Indira Gandhi National Open University
School of Continuing Education

MRD-101
Rural Development:
Indian Context

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THE PEOPLE'S
UNIVERSITY

Rural Development Administration

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UNIT 1 ADMINISTRATIVE STRUCTURE

Structure

1.0 OBJECTIVES

After studying this unit you should be able to:

- describe the existing organizational structure for rural development programmes;
- identify the changes brought about and sought to be brought about in the structure since the inception of the Community Development Programme;
- list the problems encountered by the different functionaries;
- assess the strengths and weaknesses of the administrative structure; and
- outline the future prospects.

1.1 INTRODUCTION

In the earlier blocks you have read about the rural socio-economic structure and the various rural development approaches and strategies. It is evident that rural development in our country has to be oriented necessarily towards the integrated development of rural areas, the transformation and modernization of rural economy and society, and the alleviation of poverty. For this purpose, you would agree, we need mobilization of resources and their allocation specifically to implement programmes for the benefit of the rural population, particularly the rural poor. The *administrative structure* for the implementation of rural development programmes therefore assumes special significance. In India, today, a major agency for development is the administrative machinery itself. A pertinent question is whether the present administrative structure is capable of playing its role as an agent of change. In order to accomplish this task, i.e. bring about changes in a country like India, three conditions are essential. First, the ideas, attitudes, values, orientations and predispositions of the bureaucracy should change if it is to succeed as a major instrument of social transformation. Functionaries in the development administration are not expected to rule or function as masters of the people, instead they are required to facilitate, stimulate and promote change and development. They have to be responsive to the needs and aspirations of the people. Secondly, the bureaucratic organization and structure should be reasonably decentralized, rendered free from procedural rigidities and should involve the people in the process of decision-making. Thirdly, since political leadership lays down policy and gives direction to development, administrative performance is to a large extent influenced by the support and cooperation of political leaders. It is therefore essential that bureaucrats and political leaders develop a new understanding of their complementary roles and forge functional relationships accordingly.

This unit aims at familiarizing you with the existing organizational and administrative structure of the rural development programmes, and the features that characterize the system.

1.2 ADMINISTRATIVE MACHINERY

To understand the present administrative setup of the rural development bureaucracy better, it is essential to find out its roots right from the Planning Era. We should know, how we reached the present day scenario and how the development approach of the policy planners influenced the administrative infrastructure at various stages?

***Historical Overview*:** The present administrative system of India was inherited from the colonial rulers, and it is this structure, which has primarily been entrusted with the functions and responsibilities of rural development. Some modifications, however, have been grafted onto it from time to time. The revenue and general administrative organization and structure have been mobilized for rural development functions. Changes have been made since the inception of the Community Development Programme in 1952, which for the first time attempted in a big way to set up development administration right at the field level, and it included induction of technical expertise and training of manpower to undertake various schemes under its purview.

It was the Grow More Food Enquiry Committee, which in its report submitted in 1952 stressed, for the first time, the need for an integrated organizational structure for rural development. It also laid down the blueprint for the setup at various levels—the National, the State, the District, the Block and the Village. It recommended the establishment of *the taluq* as a development block covering 100-120 villages under the charge of a Development Officer for the Block who would be the Revenue Divisional Officer assisted by four Technical Officers (one each for agriculture, animal husbandry, cooperation and engineering) and Village Level Workers, one each for 5 to 10 villages. The report also recommended that development activities at the district should be unified under the Collector assisted by specialist officers and at the state level there should be a Cabinet Committee presided over by the Chief Minister and a non-official Board for coordinating policies and facilitating joint action.

This blueprint was given shape with the launching of the Community Development Programme (CDP) in 1952 followed by the National Extension Services (1953) which covered the whole country. Under the CDP programme, *the development block* was created as the basic unit of planning and integrated rural development comprising agriculture, animal husbandry, village industry, education, health, social welfare, etc., with special emphasis on self-help and public participation. The most striking administrative innovations made by the Community Development Programme were identification of blocks as the units of administration, appointment of extension officers who were subject specialists, appointment of the Village Level Worker (VLW) for a group of villages as a multi-purpose development functionary through whom programmes of different departments were administered, role of the Development Commissioner as the coordinating functionary at the state level, coordination and integration of development programmes of different departments at the block level and the mobilization of people's participation in development.

The administrative setup conceived at the time of the implementation of the Community Development Programme has broadly continued with some changes introduced at the district level during the fourth and the fifth plan periods in the wake of the shift in the strategy of the rural development programmes and the launching of special programmes. The strategy for rural development has gradually begun focusing on area based and clientele specific development.

1.2.1 Administrative Setup at the National Level

The Ministry of Rural Reconstruction was constituted in 1979 and continued as such till 1982, when it was renamed the Ministry of Rural Development. In January1985, it became the Department of Rural Development under the Ministry of Agriculture and Rural Development. In September 1985, the Ministry was renamed the Ministry of Agriculture with a separate Department of Rural Development as one of its constituents. Then, it was renamed the Ministry of Rural Areas and Employment in March 1995. Since April 1999, however, it is being called the Ministry of Rural Development.

In what follows, we describe the organizational structure as it operated in 2002-03. The Ministry of Rural Development is a separate Ministry and has two departments viz. Department of Rural Development and the Department of Drinking Water Supply. Both the departments are headed by a Secretary to the Government of India assisted by a hierarchy of officers. The Ministry is divided into Divisions on functional basis as follows:

a) ***Department of Rural Development***

   i) Administrative and Panchayati Raj Division

   ii) Poverty Alleviation Division

   iii) Swarnjayanti Gram Swarozgar Yojana Division

   iv) Rural Connectivity Division

   v) Land Resources Division

   vi) Monitoring Division

   vii) Finance Division

b) ***Department of Drinking Water Supply***

   i) Drinking Water Supply Division

   ii) Rural Sanitation Division

Each of the above Divisions is headed by a Joint Secretary level officer assisted by other supporting staff, administrative as well as technical.

The Ministry of Rural Development is responsible for policy, planning, direction, coordination, release of central share of funds and monitoring of the programmes. The programmes of the Ministry may be divided into four broad categories viz. a)

Self-Employment Programmes, b) Wage Employment Programmes, c) Area Development Programmes, and d) Basic Needs Programmes.

The Ministry of Rural Development has the following institutions under its administrative control:

The National Institute of Rural Development (NIRD) which is an autonomous body and the Council for Advancement of People's Action and Rural Technology (CAPART) which is a registered society.

A National Fund for Rural Development (NFRD) was set up in 1984 for the purpose of attracting donations for rural development projects. It provides incentives to the donors by offering them a tax concession. As far as possible, the receipts into NFRD are channelled for projects identified by the donor in accordance with the guidelines of the Ministry.

It is important for you to remember that the Ministry of Rural Development is not the only agency to implement programmes in rural areas. Rural Development is as much a concern of several other Ministries/Departments that have programmes in rural areas. To mention some, the Department of Agriculture and Cooperation has a large number of programmes and also the Ministry of Environment and Forests; the Department of Women and Child Development has programmes for welfare of children and women; the Ministry of Social Justice and Empowerment has programmes for the welfare of Scheduled Castes, Scheduled Tribes and the physically and socially handicapped in rural areas; the Ministry of Health and Family Welfare for health and family planning programmes; the Ministry of Industry for village industry and employment of the youth; the Department of Education for educational development and the Ministry of Water Resources for the development of water resources.

1.2.2 Administrative Setup at the State Level

The State Government has direct responsibility for the administration of rural development programmes. Almost all the states have now a separate Department of Rural Development headed by a Secretary. Above him is the Development Commissioner for Agriculture and Rural Development. In several states the Chief Secretary himself/herself is the Development Commissioner-cum-Secretary. During the late 1960s, State Level Coordination and Review Committees were set up in all the states to bring about coordination among different departments. These Committees consisted of the Secretaries of all the departments concerned and a representative each from the Central Government. A study conducted during 1979- 1981 by the Programme Evaluation Organization (PEO) of the Planning Commission in connection with the *Antodaya Programme* for Small Farmers, Marginal Farmers and Agricultural Labourers (1983), pointed out that the Coordination and Review Committees at the state level were not active in most of the states and that they had failed to provide guidance or support to the agencies. The state level cells, which were expected to exercise general supervision and ensure coordination of the activities of various departments, had generally not been able to achieve their objectives either.

