The Marshall Plan also came to be seen as one of the first steps towards integration that erased certain trade barriers, and fostered the setting-up of institutions to coordinate economic activity at a continental level. However, a major criticism of the theory following this plan pertains to a presumption that the prevalent conditions in developing countries are similar to those in post World War II Europe. The theory inadequately accounts for the distinctive milieu of political, social, and institutional features that hinder development. It came to be recognized that capital accumulation, while necessary, may not be sufficient to foster development.

2.4.2 The Structural Change Theory

Policies and programs that are geared to influence changes in economic structures are the subject matter of investigations of structural change theory. Structural change theory postulates the process of development that helps economies make a transition from rural and subsistence agricultural practices to modern, urbanized, and industrially diverse manufacturing and service activities. Two major strands

of this theory gained prominence. The one proposed by W. Lewis, known as the two-sector surplus model. In this model, agrarian societies are assumed to possess significant surplus labor that could be utilized to spur the urban industrial sector. The other, proposed by Hollis Chenery, is essentially an empirical investigation into the 'sequential' process by which the economic, industrial and institutional structure of an underdeveloped economy is transformed over time, and, to see how that permits new industries to replace traditional agriculture as an engine of economic growth. Such contributions in the literature popularized the patterns of the development strand of structural change theory.

Some researchers have questioned the critical assumption regarding the existence of surplus labor in a two-sector surplus model. Empirical studies confirm that labour surpluses are often only seasonal in nature. Further, drawing this labour away to urban areas could, potentially, cause a collapse of the agricultural sector. A major shortcoming with 'patterns of development' literature has been the absence of a formal theoretical framework. Both strands of the structural change theory inadvertently emphasize an urban centric agenda, often with adverse consequences for rural areas.

2.4.3 International Dependence Theory

The linear stages of growth and structural change models were severely limited in their ability to explain situations of the kind faced by less developed countries (LDCs) over prolonged periods. The decade of 1970s saw the emergence of international dependence theories. Originating in developing countries, the international dependence theories posited that obstacles to development were primarily external to the economy. These theories portrayed developing countries as being economically and politically dependent on powerful developed countries that are guided by self-interest, and have dominance as an objective. There are three major forms of this theory (a) the neo colonial dependence theory; (b) the false paradigm theory; and (c) the dualistic dependence theory.

a) The Neo Colonial Dependence Theory

With its roots in Marxism, this theory proposed that the failure to develop was an outcome of the historical evolution of the international capitalist system. Richer countries used their political power to exploit developing countries and gain control over their resources, as was the case during the colonial period. Although most of the developing countries are independent, they tend to be dominated by tiny elite groups who cornered the benefits from an exploitative relationship with developed countries. These elite groups often worked as conduits to perpetuate a situation of dependence, to the detriment of a vast majority of their own people. Protagonists of this theory view international trade, as well as the idea of a global economy, with scepticism, and as the principal forerunner for a vicious cycle of downward spiralling underdevelopment.

b) The False Paradigm Theory

The false paradigm theory relates to contributions in economic literature that often see underdevelopment as being fostered by well-meaning, but inappropriate advice from aid agencies, and other MDC (more developed countries) trained economists. Often referred to as 'one-size fits-all' programmes, these have been criticised for worsening the prospects of several LDCs. In particular, the external

advice tended to overlook several important institutional features, including, traditional social structures, highly unequal ownership of land, disproportionate, elitist control over financial assets, and access to credit.

c) The Dualistic Dependence Theory

According to this theory, when key international economic decisions are made in developed countries, there is an inherent intent on the part of these countries to maintain continued dependence of developing countries. While shedding light on some historical obstacles to development, the international dependence theory appears to be silent on the way forward for the less developed economies. On the contrary, it was perceived that several developing economies have managed to achieve high rates of growth. Thus, the evidence goes against the contention of economic exploitation. Indeed, by reorienting their outlook towards international trade, developing countries have made significant gains. Increasingly, developmental economists recognise that using a theory that emphasises 'external' obstacles to development may only serve as a convenient method to put off efforts that are necessary for development. Despite several shortcomings, the discourse originating with dependency theories played a critical role in highlighting issues of inequality. Further, it also sowed that the 'institutions' and 'governance' as key developmental concerns.

2.4.4 The Neo Classical Theory

A radical shift away from the international dependence theory began to emerge in the 1980s. The neo classical theory essentially argued for unobstructed free markets as the best conduit for rapid and successful development. Unfettered markets, it came to be believed, would not only foster competition, they would also ensure the efficient allocation of resources that, in turn, would push a developing economy on to a stable growth path. Surprisingly, the theory evolved almost alongside the rise of conservative governments in the western economies.

Three differing strands of this theory gradually began to take shape. These are: (i) the free market approach; (ii) the public choice theory; and (iii) the market-friendly approach. Of these, the first two contended that markets should be totally free, and that any government intervention is necessarily bad. The public choice theory, associated with libertarianism, is perhaps more radical in arguing that governments themselves are rarely good, and therefore, their intervention should be minimal. The market-friendly approach has gained currency in more recent years. While continuing to advocate free markets, the theory recognises several market imperfections, especially in the developing economies. It, thus, argues in favour of government intervention to fix several such imperfections. The three approaches essentially differ on the nature and extent of market regulation.

Robert Solow was one of the pioneers of the neo classical theory of development. In the Solow model, workers produce output by using tools and machines in factories (collectively referred as capital). Income per worker increases with an increase in output per worker. Workers can produce more output when they work with more tools. Thus, in Solow's model, growth (in income) requires capital accumulation. Firms should, therefore, be willing and able to invest in equipment that makes workers more productive. Solow also recognised that there are only so many machines that any given worker could use. Thus, at some point increasing capital becomes less and less helpful in raising workers' productivity. Growth

(in income) in such a situation can be sustained only if accompanied by technological progress, or innovations, to make resources (labour and capital) more productive over time.

Romer, a renowned development economist, argued that government fiscal and monetary policies alone are unlikely to promote economic growth. Fiscal policies, such as greater government spending, or cuts in taxes (that may translate to higher consumption expenditure) could, at best, provide a short run stimulus to the economy. When government or people consume more, firms also produce more to satisfy this demand. However, more consumption expenditure implies less saving, and less saving leads to less deposit in banks for firms to borrow. This makes it harder for firms to expand through capital accumulation. Thus, the boost to economic activity from an increase in spending is only temporary. Similarly, monetary policy measures that are designed to increase money supply may also induce a temporary surge in spending. But, in the long run they do little to raise an economy's stock of capital, or advanced technology.

Like Solow, Romer emphasises production method improvements for long run economic growth, and further elaborates how this could be achieved. Specifically, he highlights the role of knowledge accumulation from investment in education, and in research and development. Romer also suggested that governments could consider subsidising research that facilitates innovation, and resist extending support to dying industries that fail to innovate.

2.5 STRATEGIES FOR DEVELOPMENT

In the earlier sections, three broad approaches of development were discussed: Marxian, structuralist, and neo-classical. Now, let us discuss various strategies of development. The strategies adopted for development vary from the developed to developing nations. Some of the important common strategies of development discussed below are as follows:

a) The Agricultural Transformation Strategy

Countries attempt to transform the structure of their economies by adopting modern agrarian technologies, with significant improvement in agricultural yields. Often, the newer technologies are relatively more capital intensive. If appropriately supplemented by an industrialisation programme, excess labour (from agriculture) may be absorbed in the industrial sector, and enhance the country's productivity.

b) The Export Orientation Strategy

Countries, specifically certain Asian economies like South Korea, and more recently China, have successfully derived large gains from this strategy. In some countries, export orientation, or dependence on exports, could even be higher than domestic demand. Also referred to as outward orientation, this strategy runs the risk of being severely impacted by the vagaries in the international economic climate. Countries that adopt this strategy need strong exchange rate management programmes.

c) The Import Substitution Strategy

Several developing economies adopted this strategy to pursue goals of self-sufficiency. This strategy is more pronounced in the agricultural sector dominated

economics driven by the innate need for food and nutritional security. Often this strategy also entails strong thrift (savings) programmes, supplemented by policies that facilitate foreign direct investment.

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d) The Urbanization Strategy

An urbanization policy often entails a coherent migration programme. If executed well, this strategy plays a vital role in bringing huge gains in economic efficiency (in terms of resource utilization) and all-round productivity improvements (increasing returns to scale of operation, improved network, and infrastructure). During the 1950s and the early 1960s, there was vigorous emphasis on industrialization and urbanization. But, gradually, country after country realized that the answer to the problems of development was not necessarily urbanization and industrialization. They realised that the whole development process should be so articulated that urbanization should promote rural development, and that rural development should back up urban development.

e) The Decentralization Strategy

In recent years, many countries in the world have talked of decentralization. It is believed that decentralization would hasten the development process. In actual practice, the centralization process weakens popular participation, which is an indispensable element of development. The votaries of decentralization, believe that a decentralized system which allows participatory development from below is a must for a developing society. However, many also believe that a proper blend of centralized and decentralized systems is necessary for faster development, giving the argument that "centralization in autarchic forms is bad, and so is decentralization in anarchic forms."

f) Socio-Economic Planning Strategy

The post World War II period saw the resurgence of economic planning as a major strategy of development. The Russian experience of centralized planning boosted the morale of these developmental economists. Centralized planning gradually led to decentralized planning for faster development of regional and local areas. In India, planning has percolated to even state, district, and village levels. Decentralized planning has been emphasized on the grounds that it provides better allocation of resources, and faster development at the grassroots level.

g) The Growth with Distribution Strategy

The controversy of growth measured in terms of GNP, or per capita income as a strategy of development, as against distributive justice, or quality of life is well known. India, and several other countries, such as China have a similar view point. Growth first, and distribution second, with the belief in the tickle down effect suits the interest of the ruling elites of the LDCs, and the interest of the

aid-giving countries as well. It was further believed that once growth began, everyone's interest could be taken care off. But, the question of social justice, the upliftment of the poor, and the issues relating to the quality of life was almost lost. Therefore, the strategy of growth with distributive justice has occupied centre stage in discussions in developing countries. It is by no means to contend that countries face similar problems or achieve similar successes from adopting a particular strategy. Nor can one presume that a country that has successfully gained from a chosen strategy might be equally successful with others. Different countries at different points of time lay somewhat more, or less emphasis on some particular strategy or another. The experience with outcomes from those strategies depends, not just on the initial economic conditions, but on the social, cultural, and religious contours, too. Often, the pace of adoption of a strategy may be critical in determining success in implementation.

In this section, you have read about theoretical perspectives and strategies for development. Now, answer the questions given in Check Your Progress -2.

Check Your Progress 2

Note: a) Answer the following questions in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) Briefly describe Rostow's stages of growth model as a process of development?

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2) Why is decentralisation considered an important strategy for development?

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2.6 LET US SUM UP

This unit begins with a brief description of the scope and domain of the subject of development economics, and identifies some broad grouping of countries on the basis of their development. Alternative strategies, such as the Marxian approach, the structuralist approach, and the market versus government intervention approach have been discussed. In the last section, various strategies of development have been discussed.