The erstwhile Union Ministry of Rural Development had prescribed that programmes like the Integrated Rural Development Programme, the National Rural Employment Programme (NREP), the Rural Landless Employment Guarantee Programme (RLEGP), the Drought Prone Areas Programme (DPAP), the Desert Development Programme (DDP), etc. should be looked after by a single department having an overall control over the development administration right up to the block and the field levels so that inter-sectoral coordination with other departments were adequately taken care of at the state level. The Ministry had further recommended the creation of a separate post (to deal with all the special programmes) at the level of a Commissioner to be assisted by middle level officers of the rank of Joint/Deputy

Secretary for monitoring, formulation and implementation of these programmes in the districts.

Consequently, at the state level, initially there was the office of the Development Commissioner who was in charge of all the development work under the supervision of the Development Committee usually chaired by the Chief Minister. Now, in most of the cases, either the Department of Planning or the Department of Rural Development is responsible for policy, planning and implementation. The Coordination Committee chaired by the Chief Secretary/Agricultural Production Commissioner/ Principal Secretary reviews, sanctions, coordinates, monitors and evaluates the schemes.

1.2.3 Administrative Setup at the District Level

The district in India has been the basic unit of administration and the head of the district administration is the District Collector. At the district level, the revenue and development functions have been combined in one office. When the CDP was launched, the District Collector was made the head of the community development administration in the district. The Collector coordinated district plans and presided over the District Planning Committee. This committee consisted of official and non-official members assisted by a District Planning Officer.

Significant changes were introduced at the district level during the fourth five-year plan (1969-74), when the Small Farmers Development Agencies (SFDAs) and Marginal Farmers and Agricultural Laburers Development Agencies (MFALs) were set up on the recommendation of the All India Rural Credit Review Committee appointed by the Reserve Bank of India in 1969 to provide credit support and technical guidance to the small farmers. To coordinate the activities of all departments, a coordination committee was created in each district under the chairmanship of the District Collector.

An autonomous agency registered under the Registration of Societies Act 1860 was established at the district level to implement the SFDA/MFAL programmes. Each agency consisted of a Governing Body with a small executive staff and was to receive support from a State Level Coordination and Review Committee. The governing body consisted of a Chairman who was normally the Collector of the district, representatives of the State Departments of Agriculture, Animal Husbandry, Cooperation or any other department intimately concerned with the programme, a representative of the Lead Bank, Chairman of the Central Cooperative Bank concerned, a representative of the Zilla Parishad concerned and a few non-officials. Each agency was allowed only a nucleus staff comprising a Project Officer and three Assistant Project Officers drawn from the Departments of Agriculture, Animal Husbandry and Cooperation. The SFDA had no field staff of its own and the agency was supposed to work using the services of the staff of other development departments concerned and financial institutions such as cooperatives and commercial banks.

Besides SFDA, other special programmes were also introduced in the country during the fourth and the fifth five-year plans. Among these, the Drought Prone Areas Programme (DPAP) and Desert Development Programme (DDP) were taken up in the 1970s. Also special project agencies have been set up by the State and/or the Central Government at the district level. Collectors are normally associated with them.

1.2.4 Administrative Setup at the Block and the Village Levels

Under CDP, the Development Block was created as the basic unit of planning and integrated rural development comprising agriculture and allied activities, such as education, health, social welfare, etc. with special emphasis on self-help and public participation. The *block administration* consisted of a block level officer, namely Block Development Officer (BDO) who was assisted by about eight extension personnel representing agriculture, animal husbandry, cooperation, social welfare, irrigation, etc., Village Level Workers (VLWs) also called Gram Sevaks/Sevikas and some auxiliary staff. Provision was made for the constitution of block advisory committees to enlist popular support for the programme. After sometime, however, it was realized that the block advisory committees were not functioning properly because they were mere advisory bodies without any direct responsibility in the development work.

The Balvantrai Mehta Study Team appointed by the Government of India to review Community Development Projects and the National Extension Services in 1957 suggested decentralization of power to the basic unit viz. block, in a three-tier organically linked structure including the district level above and the village level below.

Even with the introduction of new programmes in the mid-sixties, like SFDA and MFAL, the structural mechanisms at the block level have not altered much. All the programmes and schemes of the DRDA are being implemented through the Development Blocks headed by the Block Development Officers (BDOs). Besides the BDO, the other block staff involved directly in the implementation of the IRDP are the Extension Officers for Agriculture, Animal Husbandry, Social Welfare, Irrigation, and Industries and the Khadi Supervisor from Khadi and Village Industries Corporation (KVIC). In the states, which have adopted the Training and Visit (T & V) system of agricultural extension, agricultural extension is being directly handled by the staff of the Department of Agriculture. As a result, the Agriculture Extension Officer and 70 to 80 per cent of the VLWs have been taken away from the Block Establishment, which has now only a small nuclear staff. Consequently, the Block Administration got considerably weakened.

The review of development programmes is conducted at the block level on a fortnightly basis in a meeting of VLWs and other block staff under the chairmanship of the BDO. The review of all the activities of a block is also made in the quarterly general body meeting of Panchayat Samiti under the chairmanship of its Pradhan with the BDO as the member-secretary. This meeting is attended by all the members of the Panchayat Samiti, Sub-divisional Magistrate of the area, district level officers of the development departments concerned, representatives of DRDA, Sub-divisional Agricultural Officer, Tehsildar of the area, block level officers of other development departments and the block staff. For the review of credit supply and coordination there is a Block Level Coordination Committee (BLCC), which meets once a month on a fixed date. The Pradhan of the Panchayat Samiti is its chairperson. All the branch managers of banks in the block and the Tehsildar of the area also attend the meetings of this committee. With the devolution of power and all the development activities with their administration gradually coming to their fold, the Panchayat Samitis have gained considerable significance in the development process. But, for them to work efficiently, concrete steps need to be taken to improve the managerial competence of the elected members in relation to administrative and financial matters.

1.2.5 Creation of the District Rural Development Agency (DRDA)

The erstwhile Ministry of Rural Development had recommended that at the district level, the planning and implementation agency should be the District Rural Development Agency (DRDA) headed by a chairperson, who could be the Collector, the Deputy Commissioner or the District Magistrate, and run by a functional executive as the Project Director/Project Officer. Accordingly, DRDAs were set up as autonomous agencies at the beginning of the sixth plan when the IRDP and NREP were launched in all the blocks in the country.

The DRDA is the overall in-charge of planning, implementation, monitoring and evaluation of the programmes in a district. The functions of DRDAs are:

- To provide information regarding the parameters, dimensions and requirements of the programmes to the district and the block level agencies and to apprise them of their tasks in this regard;
- To coordinate and oversee the survey and preparation of the perspective plan and annual plans of the block and finally prepare a District Plan;
- To ensure the effectiveness of the programme by regular evaluation and monitoring;
- To secure inter-sectoral and inter-departmental coordination and cooperation;
- To publicize the achievements made under the programmes, disseminate knowledge and build up awareness about the programmes; and
- To send periodic returns to the State Governments in prescribed formats.

The Governing Body of the DRDA includes, apart from the Chairperson (usually the District Collector), the following:

i) All MPs and MLAs of the District,

ii) Head of the Central Cooperative Bank,

iii) Chairman of the Regional Rural Bank,

iv) Chairman of the Zilla Parishad or his/her representative,

v) An officer of the Lead Bank,

vi) District Employment Officer, and

vii) One representative of rural women, preferably a beneficiary.

The President of the DRDA is empowered to form an Executive Committee to assist the DRDA. The Committee has district level officers as its members. The Governing Body of the DRDA is required to meet every quarter and the Executive Committee every month.

The Project Officer of the DRDA is assisted by 2 to 3 Assistant Project Officers (APOs) who are subject specialists. An APO for women looks after the women's component of IRDP and the Development of Women and Children in Rural Areas Programme (DWCRA). There is also an APO (Monitoring).

The erstwhile Ministry of Rural Development had also suggested the setting up of a District Development Committee under the chairmanship of the District Collector. The district level heads of the development departments, BDOs, representatives of the banks and non-officials' bodies, attends its meetings. Its main function is to coordinate the work of all the district level departments and other agencies like Khadi and Village Industries Board, District Industries Centre, banks, etc. It also reviews the working of various programmes in operation in the district and attends to the day-to-day problems of implementation and administration of the programme.

Check Your Progress I

Note: i) Write your answer in the space provided.

ii) Check your answer with the possible answer provided at the end of the unit.

1) What is the mandate of the Ministry of Rural Development and what are the kinds of programme it deals with?

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1.3 CHANGE IN THE ADMINISTRATIVE SETUP AT THE DISTRICT LEVEL AFTER THE CONSTITUTION (73RD AMENDMENT) ACT, 1992

If a critical analysis of the present administrative setup and the delivery mechanisms at the district, the block and the village levels is carried out, we will find that the core idea of the Constitution (73rd Amendment) Act, 1992 is slowly but steadily taking a concrete shape through transferring powers and resources to all the three tiers of Panchayati Raj Institutions (PRIs) and assigning them with the responsibility of planning and implementation of the poverty alleviation programmes. A number of steps have been taken by the Ministry of Rural Development to devolve administrative and financial powers to the PRIs. An officer equivalent to the District Collector in seniority and status may have to be posted as the Chief Executive Officer (CEO) of the Zilla Parishad for horizontal coordination. In order to accelerate the pace of devolution of powers to the PRIs, a Task Force was set up (at the behest of the Conference of the Ministers of the Panchayati Raj in July 2001) to analyse all the 29 subjects mentioned in the XI Schedule of the Constitution, identify specific activities under these subjects and suggest inter-se-division of these activities among the three tiers of Panchayats, suggest measures to make administrative decentralization operational and to rationalize delivery mechanisms and propose how the three ingredients of devolution viz. a) Funds, b) Functions, and c) Functionaries related to all the 29 subjects may be transferred to the PRIs. Now, to ensure harmonious integration of the different agencies with common objectives of rural development, the DRDAs have been integrated with the Zilla Parishad. And the DRDA is to act as a Unit/Cell of the Zilla Parishad Administration under the overall supervision of the Zilla Parishad. Though, the process of devolution has improved in the recent past, it continues to suffer from bureaucratic resistance and lack of political will at the state level. The role of the district administration, however, is gradually changing into that of facilitation, quite different from the earlier roles of administration and implementation. But there is still a long way to go. In the next unit we will look at the special features of the Constitution (73rd Amendment) Act, 1992.

1.3.1 District Planning Committee (DPC)

The states are required to constitute District Planning Committees (DPCs) as envisaged under Article 243 (ZD) of the Constitution (74th Amendment) Act to facilitate the process of decentralized planning. The DPCs are to be set up in each district to prepare Composite Plans covering both urban and rural areas through effective coordination between the urban civic and development bodies for the urban segment and the PRIs for rural areas. The DPCs have lately been constituted in most of the states. The Chairperson of the DPC is the Chairperson of the Zilla Parishad. In many states, however, Ministers or Officers of the State Government are chairing DPCs, which is against the constitutional provision. To facilitate the preparation of plans at the district level, a core planning team comprising experts from various disciplines must be formed. Such a team could help in the preparation of plans after thorough mapping of the physical and natural resources, endowments, existing and missing infrastructure in relation to the felt needs, convergence potential of the ongoing schemes and the available and additional resources required. In addition, when needed, experts could be hired on consultancy bases.

1.3.2 Gram Panchayats

The third tier of the PRIs, the Gram Panchayat, has been charged with the responsibility to identify and prioritize development schemes and prepare its Action Plans accordingly with the approval of the Gram Sabha. The roles of the Gram Panchayats have increased many fold vis-à-vis the quantum of resources meant for the developmental activities being handled by them. Though the Gram Panchayats have come into existence and are also implementing developmental schemes, yet the participation of the people and the timely conduct of the Gram Sabha meetings are activities not up to the mark in actual practice. The problem can be controlled to a great extent by promoting *awareness* among the rural masses, thereby preventing social elite from stealing the show. It will help the Gram Panchayat to act in the true spirit of the Constitution (73rd Amendment) Act, 1992.

Check Your Progress II

Note: i) Write your answer in the space provided.

ii) Check your answer with the possible answer provided at the end of the unit.

1) What is the DPC and what are its functions?

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1.4 RELATIONSHIP BETWEEN THE OFFICIAL FUNCTIONARIES AND THE ELECTED REPRESENTATIVES OF THE PEOPLE

The relationship between the official functionaries and the elected representatives assumes a special significance in the context of developing countries as both sets of individuals are expected to work towards the same goal. Moreover, as the agents of social change, the bureaucracy and the elected representatives have complementary roles to play. Hence, it is imperative for successful policy implementation that both work in close cooperation with one another. With the introduction of Panchayati Raj Institutions (PRIs), bureaucrats and the local level politicians have an opportunity to work in close cooperation with each other for the realization of development goals. It has become evident, however, that this relationship is not entirely cordial or mutually supportive. The relationship has been affected by a conflict of interests, lack of trust and issues arising from relative status and exercise of powers. Absences of any conventions and the large undefined grey areas regarding the exercise of powers have added to the problems. Let us discuss some of the factors giving rise to this situation.

Often the political leaders are a part of the social elite, that is, they belong to higher castes and higher income groups and the caste/class bias is reflected in the pattern of selection (or non-selection) of beneficiaries for development programmes or the seriousness with which different programmes are implemented. Another feature is the conflicting perception of, and understanding regarding the respective roles of the official functionaries and the elected representatives. This sometimes leads to misunderstandings and a system of functioning that is not quite harmonious. There is a perception among the official functionaries that since the elected representatives lack a reasonable level of education and administrative experience, they are ill-equipped to participate in developmental planning or in policy formulation. They feel uncomfortable taking orders from the elected representatives. Officials also feel that they are often pressurized into taking decisions for which they become accountable even though these are not in conformity with rules. On the other hand, political functionaries feel that they are closer to the people and hence are in a better position to reflect their interest and aspirations. They often view the bureaucracy as 'impersonal', insensitive, rigid, authoritarian and obstructive.

The Ashoka Mehta Committee Report on Panchayati Raj Institutions (PRIs) (1978) observed on this relationship: *"Bureaucracy had probably its own role in dissociating the PRIs from the development process. Several factors seem to have conditioned their perception. The system of line-hierarchy would find favour with them as an organizational principle. The officers would feel that they are primarily accountable for results and financial improprieties to the State Government. The officials knew no better than to trust their own fraternity. They would, on the one hand, therefore, be averse to PRIs being entrusted with additional functions and on the other would not easily get adjusted to working under the supervision of elected representatives."*

1.5 COUNCIL FOR THE ADVANCEMENT OF PEOPLE'S ACTION AND RURAL TECHNOLOGY (CAPART)

In recent years, non-governmental organizations have also initiated implementation of development programmes in rural areas, in many cases with grant-in-aid from the government. During the seventh plan period there has been a positive move towards involving voluntary agencies in the planning and implementation of rural development programmes. The approach paper to the seventh five-year plan clearly mentioned that (i) there is a need to organize the beneficiaries (the rural poor) to ensure that schemes, benefits and subsidies reach them through the delivery system, and (ii) voluntary organizations should be involved to serve as "the eyes and ears of the people."

To promote voluntary action in rural development, a nodal agency viz. CAPART was formed in 1986 by amalgamating the erstwhile People's Action for Development India (PADI) and the Council for Advancement of Rural Technology (CART). While PADI had been set up to provide assistance to voluntary agencies in rural development, CART was set up in 1982 to help in the speedy dissemination of technologies developed in the laboratory to rural areas through their actual application by voluntary agencies. It used Regional Centres in major states to facilitate accessibility and monitoring.

CAPART is mainly entrusted with the task of devolution of funds from the programme budgets to voluntary organizations implementing programmes under SGSY, SGRY, Rural Housing and Drinking Water and Sanitation schemes. It also acts at the national level as the nodal coordinating agency for speedier dissemination of technologies developed in the laboratory to their actual sites of application. CAPART thus acts as the central agency for promoting voluntary action in rural areas.