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2.8 CHECK YOUR PROGRESS-POSSIBLE ANSWERS

Check Your Progress- 1

1) What is Development Economics?

Answer: Development economics is a branch of economics which deals with the development aspects such as growth and development, standards of living, quality of life, and so on. Development is a dynamic concept, and so is development economics.

2) Write a short note on the structuralist approach.

Answer: The structuralists believe that the development of an economy depends on the structure of the economy. The terms of trade and other structural factors, such as dualism of agriculture and industry, rural and urban sector influence development.

Check Your Progress -2

1) Briefly describe Rostow's stages of growth model as a process of development?

Answer:W.W .Rostow has given the stages of growth model. According to him, the various stages of growth are:

(i) Traditional Society (ii) Pre-conditions for take-off(iii) Take off (iv) Drive to maturity (v) Stage of high mass consumption. According to Rostow, both domestic and international savings foster economic development.

2) Why is decentralization considered as an important strategy for development?

Answer: Decentralisation is considered basic strategy for development because it hastens the process of participation which is central to the development of developing societies. Many European countries and India follow decentralisation as a strategy for development.

UNIT 3 SOCIAL AND CULTURAL DYNAMICS OF DEVELOPMENT

Structure

3.1 Introduction

3.2 Social Development: Emerging Concepts

3.3 Social Development Theory

3.4 Social Development Index

3.5 Social Processes of Development

3.6 Social Dynamics of Development

3.7 Culture and Cultural Dynamics

3.8 Cultural Obstacles to Development

3.9 Let Us Sum Up

3.10 References and Selected Readings

3.11 Check Your Progress - Possible Answers

3.1 INTRODUCTION

The aim of this unit is to provide a general introduction to the dynamics of social and cultural development. It is now well understood that historical, institutional, social, cultural, demographic, political, and ecological factors are all of great importance for the analysis of economic development. It is also well known that the concept of development is much broader than that of economic development alone. Development involves a wide range of changes in a variety of social indicators, such as health, education, technology, or life expectancy, which are directly, or, indirectly linked to economic changes, but, which need to be studied in their own right. Although, demographic and human factors play an important role in the primary production process, other social factors such as health, disease, mortality, life expectancy, and education are important as independent aspects of development.

The social and cultural dynamics of development are processes that result in the change of social structure in a manner that improves the capacity of a society to fulfil its aspirations. The aspirations range from a variety of issues including personal security, safety, happiness, nutritional satisfaction, education, and include health issues, hygiene, emotional, and intellectual satisfaction. It can also be summarized as the process of organizing human energies and activities at higher levels to achieve greater results. Development increases the opportunities for greater utilization of human potential, and society develops by consciousness. The process that is subconscious in the society emerges as conscious knowledge in pioneering individuals. Therefore, one can say that development is a process, and not a programme. While, not all social change constitutes development, the term is usually applied to changes that are beneficial to society, it may result in negative side-effects, or, consequences that undermine, or, eliminate existing ways of life that are considered positive. Therefore, the social and cultural dynamics of development are continuous processes of change which are

influenced by development quite substantially, and, they determine the direction of further and future development.

After studying this unit you should be able to:

- Establish relationship between society, change and development
- Explain the basic issues of social transformation
- Analyse various indicators of social and cultural change
- Identify the functional dimensions of society and development, and various problems of social change

3.2 SOCIAL DEVELOPMENT: EMERGING CONCEPTS

Social development is a cross-cutting approach to development that promotes policies and institutions in support of

- greater inclusiveness and equity in access to services, resources, and opportunities
- greater empowerment of poor and marginalized groups to participate in social, economic, and political life
- greater security to cope with the chronic or sudden risks, especially for the poor and marginalized groups and segments

Social development is the capacity of individuals and communities to take upon themselves the direction of their own development. The notion of human resource development becomes central in social development, as individuals collectively form a society. The old formulation that literacy leads to development is quite different from the new notion that literacy is embedded in social practice and has social meanings. Approaching the question of literacy from this perspective is not to consider education as an independent commodity, but to analyse carefully the literate competencies needed in a specific society, and to link education and literacy to the social practices people are involved in. Only by approaching literacy in this manner can adult literacy be seen as integral to the development process.

Social development can be summarized as the process of organizing human energies and activities at higher levels to achieve greater results. The development process increases the stances and opportunities for the utilization of human potential. In the absence of a valid theory in the sphere of social development, the concept of social development remains largely a process of trial and error experimentation. The dismal consequences of transition strategies in most Eastern Europe countries, the very halting progress of many African and Asian countries, the increasing income gap between the most and least developed societies, and the distressing linkage between rising incomes, environmental depletion, crime and violence, reflect the fact that humanity is vigorously pursuing a process without the full knowledge needed to guide and govern it effectively. Social development consists of two interrelated aspects – learning and application. Society discovers better ways to fulfil its aspirations, and it develops organizational mechanisms to express that knowledge to achieve its social and economic goals. The process of discovery expands human consciousness, and the process of application enhances social organization. Society develops in

response to the contact and interaction between human beings and their material, social and intellectual environment.

3.3 SOCIAL DEVELOPMENT THEORY

Historically, society has developed by a trial and error process of physical experimentation, not unlike the way children learn through a constant process of physical exploration, testing and even tasting. Physically, this process leads to the acquisition of new physical skills that enable individuals to utilize their energies more efficiently and effectively. Socially, it leads to the learning and mastery of organizational skills, vital attitudes, systems and institutions that enable people to manage their interactions with other people and other societies more effectively. Mentally, it leads to the organization of facts as information and the interpretation of information as thought. The conceptual mind is the highest, most conscious human faculty. Conceptual knowledge is the organization of ideas by the power of the mind. That conceptual knowledge becomes most powerful when it is organized into a system. Theory is a systematic organization of knowledge. A comprehensive theory of social development would provide a conceptual framework for discovering the underlying principles common to the development process in different fields of activity, countries, and periods. It would also provide a framework for understanding the relationships between the accumulated knowledge generated by many different disciplines. If pursued to its logical conclusions, it would lead to not just a theory of social development, but a unifying theory of knowledge—which does not yet exist in any field of science or art. Historically, advances in our understanding of material and biological process have far outstripped advances in our understanding of social processes. As a result, vast social potential has been created, but society has not yet acquired the capacity to fully utilize it for its own development. A theory of development should aim at a knowledge that will enable society more consciously and effectively to utilize its development potentials.

In most discussions, development has been conceived in terms of a set of desirable results — higher incomes, longer life expectancy, lower infant mortality, and more education. Recently, the emphasis has shifted from results to the enabling conditions, strategies and public policies for achieving those results — peace, democracy, social freedoms, equal access, laws, institutions, markets, infrastructure, education, and technology. But, still little attention has been placed on the underlying social process of development that determines how society formulates, adopts, initiates, and organizes, and few attempts have been made to formulate such a framework.

A very large number of factors and conditions influence the process. In addition to all the variables that influence material and biological processes, social processes involve the interaction of political, social, economic cultural, technological and environmental factors as well. The basic principles of development theory must be as applicable to the development of early tribal societies as they are to the emergence of the post modern global village. Development theory must be a theory of how human society advances through space and time.

However, social development theory remains elusive because the very nature of social learning is a subconscious seeking by the collective that leads ultimately

to conscious knowledge. We experience first and understand later. Our mental comprehension perpetually lags behind physical experience and struggles to catch up with it. Our view is that the very intensive, concentrated global experience of the past five decades provides fertile soil for the formulation of a more synthetic conceptual framework for social development. Such a framework can vastly accelerate the transfer and replication of developmental achievements around the world and make possible more conscious and rapid progress even for the most advanced societies in the world.

These observations suggest a starting point for formulation of a comprehensive conceptual framework.

- Social Development theory should focus on underlying processes rather than on surface activities and results, since development activities, policies, strategies, programs, and results will always be limited to a specific context and circumstance, whereas social development itself encompasses a potentially infinite field in space and time.
- The theory should recognize the inherent creativity of individuals and of societies in which they fashion instruments and direct their energies to achieve greater results. It should view development as a human creative process, rather than as the product of any combination of external factors, or, objective instruments that are created and utilized as the process unfolds, and whose results are limited to the capacity of the instruments. Society will discover its own creative potentials only when it seeks to know the human being as the real source of those potentials.
- The implication of this view is that even though it may be influenced, aided or opposed by external factors, society develops by its own motive power and in pursuit of its own goals. No external force and agency can develop a society.

3.4 SOCIAL DEVELOPMENT INDEX

The council for social development has enlisted certain indicators for social development, where a composite social development index has been made considering six major indicators of social development. These indicators are: demographic indicators, health indicators, basic amenities indicators, educational attainment indicators, economic deprivation indicators, and, social deprivation related indicators. The index has been constructed at two points of time, namely, 1991 and 2001and separately for each state. In the case of larger states with a population of more than 5 million the indexing exercise was done separately for rural and urban areas, whereas in the smaller states a combined area index was used.

In the Social Development Report 2008, besides the computation of the social development index (SDI) at the state level, the index was extended in two particular directions – capturing the disparity in development of different social groups, and, measuring gender disparity in social development. The SDI also captures social deprivation by developing separate SDIs for SCs, STs and others, on one hand, and for gender differences on the other. A brief description of the indicators and sources of the data used in the computation of the SDI are given below in tabular form.

Indicators	Sources
Demographic Indicators	
Contraceptive Prevalence Rate (CPR)	National Family Health Survey (NFHS) Report-III(2005-06) State-wise Fact Sheets
Total fertility Rate (TFR)	NFHS-III(2005-06) State-wise Fact Sheets
Infant Mortality Rate (IMR)	NFHS-III(2005-06) State-wise Fact Sheets and Sample Registration System (SRS; October 2006) for all smaller States.
Health Indicators	
Percentage of Institutional Delivery	NFHS-III(2005-06) State-wise Fact Sheets
Percentage of Undernourished Children	NFHS-III(2005-06) State-wise Fact Sheets
Basic Amenities Indicators	
Percentage of Households Living in Pucca House	NFHS-III(2005-06) State-wise Fact Sheets
Percentage of Households with Access to Safe Drinking Water	NFHS-III(2005-06) State-wise Fact Sheets
Percentage of Households with Toilet Facility	NFHS-III(2005-06) State-wise Fact Sheets
Percentage of Households with Electricity	NFHS-III(2005-06) State-wise Fact Sheets
Educational Attainment Indicators	
Literacy Rate	National Sample Survey (NSS) 61st Round, Report No.516. (2005-06)
Pupil-Teacher Ratio	7th All India Education Survey (2002)
School Attendance Rate	National Sample Survey (NSS) 61st Round, Report No.516. (2005-06)
Economic Deprivation Indicators	
Unemployment Rate	NSSO and National Sample Survey (NSS) 61st Round, Report No. 515
Gini Ratio for Per Capita Consumption Expenditure	Sachar Committee Report, 2006