CAPART is presided over by the Union Minister of Rural Development. It is under the administrative jurisdiction of the Department of Rural Development. The General Body of CAPART has a maximum strength of 100 members and its Executive Committee has 25 members. Most of the members represent the voluntary sector. The Minister of State for Rural Development is the Chairman of the Executive Committee.

Check Your Progress III

Note: i) Write your answer in the space provided.

ii) Check your answer with the possible answer provided at the end of the unit.

1) What are the functions of CAPART and what kinds of programme does it deal with?

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1.6 STRENGTHENING THE MAINTENANCE OF ACCOUNTS AND AUDIT AT THE PRI LEVEL

The Eleventh Finance Commission, in order to strengthen the system for maintaining accounts and audit at the Gram Panchayat level, had recommended that the Gram Panchayats, which do not have exclusive staff for maintaining accounts, may get the work done on contract basis for which each Gram Panchayat can spend an amount of Rs. 4000 per annum. This recommendation has now come into force.

1.7 SOCIAL AUDIT BY THE GRAM SABHA

One of the major recommendations of the Task Force (on devolution of powers to PRIs) was to advise states to legally empower the Gram Sabha and issue necessary guidelines for them to conduct social audit satisfactorily. Social audit should have binding legal outcomes so as to curb corruption and misappropriation of funds at the Gram Panchayat level.

1.8 ASSESSMENT

The foregoing details clearly suggest that while there have been attempts to bring in innovations for improving the administrative structures, there has been no radical departure from the past. The Community Development Block Administration was essentially built within the framework of the traditional district administration, though the tasks assigned were very different and functionaries like BDOs, Extension Officers and VLWs were new creations. Also, it continued to be based on directions from the top with a hierarchical structure and line of command from the Centre through the State, the District, the Block to the Village Level Worker. It is true, however, that for specialized programmes new structures have been created. For example, the Command Area Development Programme used to be implemented through the Command Area Development Authority and the Small Farmers' and the Marginal Farmers' Development Programmes are implemented through registered agencies viz. Small Farmers' Development Agencies and Marginal Farmers' and Agricultural Labourers' Development Agencies set up to implement the programmes. However, the human resources for these new organizations, whether administrative agencies or registered societies, are drawn from the various existing departments. Thus, they do not constitute new establishments, nor altogether new administrative structures or styles of functioning.

They are rather in the nature of adaptations of the existing administrative structures to new tasks and programmes.

There are several questions that arise while considering whether the existing administrative system is appropriate and capable of realizing the goals of rural development. Does the system provide for effective coordination between macro- and micro-level planning, i.e. vertical integration of planning? Does it provide for formulation of inter-sectoral plans, programmes and projects and their horizontal integration? Is the delivery system capable of channeling the benefits of development programmes to the target groups? Does it provide for the maintenance of direct and continuing relationship between the planners and the people and for meaningful participation of the people in the process of development planning and implementation? Does it facilitate cooperation between generalists and specialists? Do the specialists get adequate space/role in the process of decision-making? Does it promote harmonious functional relations between the bureaucracy and the elected representatives of the people? These are some of the questions we have to grapple with in the context of the Panchayati Raj system.

Participation was actually sought to be brought about through the Panachayti Raj Institutions, but the Panchayati Raj has not fulfilled these expectations. A large number of programmes launched in recent years are being directly administered by the Central or State Governments and have no links with the Panchayati Raj Institutions (PRIs). These programmes have not only expanded the base of the bureaucracy in rural areas but also undermined the role of the elected representatives of the people. Instead of promoting popular participation in rural development efforts, they have contributed not only to its discouragement, but also to its failure in some respects.

The DRDAs are expected to bring about coordination of planning and implementation among the various departments at the district level, but this has not been an easy task. They have not succeeded in invoking popular participation at the local level.

Under the Community Development Programme, the BDO was to be the main plank of the administrative setup at the block level, but with the constitution of DRDAs in 1980, the powers of the BDO have been considerably eroded. For instance, in the states that have adopted *training and visit system* for extension work, the Village Level Workers have been withdrawn from the control of the BDO and are working under the control of the Department of Agriculture. As a result the BDO, who is supposed to coordinate work at the village level, is unable to carry out his functions fully and satisfactorily.

The Evaluation Report (1985) of the study on IRDP undertaken by the Programme Evaluation Organization (PEO) observed that the state level organizations lacked the required degree of support from the sectoral and the subject matter specialists. The study also found that Project Officers of the DRDAs could not exercise proper administrative control over the BDOs and that there was lack of inter-sectoral linkages at the block level.

As is the case in many other developing countries, the core issue is that the planning and implementation of development programmes is controlled by the target-oriented mindset of the bureaucracy on the one hand, and handicapped by a top-down approach on the other. Until and unless this mindset is changed, the scenario more or less will remain the same. Nirmal Mukarji rightly elaborates on the constitutional status and the predominant role of bureaucracy in India:

"India is the only major federal democracy in the world that gives constitutional recognition to its bureaucracy. That classic instance of federalism, the United States of America, does not. Nor do Canada and Australia. Nor does the Federal Republic of Germany. The Indian exception is clearly a legacy of colonial rule. Sooner or later, serious thought will have to be given to deleting all references to public services in the Constitution. So long as these continue, bureaucratic

structures will remain rigid, defying reform. And public servants, noble exceptions apart, will continue to take advantage of their security to become more inefficient, corrupt and uncaring for the public they are supposed to serve."

While the above observations made about the administrative structures are undoubtedly enlightening and instructive, it would be necessary to stress that equally important for consideration is the *administrative culture and the style of bureaucratic functioning*. To turn our bureaucracy into a truly responsive administration, overcoming its deficiencies that have been listed, extensively documented and well known, its work culture needs to be overhauled. As we see, though the problem has been identified, by and large the solution – training and orientation of the functionaries – has not been sound enough to bring about the necessary changes wherever needed. Being the main thrust area of the development planning, rural development administration is amidst a transitional phase rising from being an institution of concentration of power to functioning as a facilitator or enabler. It still has a long way to go!

1.9 LET US SUM UP

In this unit we have tried to analyse the development approaches adopted since the planning era, structure of the bureaucracy and the role it has played in bringing about economic and social transformation of the rural society, the advent of PRIs as a fallout of the Constitution (73rd Amendment) Act and the bottlenecks inhibiting devolution of powers and functions to these people's institutions.

The bureaucracy in India got involved in rural development administration in a big way with the launching of the Community Development Programme in 1952. Looking at the bureaucracy at various levels – national, state, district and block – we saw how the administrative structure has evolved over time and how some changes were made as different strategies for agricultural and rural development were mooted.

Analyzing the relationship between the officials and the elected representatives of the people in rural areas, we observed that in many situations the two have not been able to team up well. Common areas of work relationship have not been clearly identified and, worse than that, some tensions have also become evident.

We studied the functions and working of CAPART, which is the nodal agency for providing assistance to voluntary agencies engaged in rural development and for facilitating speedier dissemination of technologies in the field. We also noted the allocations made for different programmes in the last few years.

In addition, we pointed out the limitations of the rural administrative system and made some suggestions for their removal. In this connection, we considered the observations and recommendations of some of the important committees and tried to go into the possible remedial measures to overcome the existing inhibiting bottlenecks.

1.10 KEY WORDS

Horizontal Integration : Integration of functionaries at the same level, within say, the block or at the grass roots level.

Management Information System (MIS) : A system whereby data processing equipment, procedures, software and people are integrated into the organization, as one of its sub-systems, to provide information of various types to all the concerned including that for decision-making at various levels of the organization.

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1.12 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

Check Your Progress I

1) The **Ministry of Rural Development** has been assigned the responsibility of poverty eradication in the rural areas of the country and is responsible for policy, planning, direction, coordination, release of central share of funds and monitoring of the programmes. The programmes of the Ministry can be divided into four broad categories viz. a) Self-Employment Programmes, b) Wage Employment Programmes, c) Area Development Programmes, and d) Basic Needs Programmes.

Check Your Progress II

1) **District Planning Committees** (DPCs) as envisaged under Article 243(ZD) of the Constitution (74th Amendment) Act are to facilitate the process of decentralized planning in the country. These Committees are to be set up in each district to prepare Composite Plans covering both urban and rural areas through effective coordination between the urban civic and development bodies for the urban segment and the PRIs for rural areas.

Check Your Progress III

1) Under the Ministry of Rural Development, **CAPART** is an autonomous body mainly entrusted with the task of devolution of funds from the programme budgets to voluntary organizations implementing programmes under SGSY, SGRY, Rural Housing and Drinking Water and Sanitation schemes. It also acts at the national level as the nodal coordinating agency for speedier dissemination of technologies developed in the laboratory leading to their actual application. CAPART thus acts as the Central Agency for promoting voluntary action in rural areas.

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UNIT 2 PANCHAYATI RAJ

Structure

2.0 OBJECTIVES

After studying this unit you should be able to:

- outline the historical background of the Panchayati Raj system;
- describe some of the major steps taken by the government towards rejuvenating the Panchayati Raj system after 1947; and
- explain the need for and special features of the 73rd Constitutional Amendment.

2.1 INTRODUCTION

This unit aims at familiarizing you with the institution of Panchayati Raj as an important mechanism for decentralization of power and people's involvement in development activities.

History tells us that Local Self-government, as a system, has existed in India since long. Its form may vary, but its spirit has always been a part of our socio-cultural ethos. In the medieval times, it was seen in the 'Gram Sabha' functioning through its executive committee viz. Panchayat, a village body able to govern and sustain a small community of people. During the British Raj, it became the instrument of the ruling elite, intended to project the interests of the British Government.

After independence, it was in 1959 that the Panchayati Raj system took its present shape. The enthusiasm generated by this new mantle of local self-governance, however, did not last long. Conflicting interests at various levels eclipsed the concept as well as its practice. After decades of debate, the Constitutional (73rd Amendment) Act, 1992 took up the task of rejuvenating this system.

The institution of Panchayati Raj is now recognized as an important mechanism for decentralization of power and materializing people's participation in development activities. It has been given special emphasis after the Constitution (73rd Amendment) Act, 1992 which made the details of the transfer of power to the panchayats a part of the most basic document of this nation—*The Constitution of India*. You have learned about the changes in the administrative setup at the district level after the 73rd Constitution Amendment Act and also read briefly about panchayats in the previous unit of this block. In this unit, we shall confine our discussion to the historical overview, post-independence developments in general, the Constitution (73rd Amendment) Act, 1992 and its salient features in particular.

2.2 HISTORICAL OVERVIEW

In India, the concept of local self-government is not new. Throughout the ages until the British rule, the village communities have kept this system alive. In our villages, different sections of the community helped and depended on each other. Age-old customs and traditions helped to maintain the community spirit. Kingdoms were built and destroyed but these village communities maintained their shape and spirit. These very village bodies were the lines of contact with higher authorities on matters affecting the villages.

Each village had a Sabha consisting of the adult residents of the village. Each Sabha had a sort of executive body of around five people known as panchayat. The panchayat was collectively responsible for looking after the needs of village people. Thus each village was a compact administrative unit served by public functionaries who were a part of the village community. These panchayats managed the affairs of the village community. No village affair was considered beyond its control. Despite many of the political changes in cities and towns during the medieval period, the system of the local government or the panchayats in villages continued undisturbed.

We have just outlined the ancient system of local government in our country. We have also told you that it has lived through the centuries in spite of several political changes. We will now discuss the history of the Panchayati Raj in India from the British period onwards

When the British came to India, we had our own village government system. Some among them (Charles Metcalf, for example) admired it and called panchayats "*Little Republics*". But, of course, the British used it to extend their own rule and power. Do you know how? The British had their own representatives in every region. As a result of the British interference, the attitude of the people towards panchayats changed. Progressively, the people began loosing faith in the institution of panchayat. Other conditions too had changed. For example, direct taxation gave way to indirect taxation. In many regions of the country, for example, in the North Western provinces, a leading or prominent person was put in charge of various jobs like construction, development work, etc. This system took the place of the local institutions like panchayats. In 1882, the Government of India Resolution on local self-government was announced. Lord Ripon's Government had sent circulars to the governments in the provinces on the subject of local self-government, as they wanted to find out what the public opinion was. The issues in the circular became the basis for the Government of India Resolution (1882) and later the Local Bodies Act of 1885 came into being. This was the basis for setting up local self-governing institutions with a majority of nominated members down to the village level.

It seems that Lord Ripon viewed the problem of local self-government liberally. He thought that the local self-governing institutions would act as instruments of political and popular education. Another major step in this direction was the Report of the Royal Commission on Decentralization. This commission was set up in 1907 and it submitted its report in 1909. It recommended that it would be desirable for effective decentralization to associate people with local tasks and village affairs through village panchayats. But like the Ripon Resolution, the recommendations made by the Royal Commission on Decentralization also remained on paper only.

In the same year (i.e. 1909), the 24th Session of the Congress at Lahore adopted a resolution urging the Government to take early steps to have elected local bodies from village panchayat upwards with non-official chairmen for the local bodies and to provide them necessary financial support.

The Montagu-Chelmsford Reforms of 1919, under the proposed scheme of diarchy, made local self-government a "transferred subject". This meant that local self-government was brought under the control of Indian ministers in the provinces. The idea was to make the local bodies truly representative bodies by bringing them under the popular control. This, however, did not make the panchayat institutions truly democratic, as there were various other constraints to overcome. Yet many acts were passed by various states for establishing panchayats. These included 'Bengal Village Self-Government Act of 1919', 'Madras, Bombay and United Provinces Village Panchayat Act of 1920', 'Bihar and Orissa Village Administration Act', 'Assam Rural Self-Government Act of 1926', 'Punjab Village Panchayat Act of 1935', etc. These acts aimed at looking after the development of villages and their affairs. The local self-government had powers even to try minor cases. But these bodies were not democratic in the real sense, because most of their members were not elected but nominated by the government. They had few powers given to them and their financial resources were also limited. The situation remained more or less the same till 1947.

Check Your Progress I

Note: i) Write your answer in the space provided.

ii) Check your answer with the possible answer provided at the end of the unit.

1) What were the functions and the structure of Panchayats in the medieval India?

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2.3 POST-INDEPENDENCE PERIOD

The Indian National Congress perceived panchayats as people's institutions. Local self-governance was seen as the true voice of democracy. Many of our leaders, mainly Mahatma Gandhi, had pointed out that independence must begin at the lowest level. Every village should be a *republic (Gram Swaraj)* with a panchayat having full powers. The idea was to have democratic processes *operating at the grass roots level as much as at the national level.*

2.3.1 Birth of the Panchayati Raj System in Independent India

It was the Study Team on Community Projects and National Extension Services headed by Balvantrai Mehta and set up in 1957, which expressed concern about the lack of popular participation in Community Development Programmes and made a strong plea for devolution of power to lower levels through Panchayati Raj. Thus the Panchayati Raj system came into existence in 1959 with two basic objectives. These were (1) *democratic decentralization* and (2) *local participation in planned programmes*. This was a big step forward in the process of development.

It was mentioned in the preceding unit that the Balwantrai Mehta Committee recommended a *three-tier system* of Panchayati Raj. In other words, the system had to work at three levels. They were: the district level (Zilla Parishad), the intermediate level (Block Samiti) and the lower level (Village Panchayat). The Committee suggested the setting up of Block Level Committees comprising elected representatives with adequate powers and resources for development programmes. The team felt that in this way Panchayati Raj system would be able to establish a link between the people and the government.

The states of Rajasthan and Andhra Pradesh were the first to adopt this system. By 1959, all the states had passed Panchayat Acts, and by the mid-1960s, panchayats had been set up in all parts of the country, as more than 217,300 village panchayats, covering over 96 per cent of the 579,000 inhabited villages and 92 per cent of the rural population, had come into being. On an average, a panchayat represented a population of about 2,400 covering two to three villages. There was a lot of enthusiasm generated in the rural India and the people started feeling that they could have a say in the affairs affecting their daily lives.