Social Deprivation Related Indicators	
Ratio between Literacy of the Scheduled Caste Population and Average Literacy of the Population	NSS 61st Round, Report No.516, Sachar Committee Report 2006 and Office of Registrar General and Census Commissioner of India, 2006
Ratio between Literacy of the Scheduled Tribe Population and Average Literacy of the Population	NSS 61st Round, Report No.516, Sachar Committee Report 2006 and Office of Registrar General and Census Commissioner of India, 2006
Ratio between Monthly Per Capita Consumption Expenditure of Muslims to the Total Population	NSS 61st Round, Report No.516, Sachar Committee Report 2006 and Office of Registrar General and Census Commissioner of India, 2006
Ratio between Literacy of Female Population and Average Literacy of Total Population	NSS 61st Round, Report No.516, Sachar Committee Report 2006 and Office of Registrar General and Census Commissioner of India, 2006
Ratio between Female Unemployment Rates to Total Unemployment Rates	NSS 61st Round, Report No.516, Sachar Committee Report 2006 and Office of Registrar General and Census Commissioner of India, 2006
Child Sex Ratio	NSS 61st Round, Report No.516, Sachar Committee Report 2006 and Office of Registrar General and Census Commissioner of India, 2006

Source: http://www.csdindia.org/social-development-report/social-development-index

3.5 SOCIAL PROCESSES OF DEVELOPMENT

We have described social development as the release and channelling of social energies through more complex social organization to enhance productive capacity and achieve greater results. This process depends upon mechanisms to direct and channel the collective energies of the society into new and more productive forms of activity. We can identify four distinctly different levels, or, types of mechanisms that serve this function: social aspirations, government authority, socio-cultural structure, and social know-how, in the form of science, technology, and productive skills.

i) Social Aspiration

Economically, development occurs when productivity rises, enabling people to produce more, earn more, and consume more. To do so, they have to be motivated to learn new skills, adapt to new work processes, and, to adopt new technology, changes which, in past ages, have met with considerable resistance. The driving force behind the whole movement is psychological. At the deepest level, the energies of society are directed by the collective's

subconscious aspirations. Society's self-conception of what it wants to become releases an aspiration of the collective for accomplishment. That aspiration exerts a powerful influence on the activities of the society. India's twin revolutions were spurred by a growing aspiration of Indian society for security, prosperity, and enjoyment. A similar aspiration spurs middle class Americans, today, to invest their savings in the stock market.

We have traced the evolution of social aspirations in India from pre-Independence to the present day. The earliest expression was an aspiration for political freedom and self-determination. After Independence this aspiration evolved into an urge for self-sufficiency, a willingness to try new things and take risks. More recently it has matured into a movement of rising expectations permeating all levels of Indian society.

ii) Role of Government authority

Like social aspirations, the authority of the government has the capacity to direct the flow of social energies through the instruments of law, public policies, administrative procedures, controls, incentives, and fear of punishment. Here, too, there is a graded hierarchy of stages through which government influences the development process. Monarchy is a highly centralized form of government organization with a significant capacity to restrict freedom and prevent unwanted activities, but with very limited power to promote social development because of its limited power to positively motivate and direct human initiative. Modern authoritarian states have augmented the power of government to compel and control by evolving complex organizational mechanisms to reach out into every field of social activity. Its members submit, by necessity, to the power of the state, but continuously seek ways around the strictures and demands it places upon them. As the 20th century experiments in Eastern Europe amply demonstrate, its power as an instrument for development is severely limited. Countries with authoritarian governments that have succeeded in releasing social initiative for economic development, such as China, Taiwan and South Korea, have done so by loosening social control over economic activities, while retaining it over political activities.

Modern forms of democracy greatly enhance the development capabilities of society. They are not only capable of enforcing a rule of law which, to a large extent, the population willingly accepts as being in its own interest. They also promote far greater development of individual aspirations, thought, capacity, skill, and initiative. The accountability of a democratically elected government necessitates that it continuously institute measures perceived as beneficial to the electorate. Working through decentralized self governing structures, it empowers more and more centres of activity in society, leading to greater creativity and innovation. The basic human rights it endorses elevate aspirations and release human energies for higher accomplishment.

The impact of democracy on development was illustrated by the Nobel laureate economist, Amartya Sen (1999), when he observed that no democratic country with a free press and independent judiciary has suffered a famine in this century. India's Green Revolution is a powerful testament to the power of governmental authority, though, in this, and every other instance, government's role cannot substitute for social readiness and social

initiative, it can only aid in preparing that readiness, releasing that initiative, and organizing the new activities.

iii) Socio-cultural authority

Government exercises authority over its citizens through law, administration, and enforcement. Society exercises a far more persuasive authority over its members through its ideas, attitudes, customs, and values. Different societies may develop at very different rates and in different directions under very similar forms of government, due to differences in social and cultural authority. Modern societies are far more free and tolerant than those of previous centuries, yet, they continue to exert a very powerful force on their members; only, the character of that force has changed. From being predominantly negative in the form of prohibitions and strictures, now the force of social authority acts far more as a spur to initiative, than a bar. The pressure felt by middle and working class families to 'keep up with the Joneses' has become pervasive throughout the world. The bold initiative of a poor farmer in rural India to dig a bore well and become prosperous could act as stimulus for the rapid development of ten surrounding villages because the competitive pressure of social authority would compel his neighbours to keep up with his level of accomplishment.

The spread of education tends to enhance this tendency. Apart from the practical knowledge and skills it imparts, modern education also instils a greater sense of individual self respect and social rights that impel an individual to seek and maintain his, or, her status in society. Here, we include the complete range of capacities that determine the ability of the people to physically direct their energies to achieve productive results. The most important of these are scientific knowledge, technology, and productive skills. These may appear very different in nature and action from social aspirations, government, and social authority, but the character of their influence on development is quite similar. They provide the direction for the efficient organization of mental, social, and material energies. Each of them carries with it an inherent authority, and, imposes a certain discipline on the expression of social energies. This authority usually takes the form of an impersonal authority of standards, rules, and systems, such as the rules for maintaining an orderly flow of air traffic.

Adopting a higher level of technology, whether it involves the cultivation of hybrid wheat, space travel, or electronic commerce requires adherence to more stringent procedures and greater organization, without which, it does not work. The Internet is a recent example of a technology that promotes freer and easier commercial and personal transactions, but accomplishes it by imposing rigorous standards of discipline on users in the form of a common computer language for communication.

In this section, you have read about social development: emerging concepts, social development theory, social development index, social processes of development. Now, answer the questions given in Check Your Progress 1.

Check Your Progress 1

Note: a) Answer the following questions in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) Describe the role of a democratic government as a determinant of development.

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2) Explain, in brief, the conceptual framework of social development theory.

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3.6 SOCIAL DYNAMICS OF DEVELOPMENT

After reading the meaning and indicators of social development, let us now discuss various social dynamics of development. The various social dynamics of development are as follows:

- We define social development, in its broadest social terms, as an upward directional movement of society from lesser to greater levels of energy, efficiency, quality, productivity, complexity, comprehension, creativity, choice, mastery, enjoyment, and accomplishment. The development of individuals and societies results in increasing freedom of choice, and an increasing capacity to fulfil its choices by its own capacity and initiative.
- Growth and development usually go together, but they are different phenomena subject to different laws. Growth involves a horizontal or quantitative expansion and multiplication of existing types and forms of activities. Development involves a vertical or qualitative enhancement of the level of organization.
- Social development is driven by the subconscious aspirations and will of society for advancement. The social will seeks progressive fulfilment of a prioritized hierarchy of needs – security of borders, law and order, self sufficiency in food and shelter, organization for peace and prosperity, expression of excess energy in entertainment, leisure and enjoyment, knowledge, and artistic creativity.
- The development of society occurs only in fields where that collective will is sufficiently strong and seeking expression. Development strategies are

most effective when they focus on identifying areas where the social will is mature, and when they provide better means for the awakened social energy to express itself. Only those initiatives that are in concordance with this subconscious urge will gain momentum and multiply. The development of the collective is subconscious. It starts with physical experience which eventually leads to conscious comprehension of the process. Conscious development that is based on conceptual knowledge of the social process accelerates development, and minimizes errors and imbalances.

- Society is the field of organized relationships and interactions between individuals. Only a small portion of human activity is organized for utilization by society, so only a small portion of development potential (of technology, knowledge, information, skills, systems) is tapped.

- Every society possesses a huge reservoir of potential human energy that is absorbed and held static in its organized foundations—its cultural values, physical security, social beliefs, and political structures. At times of transition, crises, and opportunities, those energies are released and expressed in action. Policies, strategies, and programs that tap this latent energy and channel it into constructive activities can stir an entire nation to action and rapid advancement.

- The act is the basic unit of social organization. The evolution of more complex and productive activities woven together by people to form systems, organizations, institutions, and cultural values constitute the fabric or web of social organization.

- The essential nature of the development process is the progressive development of social organizations and institutions that harness and direct the society's energies for higher levels of accomplishment. Society develops by organizing all the knowledge, human energies, and material resources at its disposal to fulfil its aspirations.

- The process of forming organizations takes place simultaneously at several levels: the organization of peace and physical security in society; the organization of physical activities and infrastructure; the organization of productive processes through the application of skills and technology in agriculture, industry and services; the organization of social processes we call systems, laws, institutions and administrative agencies; the organization of data as useful information; the organization of knowledge through education and science; and, the organization of higher social and cultural values that channel human energy into higher forms of expression. Each of these levels of organization admits of unlimited development. Each of these levels of organization depends upon, and, interacts with the others. Elevating the organization at any of these levels increases the utilization of resources and opportunities and accelerates development.

- Development requires an enormous investment of energy to break existing patterns of social behaviour and form new ones. Development takes place when surplus social energies accumulate beyond the level required for functioning at the present level. The social energy may be released in response to the opening up of a new opportunity, or, confrontation by a severe challenge. Where different cultures meet and blend, explosive energies for

social evolution are released. The expression of surplus energy through existing forms of activity may result in growth — a quantitative expansion of society at the existing level of organization. Channelling the surplus energy into more complex and effective forms of organized activity leads to development — a qualitative enhancement in the capabilities of the society. The fresh initiatives that lead to this qualitative enhancement usually occur first in the unorganized activities of society that are not constrained and encumbered by the inertia of the status quo.

- The rate and extent of development is determined by prevalent social attitudes which control the flow of social energies. Where attitudes are not conducive, development strategies will not yield results. In this case the emphasis should be placed on strategies to bring about a change in social attitudes — such as public education, demonstration, and encouragement of successful pioneers.

- Development proceeds rapidly in those areas where the society becomes aware of opportunities and challenges and has the will to respond to them. Increasing awareness accelerates the process.

- Social progress is stimulated by pioneering individuals who first become conscious of new opportunities and initiate new behaviours and activities to take advantage of them. Pioneers are the lever, or, spearhead for collective advancement. Pioneers give conscious expression to the subconscious urges and readiness of the collective. Development occurs when pioneering individual initiatives are imitated by others, multiplied and actively supported by the society. Society, then, actively organizes the new activity by establishing supportive laws, systems and institutions. At the next stage, it integrates the new activity with other fields of activity and assimilates it into its educational system. The activity has become fully assimilated as part of the culture when it is passed on to the next generation as values through the family.