Unfortunately this enthusiasm could not be sustained. One explanation given is that "strengthening of local government institutions and devolution of powers did not go hand in hand with adequate delegation and devolution of powers, particularly in respect of planning and administration". On the other hand, national development planners were busy experimenting with other development initiatives, like the *'Green Revolution'* in the 1960s and the *'Target Group'* approach in the 1970s, as they were anxious partly to show overnight results in the food situation and partly to reach target groups to contain poverty. As a result local self-government system nourished through history and promised by the Constitution of India started languishing. It was only when development planners realized that community participation in development planning was not forthcoming on the expected lines and that the poverty situation was showing little signs of recovery, that we started looking back at local self-government through Panchayati Raj during the late 1970s. Thus the appointment of Ashoka Mehta Committee in 1977 marked a "turning point in the concept and practice of Panchayati Raj".

2.3.2 Asoka Mehta Committee

In 1977, a committee was appointed under the chairmanship of Asoka Mehta to review the working of the Panchayati Raj Institutions. The Committee listed several factors responsible for the decline of the Panchayati Raj. They included:

i) Dissociation of the programmes of development from the Panchayati Raj;

ii) Inability of the bureaucracy to involve panchayats in the implementation of development programmes;

iii) Internal deficiencies within the panchayat institutions; and

iv) A lack of clarity about the concept itself.

The Asoka Mehta Committee provided a definite *philosophical* treatment to the system. It observed that rural India was the backbone of all developmental programmes. The future of India would depend on the welfare of the villages. Panchayati Raj as a system should contribute to the philosophy and the functions of rural life in India.

The most significant recommendation of the committee was about the two-tier Panchayati Raj system. According to this recommendation, the Zilla Parishad at the district level had to be established as the first point of decentralization. It also recommended the formation of Mandal Panchayats. A Mandal was conceived as a group of villages, which would make the necessary links with the system in developing focal points. It would also develop links between rural and urban areas. One major weakness of the Ashoka Mehta Committee was that it ignored the importance of the Gram Sabha.

2.3.3 G.V.K. Rao Committee

This Committee was set up in 1985. It was asked to look into the administrative arrangements for rural development and the role of panchayat bodies and their relationships with the administrative setup. With reference to the Panchayati Raj, we may recall the major recommendations of this committee as follows:

- Zilla Parishads (at district level) should be strengthened,
- There should be sub-committees at the district level with proportional representation,
- Some planning functions may be transferred to the district level, and
- Elections of local bodies should be held regularly.

The committee believed that development was possible, only if a large number of people participated in development activities. In order to achieve this, adequate powers and financial resources at the local level were considered essential.

2.3.4 L.M. Singhavi Committee

This was set up in 1986. It gave importance to the Gram Sabha. Once again, the Gram Sabha was viewed as the seedbed of democracy.

Some of its major recommendations are:

- Local self-government should be constitutionally recognized.
- Elections at the panchayat level should be held regularly and without delay.
- Panchayati Raj judicial tribunal should be set up in every state to deal with matters related to the working of Panchayati Raj.
- There should be adequate financial resources to ensure effective functioning of panchayats.
- Participation of individuals attached to political parties should be discouraged.
- The Nyaya Panchayat should be given the functions of mediation and settling of issues.

2.3.5 Sarkaria Commission

The Sarkaria Commission (1988), which was primarily concerned with the *centre-state relationship,* also recommended the strengthening of local bodies financially and functionally. The commission also believed that elections for panchayats must be held regularly.

By the end of 1988, a sub-committee of the Consultative Committee of Parliament under the chairmanship of *P.K. Thungon* made recommendations for strengthening the Panchayati Raj system once again. One of its important recommendations was that Panchayati Raj bodies should be constitutionally recognized. Similarly, the Congress Committee headed by *V.N. Gadgil in 1989* recommended a three-tier system of Panchayati Raj with a fixed term of 5 years for the elected members and reservation for Scheduled Castes/Tribes and women.

The recommendations of these various committees and commissions generated a strong realization that there was a need to create a *strong third layer of governance***,** which would help the rural community to influence its own future. To materialize this, it was considered necessary to give constitutional recognition to the third layer of governance. It was against the backdrop of these recommendations by various committees and commissions that the Constitution (64^{th} Amendment) *Bill* was drafted.

Check Your Progress II

Note: i) Write your answers in the space provided.

ii) Check your answers with the possible answers provided at the end of the unit.

1) Which committee made a strong plea in 1959 for the devolution of power to the lower level through panchayats? What were the twin objectives set for the Panchayati Raj system by this committee?

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2.4 THE CONSTITUTION (73^{RD} AMENDMENT) ACT, 1992

The amendment phase began with the 64^{th} Amendment *Bill* (1989), which was introduced in Parliament for constituting panchayats in every state at the village, the intermediate and the district levels. It proposed that the Legislature of a State could by law endow the panchayats with such powers and authority as may be necessary to enable them to function as institutions of self-government. This *bill* was the brainchild of Rajiv Gandhi, who strongly believed in strengthening panchayats by giving them constitutional status. Unfortunately, though the *Bill* got two-thirds majority in the Lok Sabha, it was struck down in the Rajya Sabha on October 15, 1989 by just two votes. The next Government headed by V.P. Singh also made an abortive effort to provide constitutional status to panchayats through the introduction of the 74^{th} Amendment *Bill.*

Notwithstanding the above disappointments, the government declared its commitment to the philosophy of 'Power to the People', and so to providing the much needed constitutional status to panchayats. Accordingly, in September 1991, the 72^{nd} Amendment of the Constitution was introduced. This was referred to a Joint Select Committee of the Parliament in December 1991 for detailed examination. Finally, after including necessary changes, the Amendment was passed with near unanimity in the Lok Sabha on December 22, 1992 and in the Rajya Sabha on December 23, 1992. Finally, on April 20, 1993 the President of India gave it his assent. This Amendment of the Constitution is known as the **Constitution (Seventy-Third Amendment) Act, 1992.** This Act was brought in to force by a notification with effect from April 24, 1993.

This Act makes the details of the transfer of power to the Panchayat a part of the most basic document of this nation: the Constitution of India. By virtue of this Act, no one will be able to take away the powers, responsibilities and finances given to the Panchayats. They are expected to play a much bigger role in the development of their respective areas and people. It is also expected that everyone will be able to take part in this process including the poorest of the poor.

All of us know that the objective of national development can be achieved only through the development of the vast rural areas. People who are poor and unemployed cannot have adequate buying power. You must have seen that even nature does not favour us every time. From time to time, we have to face failures of the monsoon, droughts, floods, cyclones, etc. It is now hoped that through people's involvement, panchayats will be able to play a more responsible role in overcoming these difficulties.

Special Features of the Amendment

The special features of the Constitution (73rd Amendment) Act, 1992 are:

a) ***Gram Sabha***

The Act has restored the important role of the Gram Sabha. It is clear that the primary source of democratic power is in the village. The Gram Sabha is expected to be an active institution for starting all development activities based on local needs.

b) ***Three-tier Model***

The country will have a uniform *three-tier system* of panchayats (at village, intermediate and district levels). Only the states with a *population less than twenty lakhs* would not need to establish a panchayat at the intermediate level.

c) ***Reservation of Seats***

The Act provides for *reservation of seats for Scheduled Castes and Scheduled Tribes* in every panchayat in proportion to their population. One-third of the seats reserved for Scheduled Castes and Scheduled Tribes will also be reserved for women. Not less than one-third of the total number of seats to be filled by direct election shall be reserved for women.