- Development is a process, not a program. Development is an activity of a society as a whole. It can be stimulated, directed, or assisted by government policies, laws, and special programs, but it cannot be compelled, or, carried out by administrative or, external agencies on behalf of the population. Development strategy should aim to release people's initiative, not to substitute for it.

- All resources are the creation of the human mind. Something becomes a resource when human beings recognize a productive or, a more productive use for it. Since there are no inherent limits to human inventiveness and resourcefulness, the potential productivity of any resource is unlimited. Human beings are the ultimate resource and the ultimate determinant of the development process. It is a process of people becoming more aware of their own creative potentials and taking initiatives to realize those potentials. Human awareness, aspiration, and attitudes determine society's response to circumstances. Development occurs only at the points where humanity recognizes its power to determine results.

- The development of social organizations takes place within a larger evolutionary context in which the consciousness of humanity is evolving along a continuum from physical to vital to mental. This evolution is

expressed as a progressive shift in emphasis from material resources to technological and information resources; from the social importance of land to the importance of money and knowledge; from the hereditary rights of the elite to fundamental rights for all human beings; from reliance on physical forms of authority to laws and shared values. As society advances along this continuum, development becomes more conscious and more rapid.

3.7 CULTURE AND CULTURAL DYNAMICS

Culture is a bond that ties the people of a region or community together. It is that one common bond which brings the people of a community together. The customs and traditions that the people of a community follow, the festivals they celebrate, the kind of clothing they wear, the food they eat, and most importantly, the cultural values they adhere to, bind them together. Culture is seen as a system of social control, wherein people shape their standards and behaviour behaviour. The cultural values form the founding principles of one's life. They influence one's principles and philosophies of life. They influence one's way of living and, thus, impact social life. The importance of culture lies in the fact that it is a link between people and their value systems.

Culture refers to the pattern of human activity and the symbols which give significance to this activity. Culture is represented through the art, literature, costumes, customs, and traditions of a community. Different cultures exist in different parts of the world. The natural environment greatly affects the lifestyle of the people of that region, thus, shaping their culture. The diversity in the cultures around the world is also a result of the mindsets of people inhabiting different regions of the world. The cultural values of a community give it an identity of its own. A community gains a character and a personality of its own, because of the culture of its people. Culture is shared by the members of a community. It is learned and passed from the older generations to the newer ones. For an effective transfer of culture from one generation to another, it has to be translated into symbols. Language, art and religion serve as the symbolic means of transfer of cultural values between generations. In this sense, culture primarily refers to characteristic mental maps and values shared by members of a group or society. It excludes the material objects and artefacts that are produced by members of a culture. On the other hand, it also excludes institutions which structure human behaviour. There is a tendency to think of cultures as homogenous patterns.

It should also be kept in mind that there are contradictions and conflicts within every culture. There are cultural universals, which apply to all members of a social community, and cultural alternatives, which do not. There are cultural specialties, elements that are specific to certain subgroups in a community. In every society, there are a variety of groups with their own subcultures. Some of these are dominant insider groups, others are outsiders. Elements of cultural pattern may even be in conflict with each other. Cultures, as well as countries, are formed by the emergence of value systems (social stages) in response to life conditions. Such complex adaptive intelligences form the clue that bonds a group together, defines who they are as a people, and reflects the place on the planet they inhabit. These cultural waves, much like the Russian dolls (a doll embedded within a doll, which is again embedded within a doll) have formed, over time, into unique mixtures and blends of instructional and survival codes, myths of

origin, artistic forms, life styles, and senses of community. While they are all legitimate expressions of the human experience, they are not equal in their capacities to deal with complex problems in society. Cultures should not be seen as rigid types, having permanent traits. Instead, they are core adaptive intelligences that ebb and flow, progress and regress, with the capacity to lay on new levels of complexity, or, value systems, when conditions warrant. Much like an onion, they form layers on layers on layers. There is no final state, no ultimate destination, and no utopian paradise. Each stage is but a prelude to the next, then the next, then the next.

3.8 CULTURAL OBSTACLES TO DEVELOPMENT

The debate about cultural obstacles to development is done after a universal assumption that people across the world agree on the content and goals of development. It is well accepted that development is inevitably a highly value-laden concept, but that one can indeed identify the contours of a development concept, including increased welfare, productivity, health, education, and, an extension of political and social freedoms. If one looks at the dynamics of socioeconomic development from a macro perspective, the differences in dynamics in different parts of the world would be obvious. Some of the selected examples of the possible impacts of culture on development follow.

i) The caste system

In traditional Hindu societies in India, the caste system acts as an obstacle to the most efficient use of human capabilities and talents in the economic process. The caste system defines a religiously legitimized hierarchy of social estates, which are restricted in their interactions with each other. The groups also differ in political influence, landholding, and so forth. In the caste system, physical labour is typically a low caste activity, with correspondingly low status. Though caste has now been rejected as an organizing system in modern India, it still is deeply embedded in social life. According to Lal (1988), the caste system itself is the prime cause of slow economic growth in post independence India. In his view, the slow rate of growth between 1950 and 1990 is primarily due to inappropriate policies.

ii) The low status of physical work and efforts

In many cultures there are negative attitudes towards physical labour and effort. In African societies, the heaviest physical work in food production is usually left to the women, while men engage in activities that are associated with higher status. Another example of differences in work ethic is provided by Malaysia. The indigenous Malay population tends to look down on physical labour as something suitable for Chinese coolie labourers who were imported in the nineteenth century to work in mines and plantations.

iii) Gender discrimination

Inequality between the sexes and discrimination against women is embedded, in different degrees, in most world religions and cultures. Like the caste system, occupational discrimination by sex is a potential obstacle to the optimal use and

allocation of human talents. In a great many societies, women have less access to paid jobs, health services, and, in particular, education. In some of the most orthodox Islamic societies, women are prohibited from engaging in education and paid work outside the house.

iv) The mysterious role of ethnic minorities in economic development

The economic role of the ethnic minorities is a dilemma and a puzzle of development. The Chinese have been extremely successful as entrepreneurs all across East and Southeast Asia where they are minorities, likewise, the Palestinians in the Arab world, and Indians and Pakistanis, who dominate business activities in East Africa. In Europe, Jews have played a prominent role in finance, business, culture, and in intellectual pursuits. The interesting thing about these successful minorities is that they often originated from rather traditional cultures, and from societies that had long been economically stagnant. In spite of their economic success, or, perhaps because of it, these groups have usually been discriminated against.

v) Traditional versus Modern cultures

Modernization theorists posited a dichotomy between traditional and modern societies. The economic core of modernization is industrialization, which requires a measure of congruence between economic development and the social and cultural environment. The dichotomy between modern and traditional societies involves changes in a number of cultural and institutional dimensions. Some of the most frequently mentioned dichotomies are given below.

a) Modernisation theory: dichotomies between modern and traditional societies

- Achievement versus ascription. In modern societies, social positions are assigned to individuals on the basis of achievement - meritocratic criteria. In traditional societies, social positions are assigned on the basis of birth, social origin, and other ascription, or arrangement into classes or categories.
- Mobility versus hierarchy. Modern societies are characterized by increased upward and downward social mobility in comparison with traditional static hierarchical societies.
- Rational versus traditional behaviour behaviour. Modern societies are characterized by rational thinking about ends and means. In pre-modern societies traditionally defined patterns of behaviour behaviour predominate.
- Future orientation versus fatalism. In modern societies, people believe that their actions influence their future. They are willing to make long term investments in a better future for themselves and their children. Traditional societies are characterized by fatalism and a short term horizon.
- Nuclear families versus extended families. It is argued that extended families and kinship relationships act as a break on economic development, because of the strong pressure towards redistribution

amongst the extended family impedes capital accumulation. Modernization involves the breakdown of extended families and the emergence of nuclear families.

- Increased role for civil society. Modernisation implies an increased role for unions, parties, political pressure groups, and other associations of civil society.
- Single- stranded versus multi-stranded social relationships. Many transactions in modern markets and modern bureaucracies are anonymous and specialized (single-stranded). In traditional societies, relationships are more personal and involve many dimensions. There are a variety of economic and financial exchanges, relationships of kin and tribe, friendship, relationships of authority and dependence in traditional societies.
- Individual orientation versus collectivist, or, communal orientation. In traditional societies, social obligations are more important than in modern societies, where people feel free to pursue their individual interests.

b) Reaction to Western penetration and cultural disruption

Reactions to Western cultural dominance and to modernization and economic change in general have taken a variety of forms, including traditional opposition movements; modern nationalist movements; Marxist and social movements. Some of the changes that have affected traditional communities' world over are given below.

- The accelerated rate of change implicit in the development process.
- Demographic growth, urbanization, education, and marginalization of traditional economic activities.
- The break up of traditional units of community, such as village and extended family.
- The overwhelming impact of Western culture, which is frequently transferred only in the rudimentary form of consumption oriented-behaviour behaviour and technology.
- The impact of mass communications, especially through radio and television.
- Homogenizing efforts at building national identity through mass media, political organizations and the school system, which conflict with geographic, tribal and kinship lines of affiliation.
- Inadequate adaptation of education and training to the opportunities of employment and the needs of self employment.
- Rapid loss of authentic traditional cultural legacies, which are primarily orally transmitted, due to increased mobility and perceived lack of short term relevance for the young.

vi) The role of the individual and the process of value creation

Society has no direct means to give conscious expression to its subconscious collective aspirations and urges. That essential role is played by pioneering

conscious individuals–visionary intellectuals, political leaders, entrepreneurs, artists and spiritual seekers who are inspired to express and achieve what the collective subconsciously aspires to, and is prepared for. Where the aspirations and actions of leaders do not reflect the will of the collective, it is ignored or rejected. Where it gives expression to a deeply felt collective urge, it is endorsed, imitated, supported, and systematically propagated. This is most evident in times of war, social revolution, or communal conflict.

India's early freedom fighters consciously advocated the goal of freedom from British rule long before that goal had become a conscious aspiration of the masses. The leaders spent decades urging a reluctant population to conceive of itself as a free nation, and to aspire to achieve that dream. When, finally, the collective endorsed this conception, no foreign nation had the power to impose its will on the Indian people.

During the World Academy of Art & Science's meeting on development theory in Washington DC in May 1999, there was a broad consensus of participants that the formation of values was a critical aspect of the development process. Here, we propose to re-examine the process of development as a process of value formation. If gross physical actions are the most visible and tangible form of human initiative, the creation of values is the most subtle and intangible. Yet human existence is powerfully determined by the nature of its values. Physical skills, vital attitudes, mental opinions, and values represent a gradation of internal organizing principles that direct human energies, and determine the course of individual and social development.

All human creative processes release and harness human energy and convert it into results. The process of skill formation involves acquiring mastery over our physical-nervous energies so that we can direct our physical movements in a precisely controlled manner. In the absence of skill, physical movements are clumsy, inefficient, and unproductive, like the stumbling efforts of a child learning to walk. Human beings acquire social behaviour behaviours in a similar manner. Here, apart from the physical skills required for communication and interaction with other people, vital attitudes are centrally important. Each, social behaviour expresses not just a movement, but an attitude and intention of the person. Acquiring social behaviours requires gaining control over our psychological energies and channelling them into acceptable forms of behaviour. The developmental achievements of modern society are founded upon such intangible social attitudes as confidence in the government, trust in other people, tolerance, and cooperation. Without such attitudes, our money would become valueless paper and our institutions would cease to function.

The same process takes place at the mental level. The mind's energy naturally flows as thought in many different directions without any structure to contain, or, organize it. The acquisition of knowledge involves construction of a mental structure of understanding that is analogous to the structure of skills and attitudes that govern the expression of our physical and vital energy. It forms an organizational framework for learning, and application of what is learned. Human values are formed by a similar process and act in a similar manner. Although the word is commonly used with reference to ethical and cultural principles, values are of many types. They may be physical (cleanliness, punctuality), organizational (communication, coordination), psychological (courage, generosity), mental

(objectivity, sincerity), or spiritual (harmony, love, self-giving). Values are central organizing principles or ideas that govern and determine human behaviour. Unlike the skill or attitude that may be specific to a particular physical activity, or, social context, values tend to be more universal in their application. They are expressed in everything we do. Values can be described as the essence of the knowledge gained by humanity from past experiences, distilled from its local circumstances and specific contexts to extract the fundamental wisdom of life derived from these experiences. Values give direction to our thought processes, sentiments, emotional energies, preferences, and actions. Centuries of experience have been distilled by society into essential principles. Values such as hard work, responsibility, integrity in human relations, tolerance, and respect for others, are not just noble ideas or ideals. They are pragmatic principles for accomplishment which society has learned and transmitted to successive generations as a psychological foundation for its further advancement. The values of a society are a crucial aspect of its people's self-conception of who they want to become.

Because values are intangible to our senses, and their formation is the result of a very long process, we tend to overlook their central role in development. Social values constitute the cultural infrastructure on which all further social development is based. In this sense, values are the ultimate product of past development and the ultimate determinant of its future course.

In this section, you have read about social dynamics of development, cultuire and cultural dynamics and cultural obstacles to development. Now, answer the questions given in Check Your Progress 2.

Check Your Progress 2

Note: a) Answer the following questions in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) Explain, in brief, the emergence of culture.

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2) How is gender discrimination a cultural obstacle to economic development?

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3.9 LET US SUM UP

There are enormous issues linked with the social and cultural dynamics of development, and in this section we have discussed the concepts, dynamics, meanings, and broad issues involved in social development. We have seen that the social and cultural dynamics of development are a continuous process of changes which are substantially influenced by development, and that the process also determines the direction of further and future development. We have covered the emerging concepts of social and cultural development, social development theory, social development index, cultural obstacles to economic development, and determinants of development: social aspiration, and, lastly, a summary of social development principles.

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3.11 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

Check Your Progress -1

1) Describe the role of a democratic government as a determinant of development.

Answer: Modern forms of democracy greatly enhance the development

capabilities of society. They are not only capable of enforcing a rule of law, which, to a large extent, the population willingly accepts as in its own interest, they also promote far greater development of individual aspirations, thought, capacity, skill, and initiative. The accountability of a democratically elected government necessitates that it continuously institute measures perceived as beneficial to the electorate.

2) Explain, in brief, the conceptual framework of social development theory.

Answer: The following observations suggest a starting point for the formulation of a comprehensive conceptual framework.

- Social development theory should focus on underlying processes rather than on surface activities and results, since development activities, policies, strategies, programs, and results will always be limited to a specific context and circumstance, whereas social development itself encompasses a potentially infinite field in space and time.

- The theory should recognize the inherent creativity of individuals and of societies, by which they fashion instruments and direct their energies to achieve greater results.

- The implication of this view is that even though it may be influenced, aided, or opposed by external factors, society develops by its own motive power, and in pursuit of its own goals. No external force and agency can develop a society.

Check Your Progress- 2

1) Explain, in brief, the emergence of culture.

Answer: Cultures, as well as countries, are formed by the emergence of value systems (social stages) in response to life conditions. Such complex adaptive intelligences form the glue that bonds a group together, defines who they are as a people, and reflects the place on the planet they inhabit. These cultural waves, much like the Russian dolls (a doll embedded within a doll, which is again embedded within a doll) have formed, over time, into unique mixtures and blends of instructional and survival codes, myths of origin, artistic forms, life styles, and senses of community.

2) How is gender discrimination a cultural obstacle to economic development?

Answer: Inequality between the sexes and discrimination against women is embedded, to different degrees, in most world religions and cultures. Like the caste system, occupational discrimination by sex is a potential obstacle to the optimal use and allocation of human talents. In a great many societies, women have less access to paid jobs, health services, and in particular education. In some of the most orthodox religious societies, women are prohibited from engaging in education and paid work outside the house.

UNIT 4 DEVELOPMENT AGENCIES

Structure

4.1 Introduction

4.2 The Role of Government Agencies and Institutions in Development

4.3 The Role of Financial and Non Financial Institutions in Development

4.4 The Role of Multilateral and Bilateral International Agencies in Development

4.5 The Role of the United Nations Agencies in Development

4.6 Let Us Sum Up

4.7 References and Selected Readings

4.8 Check Your Progress -Possible Answers

4.1 INTRODUCTION

In the earlier units, you learned about the dynamics and the process of development. In this unit, you will study the role of development agencies in the dynamics and the process of development. Development agencies are agencies whose goal is to accelerate development within a specified geographical location – a city, region, or state - by providing the necessary resources and assistance in a specified span of time. A development agency engages in directing development, or facilitating development, through by providing inputs, guidance, finance, markets, technology, etc. Some development agencies are privately owned and others are run by government. Both kinds of development agencies play an important role in assisting the various development efforts in an area. Besides various international agencies, such as the World Bank, the Asian Development Bank, also extend financial and technical support in different areas of development. In this unit, you will read in detail about their role, responsibilities, and functions.

After studying this unit, you should be able to:

- Discuss the role of governmental development agencies in development
- Explain the role of financial and non financial institutions of development
- Narrate the type, nature, and extent of multilateral and bilateral assistance provided by the international agencies for development.

4.2 THE ROLE OF GOVERNMENT AGENCIES AND INSTITUTIONS IN DEVELOPMENT

In this section, you will read about the role of government agencies in development. Various government agencies play important roles in directing the development activities to be pursued in both the short and the long run. The role of a few important government agencies that play an important part in development in India is discussed. These agencies are:

i) Niti Aayog (formerly Planning Commission)

ii) The Finance Commission of India

iii) State Finance Commission

iv) State Planning Board

v) District Planning Boards Committees

i) Niti Aayog (National Institution For Transforming India)

The National Institution for Transforming India, also called NITI Aayog, was formed via a resolution of the Union Cabinet on January 1, 2015. NITI Aayog is the premier policy 'Think Tank' of the Government of India, providing both directional and policy inputs. While designing strategic and long term policies and programmes for the Government of India, NITI Aayog also provides relevant technical advice to the Centre and States. The Government of India, in keeping with its reform agenda, constituted the NITI Aayog to replace the Planning Commission instituted in 1950. This was done in order to better serve the needs and aspirations of the people of India. An important evolutionary change from the past, NITI Aayog acts as the quintessential platform of the Government of India to bring States to act together in national interest, and thereby fosters Cooperative Federalism.

Functions:

To evolve a shared vision of national development priorities sectors and strategies with the active involvement of States in the light of national objectives:

- To foster cooperative federalism through structured support initiatives and mechanisms with the States on a continuous basis, recognizing that strong States make a strong nation
- To develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government
- To ensure, on areas that are specifically referred to it, that the interests of national security are incorporated in economic strategy and policy
- To pay special attention to the sections of our society that may be at risk of not benefiting adequately from economic progress
- To design strategic and long term policy and programme frameworks and initiatives, and monitor their progress and their efficacy. The lessons learnt through monitoring and feedback will be used for making innovative improvements, including necessary mid-course corrections
- To provide advice and encourage partnerships between key stakeholders and national and international like-minded Think tanks, as well as educational and policy research institutions.
- To create a knowledge, innovation and entrepreneurial support system through a collaborative community of national and international experts, practitioners and other partners.
- To offer a platform for resolution of inter-sectoral and inter- departmental issues in order to accelerate the implementation of the development agenda.
- To maintain a state-of-the-art Resource Centre, be a repository of research on good governance and best practices in sustainable and equitable development as well as help their dissemination to stake-holders

- To actively monitor and evaluate the implementation of programmes and initiatives, including the identification of the needed resources so as to strengthen the probability of success and scope of delivery
- To focus on technology upgradation and capacity building for implementation of programmes and initiatives
- To undertake other activities as may be necessary in order to further the execution of the national development agenda, and the objectives mentioned above.

ii) Finance Commission of India

The Constitution of India provides for the establishment of a Finance Commission for the purpose of allocation of certain resources of revenue between the Union and the State Governments. The President of India established the Finance Commission under Article 280 of the Constitution.

The qualifications, powers and procedures of the Commission itself are regulated by the Finance Commission (Miscellaneous Provisions) Act, 1951. The Finance Commission is constituted to define financial relations between the Centre and the States. Under the provision of Article 280 of the Constitution, the President appoints a Finance Commission for the specific purpose of devolution of non-plan revenue resources.

Under Article 280 of the Constitution, the Finance Commission is required to make recommendations to the President about

- The distribution of net proceeds of taxes to be shared between the centre and the states, and the allocation between the states of the respective share of such proceeds.
- The principles which should govern the grants-in-aid by the center to states out of the Consolidated Fund of India.
- The measures needed to augment the consolidated fund of a state to supplement the resources of the Panchayats and the Municipalities in the State on the basis of the recommendations made by the State Finance Commission.
- Any other matter referred to it by the President of India, in the interests of sound finance.

The Finance Commission has the following powers :

- The Commission shall have all the powers of the Civil Court, as per the Code of Civil Procedure, 1908.
- It can call any witness, or, can ask for the production of any public record, or document, from any court or office.
- It can ask any person to give information or documents on matters as it may feel to be useful, or relevant.
- It can function as a civil court in discharging its duties.

iii) State Finance Commission

The 73rd constitutional amendment envisages that in every five year, the state government shall appoint a Finance Commission to review the financial aspects of the Panchayati Raj Institutions (PRI), and Urban Local Bodies (ULBs). The State Finance Commission (SFC) will give recommendations with regard to

i) The distribution between the state and the Panchayats of the net proceeds of taxes, duties, tolls and fees leviable by the state which may be divided between them, and how allocation would be made among the various levels of panchayats

ii) What taxes, duties, tolls and fees may be assigned to the panchayats

iii) Grant –in-aids to the panchayats.