The offices of the chairpersons in the panchayats at the village or any other level shall be reserved for Scheduled Castes and Scheduled Tribes in proportion to their population. Also, one-third of the total number of chairpersons' offices in the panchayats at each level shall be reserved for women.

d) ***Composition of Panchayats***

Direct election to the panchayat is one of the distinguishing features of this Amendment. Persons chosen by direct election from territorial constituencies shall fill all the seats in a panchayat. The chairperson at the village level shall be elected in such a manner as the legislature of the state may provide. The chairperson at the intermediate and district levels shall be elected by and from amongst the elected members.

e) ***Duration of Panchayats***

Every panchayat shall remain in office for five years normally. If it is dissolved for any reason before this period is over, elections will be held within six months. The reconstituted panchayat shall function for the remaining period of the total of five years.

f) ***Conduct of Elections***

The superintendence, direction and control of the preparation of electoral roll for, and the conduct of, all elections to the panchayats shall be vested in the State Election Commission. The State Election Commission will be responsible for conducting elections, i.e. they will make the lists of all the people who are eligible to vote and ensure that the elections are held in a free and just manner.

g) ***Finance Commission***

In order that enough funds are made available to the panchayats for initiating various development activities, the Constitution (73rd Amendment) Act, 1992 provides for the constitution of a Finance Commission in every state. This commission is to be constituted by the Governor of each state within one year from the commencement of the Constitution Act, 1992 and at the end of every five years thereafter. These commissions will be responsible for reviewing the financial condition of the panchayats and make recommendations to the respective Governors.

h) ***Development Activities***

The Act gives powers and responsibilities to the panchayats to plan and execute economic development programmes. Such responsibilities include the making of plans for economic development and social justice and the implementation of schemes listed in the Eleventh Schedule. These activities as listed for the panchayat institutions may be grouped under five categories for academic purposes.

i) *Economic Development*: There are 11 items, which talk about economic development. One of them relates to anti-poverty programmes, such as JRY, IRDP, etc. The other areas are agriculture, land improvement, minor irrigation, animal husbandry, fishery, social forestry, minor forest produce, small scale and cottage industry, fuel and fodder.

ii) *Education*: There are five items under this category. Primary and secondary schools, non-formal education, libraries, technical training and cultural activities.

iii) *Health*: There are two items related to health. These are health and sanitation and family welfare.

iv) *Welfare, including Women and Child development*: There are four items which include social welfare, welfare of weaker sections, public distribution system and women and child development.

v) *Infrastructure Development*: Under this category, there are seven items, such as roads, housing, drinking water, markets, electrification, maintenance of community assets, etc. Among these, there are certain items (apart from the items on anti-poverty programmes) which are meant for the poor or the under privileged. Schemes for the weaker sections and the programmes for women and child development also fall under this category. The benefits of the public distribution system also should go to the poor. Land reforms, particularly the distribution of wastelands, and enforcement of the tenancy laws constitute a frontal attack on poverty. They are understood to be central to any strategy used for rural development.

Check Your Progress III

Note: i) Write your answers in the space provided.

ii) Check your answers with the possible answers provided at the end of the unit.

1) What are the special features of the 73rd Amendment to the Constitution?

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2) Who constitutes the Finance Commission and what are its functions?

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2.5 POST-AMENDMENT SCENARIO

The institution of Panchayati Raj, in its rejuvenated form sought to realize the goal of democratic decentralization to accelerate socio-economic development and bring about equity and social justice. The Constitution (73rd Amendment) Act, 1992 and the subsequent State Legislations were expected to endow panchayats with such powers and authority, as may be necessary to enable them to function as effective institutions of self-government. Initially there was a positive response from the states, as almost all the states passed their respective State Legislations in conformity with the provisions of the 73rd Amendment and held panchayat elections. As a result, 2,27,698 panchayats at the village level, 5,906 panchayats at the intermediate level and 474 panchayats at the district level were constituted in the country. About 3.4 million people were elected at the three different levels throughout the country. One could for the first time witness a high degree of uniformity conferred on panchayats, particularly in terms of structure, composition, powers and functions. It seems, however, that the devolution of functions and authority has not been carried out to the letter and the spirit of the Constitution (73rd Amendment) Act, 1992. Let us analyze the situation.

2.6 THE CONSTITUTION (73RD AMENDMENT) ACT, 1992 – AN ANALYSIS

The analysis of the Constitution (73rd Amendment) Act, 1992 reveals that the Panchayati Raj institutions had to be vested with such authority and power as would enable them to function as effective institutions of self-government. It implies that they have to be democratic in nature (through regular and mandatory elections) with allocated values, priorities and policies necessary to make them effective institutions of self-government. The analysis also reveals that Panchayati Raj institutions are to act as welfare governments do, which implies that they have to initiate, plan and executive development activities and bring about social justice. It appears that the necessary level of thinking could not be given to the issue between the enactment of the 73rd Amendment Act and the subsequent State Legislations. The whole initial process turned out to be a race for catching the deadlines rather than building the system on a realistic basis. In most cases, some amendments were incorporated in the already existing Acts to make them appear in conformity with the Constitution (73rd Amendment) Act, 1992. It seems that the legislatures failed to take cognizance of the profound implications of the constitutional status given to the panchayats as institutions of self-government. Consequently, the panchayats under the State Acts are institutions that lack the necessary autonomy. The most glaring omission in the State Acts relates to the devolution of functions to panchayats. Even though most State Acts have reproduced the 11th Schedule (which lists 29 development activities transferable to panchayats) as it is, few have earmarked any of the functions/ activities of the schedule as the exclusive jurisdiction of panchayats. Consequently, there has been no substantial devolution of administrative and financial powers. In most of the cases, as various studies reveal, the role of panchayats has been reduced to that of the agencies of State Governments meant to implement various development programmes and schemes.

The post-73rd Constitution Amendment scenario, therefore, presents a mixed picture where on the one hand, the necessary devolution of powers and authority has not taken place in the letter and the spirit of the amendment, but on the other hand 34 lakh elected representatives have occupied their positions in the multi-tier setup of panchayats throughout the country. We do witness the functioning of some successful panchayats alongside some that are not allowed to function at all. The process of change, however, has begun. We still have to go a long way to realize Gandhiji's dream of *"Gram Swaraj"* through the Panchayati Raj system in India.

2.7 THE PROVISIONS OF THE PANCHAYATS (EXTENSION TO THE SCHEDULED AREAS) ACT, 1996

The Provisions of the Panchayats (Extension to the Scheduled Areas) Act, 1996 came into force on December 24, 1996. This Act extends panchayats to the tribal areas of the states such as Andhra Pradesh, Bihar, Jharkhand, Gujarat, Himachal Pradesh, Maharashtra, Madhya Pradesh, Chhattisgarh, Orissa and Rajasthan. It intends to enable tribal societies to assume control over their destiny and to preserve and conserve their traditional rights over natural resources. The State Governments were required to enact their legislations in accordance with the provisions of the Act within one year, i.e. by December 23, 1997. Most of the states have enacted the required state legislation to give effect to the provisions contained in Act 14, 1996. The salient features of the Act are:

1) Every village shall have an elected Gram Sabha and it shall be competent to safeguard and preserve the traditions and customs of the people.

2) Gram Sabha shall approve the plans, programmes and projects for social and economic development before their implementation.

3) It would be responsible for the identification or selection of persons as beneficiaries under the poverty alleviation and other programmes.

4) Every Gram Panchayat shall obtain from the related Gram Sabha a certificate of utilization of funds for the plans, programmes and projects.

5) The reservation of seats in the Scheduled Areas in every panchayat shall be in the proportion of the populations of the communities in the panchayat.

6) Planning and management of minor water bodies in the Scheduled Areas shall be entrusted to panchayats at the appropriate level.

7) Recommendations of the Gram Sabha or the panchayats shall be mandatory for granting i) licenses for mining minerals, and ii) concessions for the exploitation of minor minerals by auction in the Scheduled Areas.

8) The state legislature shall endow panchayats and the Gram Sabha specifically with:

   i) the power to enforce prohibition or regulate or restrict the sale and consumption of any intoxicant;

   ii) the ownership of minor forest produce;

   iii) the power to prevent land alienation in the Scheduled Areas;

   iv) the power to manage village markets;

   v) the power to control money lending to Scheduled Tribes and social sectors;

   vi) the power to control local plans and resources for such plans, including tribal sub-plans; and

   vii) the state legislations that may endow panchayats with powers and authority, as may be necessary to enable them to function as institutions of self-government, and contain safeguards to ensure that panchayats at the higher level do not assume the powers and authority of any panchayats at the lower level or of the Gram Sabha.

2.8 LET US SUM UP

In this unit, we have discussed the historical background of the Panchayati Raj institutions and the developments after independence leading to the Constitution (73rd Amendment) Act, 1992. We found that some sort of local government did exist in India even in the ancient and the medieval times. We also found that during the British rule, the local self-government became a direct projection of the government. The post-independence period saw the establishment of a number of committees and commissions to make local self-government a reality.

The various committees and commissions emphasized the transfer of power to local self-government institutions and people’s participation in the development process. Among these, the important ones are the Balwantrai Mehta Committee 1959, Ashoka Mehta Committee 1977, G.V.K. Rao Committee 1985, L.M. Singahvi Committee 1986, and Sarkaria Commission 1988.