The report of the commission together with the action taken report shall be laid before the state legislature. Many states have appointed their third State Finance Commission. The State Finance Commission reports are referred to in the matter of the allocation of resources to different sectors in the states.

iv) State Planning Boards

The State Planning Boards were formed, primarily, to assist the Planning Commission in allocating resources to states, to enable the state governments to formulate development plans based on a scientific assessment of the resources of the state, and the growth priorities. The boards were assigned the task of preparing an Annual Economic Review to be presented, along with the Budget Document to the state legislatures.

The main functions of the State Planning Boards are:

- To assess the resources of the state, and to prepare schemes for their effective utilisation
- To assist the District Planning Officers in preparing district plan proposals, so that they may be incorporated in the overall Plan
- To ascertain the obstacles to growth of the state economy, and to suggest measures for removing regional imbalances.
- To monitor the progress of Plan schemes, and to suggest changes in developmental policies
- To decide Plan priorities.

v) District Planning Boards and Committees

The decentralized planning process started long ago in India, and, in 1969, the Union Planning Commission issued guidelines for preparing district plans. Realizing that the planning machinery and competency were not yet developed at the district level at the time, efforts were redirected, in later years, to strengthen the state level planning process. In the early 1980s, a Working Group, under the Chairmanship of Professor C.H. Hanumantha Rao, was constituted to develop guidelines for district plans. Based on the recommendations of this Committee, the Seventh Five Year Plan adopted decentralized planning at the district level as one of the major strategies to achieve plan targets.

Local self-government is the prime instrument of decentralization at the grass root level. The intention of local self-government is to shift from bureaucratic administration to democratic administration, and to formulate, and execute development programmes through people's participation, and to instill political consciousness among the people. They act as vehicles in carrying back to the people the power that really belongs to them. They ensure self-governance through directly elected representatives.

According to Dr. D.R. Gadgil, the primary requirements of district planning are the knowledge of local conditions, and the association of local people with the formulation, and the implementation of development plans. The well known Economist, Gunnar Myrdal pointed out, way back in 1968, "The ideal has always been that the plan should come from the people and meet their wishes and needs, and have their support in thought, as well, as deed". The points put forth in favour of decentralized planning are

- it facilitates the formulation of locally relevant programmes, with reference to natural endowments, and felt needs of the people
- it makes bureaucrats more accountable to the people
- it also facilitates the participation of ordinary people in the planning and development process

At the state level, the District Planning Board, and, more recently, after the 73rd Constitutional Amendment, the District Planning Committees have begun to function. The important functions of District Planning Board are

i) To formulate a long term district perspective plan, and to evolve a strategy of planned development for the district, on the basis of felt needs of the people, and local priorities

ii) To prepare a priority-wise list of schemes and programmes, taking into account the resources available from the plan fund and community contribution, well before the beginning of each year

iii) To take appropriate measures for the proper implementation of schemes and programmes and projects

iv) To monitor the progress of projects, and for this purpose the District Planning and Development Board may meet as frequently as necessary. The Board will send performance reports to the State Planning Board at regular intervals.

v) To encourage the panchayats and other local bodies to implementat development projects themselves. They are responsible for the maximum involvement of people, and for developing confidence in their leadership, and in their ability to implement development work. The involvement should be both in terms of financial and physical parameters

vi) To make efforts to generate additional resources for developmental work with the cooperation of people. NGOs, NRIs, and other agencies and;

vii) Any other related function that might be assigned by the State Planning Board.

In the 73rd Constitution Amendment, Article 243 ZD envisages that there shall be a District Planning Committee in every district to consolidate the plans

prepared by the panchayats and municipalities in the district. Now, in most states, the District Planning Committees (DPC) have been constituted. The Act envisaged that the chairman of the Zilla Parishad (the District Panchayat) be the chairman of DPC. However, in many states, DPCs are headed by District Commissioners. The function of the DPCs is more, or less, equivalent to the District Planning Board. Recently, the DPC has been instrumental in the preparation of District Agriculture Plan, District BRGF (Backward Region Grant Fund) plan and District NREGS (National Rural Employment Guarantee Scheme) now called MREGA (Mahatma Gandhi Rural Employment Guarantee Scheme) Plan in most of the states.

4.3 THE ROLE OF FINANCIAL AND NON-FINANCIAL INSTITUTIONS IN DEVELOPMENT

Besides the apex planning bodies mentioned in the preceding section, various banking and non-banking institutions also play important role in the development of the nation.

4.3.1 The Role of Financial Institutions

A few important financial institutions providing finance for developmental activities in India are described, below.

i) The Industrial Development Bank of India (IDBI)

The Industrial Development Bank of India (IDBI) is the tenth largest bank in the world in terms of financing development. The National Stock Exchange (NSE), The National Securities Depository Services Ltd. (NSDL), Stock Holding Corporation of India (SHCIL) are some of the institutions which have been built by the IDBI. The IDBI is a strategic investor in a large number of institutions, which have revolutionized the Indian financial markets.The IDBI's role as a catalyst to industrial development encompasses a wide spectrum of activities. The IDBI can finance all types of industrial concerns covered under the provisions of the IDBI Act. With over three decades of service to the Indian industry, the IDBI has grown substantially in terms of size of operations, and its portfolio. The IDBI also undertakes and supports wide-ranging promotional activities that include entrepreneurship development programmes, the provision of consultancy services for small and medium enterprises, assistance in upgrading technology, and programmes for the economic uplift of the underprivileged.

ii) The National Bank for Agriculture and Rural Development (NABARD)

NABARD was set up by the Government of India as a development bank with a capital base of Rs 2,000 crore provided by the Government of India and the Reserve Bank of India. It is an apex institution handling matters concerning policy, planning and operations in the field of credit for agriculture and for other economic and developmental activities in rural areas. It has mandate to facilitate the flow of credit flow for the promotion and development of agriculture, and for integrated rural development. The mandate also covers supporting all other allied economic activities in rural areas, promoting sustainable rural development, and taking measures that usher in prosperity in the rural areas. Essentially, it is a

refinancing agency for financial institutions offering production credit and investment credit for promoting agriculture and developmental activities in rural areas.

NABARD performs the following functions

- Initiate measures towards institution-building for improving the absorptive capacity of the credit delivery system, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, training of personnel, etc
- Coordinate the rural financing activities of all the institutions engaged in developmental work at the field level, and maintain liaison with the government of India, state governments, the Reserve Bank of India, and other national level institutions concerned with policy formulation
- Prepare, on an annual basis, rural credit plans for all the districts in the country. These plans form the base for annual credit plans of all rural financial institutions.
- Monitor and evaluate projects that are refinanced by it
- Promote research in the fields of rural banking, agriculture, and rural development
- Function as a regulatory authority - supervise, monitor, and guide cooperative banks and regional rural banks.

One of the milestones in the field of micro-financing achieved by NABARD is helping the government and nongovernmental organizations in opening of SHGs.

iii) Commercial Banks

In post-independence India, in order to facilitate improvements in agricultural production and attain food self-sufficiency, the thrust of the policy was to ensure sufficient and timely credit at reasonable rates of interest to as large a segment of the rural population as possible through the commercial banks. The strategy was threefold: (i) Expansion of the institutional base (ii) Directed lending to disadvantaged borrowers (iii) Credit provision at concessional rates of interest, and (iii) The nationalization of commercial banks was done to promote financing facilities in rural areas.

During the post-independence period, commercial banks came a long way in providing rural credit to the rural community, with a substantial spread of branches in rural and semi-urban areas comprising 68% of their total outlets as on 31 March 1991. The period since 1991-92 has seen rapid expansion of credit to agriculture. This includes credit extended by the Regional Rural Banks. During this period, the Government also took some major initiatives to boost agricultural production and productivity through enhanced credit flow, and by way of building agricultural infrastructure, particularly, irrigation and connectivity in rural areas.

iv) Co-operative Societies

The cooperative movement in India owes its origin to agriculture, and allied sectors. Towards the end of the 19th century, the problems of rural indebtedness and the consequent conditions of the farmers created an environment for chit

funds and cooperative societies. Farmers generally found the cooperative movement an attractive mechanism for pooling their limited resources to solve shared problems relating to credit, supplies of inputs, and the marketing of agricultural produce.

The experience gained from working with cooperatives led to the enactment of the Cooperative Credit Societies Act, 1904. Subsequently, this was comprehensively revised to the Cooperative Societies Act. This Act provided for the creation of the post of Registrar of Cooperative Societies and to the registration of cooperative societies for audit, and other purposes.

In 1958, the National Development Council (NDC) recommended a national policy on cooperatives. Prime Minister Jawaharlal Nehru had strong faith in the cooperative movement. While opening an international seminar on cooperative leadership in South East Asia he had said, "But, my outlook at present is not the outlook of spreading the cooperative movement gradually, progressively, as it has done. My outlook is to convulse India with the Cooperative Movement, or rather with cooperation to make it, broadly speaking, the basic activity of India, in every village as well as elsewhere; and finally, indeed, to make the cooperative approach the common thinking of India...Therefore, the whole future of India really depends on the success of this approach of ours to these vast numbers, hundreds of millions of people".

The cooperative sector plays a distinct and significant role in the country's socio-economic development. There has been a substantial growth in this sector in diverse areas of the economy over the past few decades. The number of all types of cooperatives increased from 1.81 lakh in 1950-51, to 4.53 lakh in 1996-97. Cooperatives have operated in various areas of the economy such as credit, production, processing, marketing, input distribution, housing, dairying, and textiles. In some of their areas of activity, such as dairying, urban banking, housing, sugar and handlooms, the cooperatives have achieved some success, but, there are larger areas where they have not been so successful.

4.3.2 Role of Non-Financial Institutions

i) Non -Governmental Organisations

Socioeconomic development is a process of mutual endeavor which calls for participation from all segments of the society. But, due to the limited capability of the national government in most third world countries, it has become increasingly difficult to respond effectively to the growing and diversified needs of the vast majority at the grassroots level. It is here that the role of the non governmental organisations (NGOs) becomes important.

NGOs are voluntary organisations other than cooperatives, Self-Help Groups (SHGs), etc. Voluntary organisations are known for their human touch, dedication, great initiatives, self-reliance, contextual innovations, flexibility, togetherness with community, and ability to reach the masses in the most effective manner. These organisations are now considered partners of government in all their endeavours concerning the needy, the poor, children and women and their environment. NGOs are an important link between people at the grassroots, civil society, and the state. They are instrumental in creating awareness and implementing development programmes in agriculture, watershed development,

women's empowerment, education, de-addiction, removal of superstitions, health and family welfare, human rights, disaster management, etc.. They are, thus, representative of alternative modes of development thinking in India. NGOs have been doing commendable work by reaching out to people in all spheres of socioeconomic life. They have a long history in India, and have been associated with developing easy and quick rapport with people at the grass root level.

ii) Self Help Groups (SHGs)

The Self Help Group (SHG), Bank Linkage Programme, was started as a pilot project by NABARD, in 1992. It led to the evolution of a set of RBI approved guidelines to banks to enable SHGs to transact with banks. Initially, there was slow progress in the programme up to 1999, as only 32,995 groups were credit linked during the period, 1992 to 1999. Since then, the programme has grown rapidly, and the cumulative number of SHGs financed increased from 4.61 lakhs on 31 March 2002 to 10.73 lakhs on 31 March 2004, and has grown further, to 29.25 lakh groups, as on 31, March 2007.

The credit provided by NABARD to SHGs has supplement their incomes by initiating entrepreneurial activities at the grassroots level. This has been a very successful development initiative, undertaken by NABARD. Commercial banks also play a major role in the promotion of SHGs. Under the bank linkage movement, more than 11.88 lakh SHGs have linked to banks for the provision of credit. Reforms in the commercial banking system include the removal of procedural and transactional bottlenecks, including the elimination of the Service Area Approach, reducing margins, redefining over dues to coincide with crop cycles, new debt restructuring policies, one time settlement, and relief measures for farmers indebted to non institutional sources.

In this section, you have read about the role of government agencies and institutions in development, the role of financial and non-financial institutions in development. Now, answer the questions given in Check Your Progress 1.

Check Your Progress 1

Note: a) Answer the following questions in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What are the key functions of Niti Aayog?

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2) Discuss the roles, functions, and powers of the Finance Commission of India.

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4.4 THE ROLE OF MULTILATERAL AND BILATERAL INTERNATIONAL AGENCIES IN DEVELOPMENT

In this section, you will read about key international agencies that provide assistance to the development sector. You may have heard of some of them, such as the World Bank, Asian Development Bank.

4.4.1. Multilateral International Agencies

A few important multilateral international agencies that provide assistance in the development field are discussed:

i) World Bank

The World Bank is a vital source of financial and technical assistance to developing countries around the world. It is not a bank in the ordinary sense. It is made up of two unique development institutions—the International Bank for Reconstruction and Development (IBRD), and the International Development Association (IDA), both owned by 186 member countries. The World Bank is like a cooperative, where its 186 member countries are shareholders. The shareholders are represented by a Board of Governors. They are the ultimate policy makers at the World Bank. Generally, the governors are ministers of finance, or some equivalent from member countries.. They meet once a year, at the Annual Meetings of the Boards of Governors of the World Bank Group, and the International Monetary Fund.Both institutions, the International Bank for Reconstruction and Development (IBRD), and the International Development Association (IDA), play different, but collaborative roles to advance the vision of inclusive and sustainable globalization. The IBRD focuses on middle income and creditworthy poor countries, while the IDA focuses on the poorest countries in the world. Together they provide low interest loans, interest free credits, and grants to developing countries for a wide range of activities that include investments in education, health, public administration, infrastructure, financial and private sector development, agriculture, and environmental and natural resource management.

ii) International Bank for Reconstruction and Development (IBRD)

The International Bank for Reconstruction and Development aims to reduce poverty in middle income and creditworthy poorer countries by promoting sustainable development through loans, guarantees, risk management products, and analytical and advisory services. Established in 1944 as the original institution of the World Bank Group, the IBRD is structured like a cooperative that is owned and operated for the benefit of its 186 member countries.

The IBRD raises most of its funds from the world's financial markets, and it has become one of the most established borrowers since issuing its first bond in 1947. The income that IBRD has generated over the years has allowed it to fund development activities, and to ensure its financial strength, which enables it to borrow at low cost and offer its clents favourable borrowing terms. To fulfill its goals, it

- preserves borrowers' financial strength by providing support in crisis periods, which is when poor people are most adversely affected
- uses the leverage of supports long term human and social development needs that private creditors do not finance
- financing to promote key policy and institutional reforms (such as a safety net, or anticorruption reforms)
- creates a favorable investment climate in order to catalyze the provision of private capital
- provides financial support (in the form of grants made available from the IBRD's net income) in areas that are critical to the wellbeing of poor people in all countries.

Middle income countries, where 70 per cent of the world's poor live, have made profound improvements in economic management and governance over the past two decades, and are rapidly increasing their demand for the strategic, intellectual, and financial resources that the World Bank has to offer. The challenge facing the IBRD is to better manage and deliver its resources to meet the needs of these countries.

iii) International Development Association (IDA)

The International Development Association is a part of the World Bank that helps the world's poorest countries. It complements the World Bank's other lending arm — the International Bank for Reconstruction and Development— which serves middle income countries with capital investment and advisory services.

Loans from the IDA are designed to address issues in primary education, basic health services, clean water supply and sanitation, environmental safeguards, business climate improvements, infrastructure, and institutional reforms. These projects are intended to pave the way towards economic growth, job creation, higher incomes, and better living conditions.

The International Development Association helps to reduce poverty by providing no-interest loans and grants for programs that are aimed at boosting economic growth, and improving living conditions. The IDA funds help the poorest countries deal with the complex challenges they face in striving to meet the Millennium Development Goals. They must, for example, respond to competitive pressures, as well as the opportunities of globalization; arrest the spread of HIV/AIDS; and prevent conflict, or deal with its aftermath. The IDA's goal is to reduce inequalities both across, and within, countries by allowing more people to participate in the mainstream economy, reducing poverty, and promoting equal access to the opportunities created by economic growth. The IDA also provides grants to countries at risk of debt distress.

iv) Asian Development Bank (ADB)

The Asian Development Bank is a multilateral development finance institution whose mission is to reduce poverty in the Asia Pacific Region. Although the ADB claims to operate in the interest of Asia's poorest citizens, civil society

groups have long been concerned about the ADB's role in promoting sustainable and equitable growth in the region. The ADB was founded in 1966 with the goal of eradicating poverty in the region.

The Asian Development Bank is a many-sided development bank that is owned by around 67 member nations. The Asian Development Bank has provided India with loans of huge amounts over the years. The Asian Development Bank has helped India to reduce its level of poverty, improve infrastructure, and has given a boost to its economy.

The main objective of the Asian Development Bank is to help its members, who are developing countries, by providing them with technical assistance, grants, loans, and guarantees. With over 1.9 billion people living on less than $2 a day in Asia, the institution has a formidable challenge. It **undertakes the following, in the Asia Pacific Region**

- Provide loans and equity investments to its developing member countries (DMCs)
- Provide technical assistance for the planning and execution of development projects and programs, and, for advisory services
- Promote and facilitate investment of public and private capital for development
- Assist in coordinating development policies and plans of its DMCs.

India and the Asian Development Bank have had a relationship since 1966, when India became a member of the ADB. India holds around 224,010 shares in the ADB, and the percentage of votes that the country holds is 5.374%. The Asian Development Bank has provided India with large amounts of loans for various sectors, such as infrastructure, energy, financial, health, agriculture, and industry.

4.4.2 Bilateral International Agencies

Apart from the external multilateral assistance from the World Bank, Asian Development Bank, and the International Monetary Fund, there is provision for bilateral assistance as well. Many countries, such as Canada, Germany, Japan, UK, and USA, assist India and other developing countries on a regular basis. An outline of some of the organizations, and their role in developmental activities is given below.

i) Canadian International Development Agency (CIDA)

Canadian bilateral economic assistance to India began in 1951. Until March 2005, the total Canadian bilateral economic assistance to India amounted to $ 2.743 billion (Canadian). The bilateral economic assistance mainly comprised development assistance, food, and technical assistance. Canadian assistance has been channelised through the Canadian International Development Agency (CIDA). The assistance extended by CIDA since 1, April, 1986, has been in the form of grants.

The Canadian bilateral assistance is provided in the form of grants to implement projects. The main objectives of CIDA's country policy programme for India had been

i) to promote economic and social policy reforms

ii) to contribute to India's capacity to promote environmentally sound development

iii) to assist in building a stronger economic relationship between the private sectors of both the countries.

ii) The Indo-German Bilateral Development Cooperation Programme

Since 1958, Germany has provided both financial and technical assistance to India, under the Indo-German Bilateral Development Cooperation Programme. Financial assistance is now being provided as soft loans, development loans (long term, and with reduced interest), Special Facility for Renewable Energy & Energy Efficiency, and as grants. During the Indo-German Annual Consultations, held in May, 2006, in New Delhi, a decision was taken to focus on the following sectors

- Energy
- Environmental policy
- Economic reforms.

Even though the health sector will not form a priority area for Indo-German Development Cooperation, activities in the field of health care financing, social health insurance, the prevention of pandemic contagious diseases (HIV/AIDS, Polio), and support to related health sector reforms have a place in the programme.

The existing Indo-German Bilateral Cooperation Programme is largely focused in the states of Madhya Pradesh, Himachal Pradesh, Karnataka, Maharashtra, Rajasthan, West Bengal, and Orissa, though Germany is willing to offer development programmes to other parts of the country as well, particularly in the States of the North East ,and Uttarakhand.

iii) The Japan Bank for International Cooperation (JBIC), and the Japan International Cooperation Agency (JICA)

Japan has extended financial assistance for India's development programme since 1958. Initially Japanese aid to India was canalized through the Government owned Export-Import Bank of Japan (J-EXIM). During 1975-76, aid was canalized through the Overseas Economic Cooperation Fund (OECF) of Japan. From 1976-77 onwards, both project, and commodity aid was canalized through the OECF. With effect from 1 October, 1999, J-EXIM and OECF have merged, and a new agency, Japan Bank for International Cooperation, is the channel for both the Overseas Development Agency (ODA) programme, as well as for the international economic programmes of the Government of Japan. The Japanese ODA loan assistance to India is received through JBIC, and grants in aid, and technical cooperation are received through JICA.

The Japan International Cooperation Agency (JICA) facilitates the grant in aid programme of the Government of Japan, and implements the technical cooperation programme. By way of technical cooperation, JICA provides approximately Rs 35-40 crores to India in a financial year. The main components of Technical Cooperation are

- Technical Cooperation Projects
- Development Study
- Dispatch of Experts
- Follow-up Cooperation Programme
- Training of Indian Government personnel.

iv) The Department for International Development (DFID)

The United Kingdom has provided bilateral assistance to India since 1958. At present, the UK is the largest external bilateral development partner, in terms of grants. The UK's assistance is channeled through the Department for International Development (DFID). This bilateral assistance from UK is provided in the form of grants routed through the Government of India's budget, which includes direct payment by DFID for consultancy services, experts, training, etc.

The priority areas of the UK's assistance are mainly in the social sectors, such as health and family welfare, rural development, environment, slum development, education, and programmes that relate to the Millennium Development Goals. DFID has chosen Andhra Pradesh, Madhya Pradesh, Orissa, and West Bengal as its priority states. DFID also supports local NGOs and civil society projects through the Poorest Areas Civil Society project (PACS), and the Orissa Civil Society Poverty Programme (OCSPP). The funds for NGO projects are disbursed by DFID to the concerned NGOs. DFID also provides assistance through various multilateral agencies through trust funds with the World Bank, ADB, UNICEF, UNDP, and others in the social sector.

v) The US Agency for International Development (USAID)

Bilateral development assistance from the US to India started in 1951, and until March, 2006, the total assistance extended to India is, approximately, US$ 14.7 billion. The assistance, mainly administered through USAID, comprises development assistance, agricultural commodities, and technical assistance. The assistance extended by USAID at present is entirely in the form of grants in areas such as family planning services, AIDS prevention and control, disaster management, environment, and energy.

vi) European Commission (EC)

The EC extends development cooperation assistance to India since 1976. This assistance to India is entirely in the form of grants, and currently focuses on the areas of environment, public health, and education.

In the initial stages, the EC's development assistance was in the form of project financing. However, with the support of the Health & Family Welfare Sector Programme, the EC shifted their strategy to a sector based approach. The EC, in their Country Strategy Paper for India for 2002-2006, again changed in their strategy by adopting a partnership approach with one or two Indian states in order to deploy the bulk of their resources in these States for health, education and the Health and Family Welfare Sector Development Programme is implemented by the European Commission with the aim of reforming the health care system in India by focusing on primary health care services.

4.5 THE ROLE OF THE UNITED NATIONS AGENCIES IN DEVELOPMENT

Besides these multilateral and bilateral agencies, the United Nations agencies also provide assistance to promote the development of various sectors in developing countries. Some of the important agencies are discussed below .

i) The International Fund for Agricultural Development (IFAD)

The International Fund for Agricultural Development (IFAD) was set up in 1977, on the recommendation of the World Food Conference, which supported the setting up of an institution that would finance agricultural development projects, primarily for the expansion of food production in developing countries. The recommendation was endorsed by the United Nation's General Assembly, and this fund was set up as the 13th specialised agency of the United Nations.

Up to 31 March, 2006, 12 projects with assistance from IFAD amounting to US$ 322.07 million had been implemented in India. Presently seven projects with a total assistance of US$ 157.72 million are under implementation. These are on community resource management, tribal development, micro finance and livelihood security.

ii) The United Nations Development Programme (UNDP)

The United Nations Development Programme is the largest source of development cooperation in the UN system. The overall mission of the UNDP is sustainable human development through high priority to poverty alleviation, gender equity and women's empowerment, and environmental protection. The UNDP derives its funds from voluntary contributions from various donor countries. India's annual contribution to the UNDP has been to the extent of US$ 4.5 million (Rs. 20.25 crores), which is the largest among the developing countries.

The resources of the UNDP are distributed across countries, taking into account population and per capita Gross National Product. The country-specific allocation of UNDP resources is made every five years under the Country Cooperative Framework (CCF) .

The CCF focuses on the following thematic areas

- Promoting human development and gender equality
- Capacity building for decentralization
- Poverty eradication and sustainable livelihoods
- Vulnerability reduction and environment sustainability

iii) The United Nations International Children's Fund (UNICEF)

UNICEF was created by the United Nations General Assembly in 1946 to provide energy food and health care to children in countries devastated by World War II. UNICEF relies on contributions from government and private donors. UNICEF supports activities in the following areas

- Early child development through a focus on children under three years of age, and with special attention to early learning and care, low birth weight

and malnutrition, sanitation and hygiene, routine immunization, and safe motherhood

- The promotion of universal elementary education, particularly for girls, by concentrating on: (a) girls from difficult backgrounds including Scheduled Castes and Scheduled Tribes; (b) enhancing learning achievements; (c) and, mobilizing community involvement in schools
- The protection of children who are vulnerable to labour, trafficking, and sexual exploitation, as well as promoting an enabling environment for addressing protection issues
- The prevention of HIV/AIDS among children through: (a) imparting life skills to young people; (b) scaling up national efforts in the prevention of mother-to-child transmission; (c) and, advocating policy development and community-based actions to respond to those affected by HIV/AIDS
- Emergency preparedness and response to reduce vulnerabilities, and support the continuity of sector interventions.

The results of the UNICEF Reproductive and Child Health (RCH) programme have contributed to reduced infant and maternal mortality in the following manner

- An increased percentage of children have been fully immunized
- There is improved quality and access to the health system
- There are improved home practices, including management of childhood illness in selected districts
- The promotion of care practices for pregnant and lactating women and newborns.

iv) World Food Programme (WFP)

The The World Food Programme was first established in 1960. Governed by an Executive Board, it has representatives from 36 countries. It is the food aid branch of the United Nations, and is one of the world's largest humanitarian organizations. The main aim of the WFP is to eradicate hunger and malnutrition. The main goals of the WFP are to

- Save lives in refugee, and other emergency situations
- Improve the nutrition and quality of life of the most vulnerable people at a critical times in their lives
- Help build assets to promote the self reliance of poor people and communities, particularly through labour intensive work programmes.

The WFP has undertaken development projects support to supplementary feeding through ICDS; forestry, through food for work; livestock and dairy development; irrigation and rural development activities; and, assistance during natural calamities, such as floods in Assam, Madhya Pradesh, the super cyclone in Orissa, the earthquake in Gujarat, and tsunami assistance in Tamil Nadu and Andaman and Nicobar Islands.

In India, the WFP implements its projects through five-year Country Programme (CP) cycles, keeping in step with the Five Year Plan of the Government of India. The Country Programme (2003-2007) focuses on assisting the Government of India to improve their food based programme by creating replicable models to overcome the issue of food insecurity within the country. The priority for WFP operations in India is to address the specific problems of hunger and malnourishment amongst children and women. Consistent with the 10th Five Year Plan of the Government of India, the current CP focuses on nutrition, education for girls, and asset creation in regions with high levels of food insecurity, and low levels of human development. The most recent CP has two major goals

- To play a catalytic role in the country's efforts to reduce vulnerability, and eliminate hunger and food insecurity among the hungry and poor
- To promote and demonstrate models that provide immediate and long term food security in the most food insecure districts, in the least developed states of the country.

The activities under the current CP include

- Improving the nutritional status of children and women by providing support to the Integrated Child Development Services (ICDS).
- Investing in human development, with a special emphasis on girls through a food for education programme. The aims of this activity are to contribute to the achievement of the government's goal of universal elementary education, and to assist the Ministry of Tribal Affairs in establishing a successful model for school feeding.
- Improving food security through disaster mitigation and the preservation and creation of assets through a food for work programme. The primary goal of the activity will be to improve the long term household food security of the most disadvantaged people through preservation, and creation of assets such as dug wells, ponds, field bunds, and forests.

v) The World Health Organization (WHO)

The World Health Organization is the international agency within the United Nations' system that is responsible for health programmes. The WHO objectives, as set out in its constitution, is the attainment, by all people, of the highest possible level of health. Health is defined in the WHO constitution as a state of complete physical, mental and social wellbeing, and not merely the absence of disease, or infirmity. Its major goal is to combat disease, especially infectious diseases, and to promote the general health of people.

The WHO's Country Office (WCO) in India collaborates with the Government of India. The primary partnership of the WCO is with the Union Ministry of Health and Family Welfare, with which it has day-to-day liaison with the ministry's International Health Division. WCO is guided by its Country Cooperation Strategy (CCS). The most recent CCS, 2006-2011, is the basis for undertaking technical assistance in collaboration with the Government of India, the states, development partners, and civil society. The CCS is the WHO's tool for alignment with national health strategies and priorities, as well as for harmony with other UN agencies, and development partners.

The WCO is organised around core programme clusters. Each of the core clusters has programmes on diseases such as communicable and non-communicable diseases or focuses on a specific area in the health sector such as child and adolescent health, and the health system. The WCO also has special programmes that focus on specific initiatives, such as the National Polio Surveillance (NPSP), Routine Immunization, Disease Surveillance, Revised National Tuberculosis Control (RNTCP), Emergency and Humanitarian Action.

vi) The United Nations Population Fund (UNPF)

The United Nations Population Fund (UNPF) was formed in 1969 by the name United Nations Fund for Population Activities. The UNPA supports programmes in Arab states in Europe, Asia and the Pacific, Latin America and the Caribbean, and sub Saharan Africa. The main trust of the UNFPA is to "reduce poverty, and to ensure that every pregnancy is wanted, every birth is safe, every young person is free of HIV/AIDS, and every girl and woman is treated with dignity, and respect." The main thrust of UNFPA is

- Universal access to reproductive health
- Universal primary education, and closing the gender gap
- reduce maternal and infant mortality
- enhance life expectancy
- and to reduce HIV infection rates.

In this section, the role of multilateral and bilateral international agencies and the role of united nations agencies in development. Now, answer the questions given in Check Your Progress 2.

Check Your Progress 2

Note: a) Answer the following questions in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) Financial institutions play a key role in the country's path to development. Discuss this in the light of the role played by the IDBI and NABARD.

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2) What are the objectives of UNICEF's RCH Program?

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4.6 LET US SUM UP

Development agencies play an important role in the development of a nation. In India, the National Planning Commission, the Finance Commission, the State Finance Commission, and State Planning Board play vital roles in the formulation of national and state plans. At the district level, under the umbrella of decentralized planning, the District Planning Committees are being involved in preparation of district development plans. This unit also discusses the role and the functions of various bilateral and UN agencies, such as the World Bank, the ADB, UNICEF, USAID, CIDA, along with others and their work in the development of various sectors. The development agencies, including NGO's and banks, also play an important role in the socioeconomic development of a nation.

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4.8 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

Check Your Progress -1

1) What are the key functions of Niti Aayog?

Answer: To foster cooperative federalism through structured support initiatives and mechanisms with the States on a continuous basis, recognizing that strong States make a strong nation

- To develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government
- To ensure, on areas that are specifically referred to it, that the interests of national security are incorporated in economic strategy and policy

- To pay special attention to the sections of our society that may be at risk of not benefiting adequately from economic progress

2) Discuss the roles, functions and powers of the Finance Commission of India.

Answer: Under Article 280 of the Indian Constitution, the Finance Commission is required to make recommendations to President regarding

1) The distribution of net proceeds of taxes to be shared between the Centre and the States, and the allocation between the states of the respective share of such proceeds

2) The principles which should govern the grants-in-aid by the Center to the states out of the Consolidated Fund of India

3) The measures needed to augment the consolidated fund of a State to supplement the resources of the panchayats and the municipalities in the state, on the basis of the recommendations made by the State Finance Commission.

Check Your Progress- 2

1) Financial institutions play a key role in the country's path to development. Discuss this in the light of the role played by the IDBI and by NABARD.

Answer: The IDBI is vested with the responsibility of coordinating the working of institutions that are engaged in financing, promoting, and developing industries. It has evolved an appropriate mechanism for this purpose. NABARD initiates measures toward institution-building for improving the absorptive capacity of the credit delivery system. This includes monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, training of personnel, etc. NABARD coordinates the rural financing activities of all the institutions engaged in developmental work at the field level, and maintains liaison with the government of India, state governments, with the Reserve Bank of India, as well as with other national level institutions that are concerned with policy formulation.

2) What are the objectives of the UNICEF's RCH Program?

Answer: The UNICEF Reproductive and Child Health (RCH) programme contributes to the reduction of infant and maternal mortality by realizing the following

a) An increased percentage of children, fully immunized

b) Improved quality and access to the health system

c) Improved home practices, including the management of childhood illness in selected districts

d) Promoting care practices for pregnant and lactating women and newborns.

MDV-102: Dynamics of Development

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