Then you studied the special features of the Constitutional (73rd Amendment) Act, 1992. The significant point here is the provision for the transfer of power to the Panchayati Raj institutions and the weaker sections of the society. In particular, the Scheduled Castes, Scheduled Tribes and women are expected to benefit. The idea is to make panchayats, institutions of self-governance and allow *democracy to flourish at the grass roots level.*

You must remember that any improvement in the socio-economic conditions of the villages is possible only through the participation of the weaker sections of society. The system of local self-government intends to promote this type of participation.

2.9 KEY WORDS

Democratic Decentralization : A process by which the governmental powers are reallocated to different bodies established at local levels, which depend on people's participation in decision-making and monitoring of finances and programmes.

Judicial Tribunal : A court of people with powers to deal with official matters.

Liberal : A person with wide understanding, one who favours change for the good of society,

Policy : Principles that govern actions directed towards given ends.

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2.11 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

Check Your Progress I

1) During the medieval times each village had a Sabha consisting of the adult residents of the village. Each Sabha had a sort of executive body of around five people known as panchayat. These bodies were collectively responsible for looking after the needs of village people. Each village was a compact administrative unit served by public functionaries who were part of the village

community. These panchayats managed the affairs of the village community. No village affair was considered beyond its control.

Check Your Progress II

1) It was Balwantrai Mehta Committee. The two basic objectives were (i) democratic decentralization and (ii) local participation in planned programmes.

Check Your Progress III

1) The special features of the 73rd Amendment are: (i) Restoration of the important role of the Gram Sabha. (ii) Three-tier system of panchayats throughout the country except the states with a population less than twenty lakhs. (iii) Reservation of seats for scheduled castes and scheduled tribes. Not less than a one-third of the total number of seats to be filled by direct election are reserved for women. (iv) Direct election to the panchayats. (v) Every panchayat shall hold office for five years. (vi) Elections to the panchayats to be conducted by the State Election Commissions. (vii) Constitution of a Finance Commission in every state. (viii) Panchayats to be involved in making plans for economic development, social justice and the implementation of schemes listed in the 11th Schedule.

2) Finance Commissions, one in each state, are to be constituted by the respective Governors. They remain in office for a term of 5 years, at the end of which a new Commission is constituted in each state for another 5 years, and so on. The main functions of these commissions are to review the financial condition of the panchayats and make recommendations to the respective Governors.

UNIT 3 COOPERATIVES IN RURAL DEVELOPMENT

Structure

3.0 OBJECTIVES

After studying this unit you should be able to:

- define cooperation and principles of cooperation;
- trace the evolution of cooperatives in India;
- compare the characteristic features of cooperative enterprise with other enterprises;
- review the progress and problems of cooperatives in their functioning and their potential in rural development; and
- compare the relevance of cooperative organizations in the mixed economy scenario.

3.1 INTRODUCTION

India lives in villages where most of the inhabitants are small, marginal, landless farmers and artisans. After independence, *agriculture* was identified as one of the thrust areas for rural development. Even at that time, the policy makers had visualized the fact that without people's participation and institutional support, the rural development programmes could not be pushed through. Considering the situation of the rural sector, the importance of the panchayati system and cooperatives was recognized and these institutions were assigned specific roles to play. The main task assigned to these institutions was to work for community development, to eradicate rural poverty, to reduce inequalities and to eliminate privileges. Since the 1960s, a number of rural development programmes, such as the Panchayati Raj and land reforms or the Green and the White Revolutions through technical and cooperative missions, have been initiated and implemented. In a village, the cooperative society enjoys a focal position as an important socio-economic institution. The objective of the cooperative society is to provide services to its members (i.e. the rural community) and these services, which you will study in later units, are multifaceted. Although the membership of cooperatives does not include the entire population of a village, it does include a major part and a broad spectrum of the rural population. Besides, in implementing any community development schemes by other agencies (for example, the removal of illiteracy, making people conscious of their environment, health care, poverty alleviation, water management, etc.), the involvement of cooperatives is envisaged to seek consensus of the village community, as the cooperatives comprise a majority and a cross section of the village community. Moreover, a cooperative is a legal entity. It has institutional networks and infrastructure facilities at the grass roots level. It is also involved in social welfare and social protection activities of the rural people, such as village adoption, insurance, promotion of schools, hospitals, development of social forestry, etc. It has also generated rural employment for large sections of rural people through its agro-ancillary activities. In what follows, you will study in detail about the emergence of cooperatives, cooperative principles and their values, structure, functions, institutional networks, types of activity and finally you work through a review of the performance of cooperatives in rural development.

The main aim of this unit is to familiarize you with the concept of cooperatives, their principles, values, policies and the role they have played in the development of agriculture and rural employment. Besides, it also aims at acquainting you with the various types of cooperatives operating in India and their socio-economic goals and development plans for the welfare of the rural people.

3.2 MEANING AND DEFINITION OF COOPERATION

The word *cooperation* has many meanings, but in common discourse it means *working, living and thinking together*. In our existing socio-economic context, however, we need to define it somewhat differently—"Cooperation is a form of organization wherein persons voluntarily associate with each other as human beings on the basis of equality for the promotion of mutual economic interests".

As per the definition given by the International Labour Organization (ILO**),** *a cooperative society* is an association of persons, who assemble for their common cause and work together voluntarily on democratic lines. According to *the definition given by the "International Cooperative Alliance"(ICA),* a cooperative is an association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. It means that cooperatives are based on the *values* of self-help, self–responsibility, democracy, equality, equity and solidarity in the tradition of their founders. Cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others. Therefore, *the cooperatives are different from the private enterprise* in their forms of ownership, control, distribution of profits, values of equality, equity, solidarity and social responsibility.

Check Your Progress I

Note: i) Write your answer in the space provided.

ii) Check your answer with the possible answer provided at the end of the unit.

1) What are the common features of "Cooperation " in view of the definitions given by ILO and ICA.

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3.3 PRINCIPLES OF COOPERATION

The principles and the guidelines by which cooperatives put their values into practice are:

i) **Voluntary and open membership:** It means that the membership shall be voluntary and available without any restrictions/discrimination on the basis of gender or social, political or religious affiliations. All the members can make use of the services of their cooperative and willingly accept the responsibilities of membership.

ii) **Democratic member control:** Cooperatives are democratic organizations controlled and managed by their own members. The primary members of cooperative societies enjoy equal rights of voting (one member one vote) and participation.

iii) **Members' economic participation:** Economic results arising out of the operations of the society belong to the members and shall be distributed among them proportionately according to the size of their transactions with the society, while a part of the funds will be kept aside for specified purposes as per the provisions.

iv) **Autonomy and independence:** Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with others including governments to raise capital from external sources they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

v) **Education, training and information:** Cooperative provide education and/or training for their members, elected representatives, managers and employees so that they may contribute effectively to the development of their cooperatives.

vi) **Cooperation among cooperatives:** All cooperative organizations, in order to best serve the interests of their members and community, shall actively cooperate in every practical way with other cooperatives at local, national, and international levels.

vii) **Concern for community:** Cooperatives work for the sustainable development of their communities through policies approved by their members.

3.4 EVOLUTION OF COOPERATIVES IN INDIA

After having studied the concept, values, principles and functions of the cooperative enterprise, it will be appropriate to study the emergence of cooperatives in contemporary India, in particular the way they have evolved since independence. Before we do so, however, let us have a brief account of the pre-independence scenario.

3.4.1 Pre-independence Scenario

In India, the cooperative movement began its work with the objective of making breakthroughs in the stagnation of the poorer classes who were heavily indebted and were fully in the grip of Sahukars. With the enactment of the 1904 Act, the first cooperative credit society was registered on 8^{th} May, 1905 in the then state of Bombay in the Gadag Taluka of the Dharwad district under the name of Kanginhal Agriculture Credit Cooperative. By 1911, the number of registered societies rose to 5321 with a membership of 305,060. Subsequently, the 1904 Act was replaced by another passed in 1912, with a broader base, opening registration to non-credit cooperatives also. The Reform Act was passed in 1919, when cooperatives became a state/provincial subject. The decade from 1919 to 1929 was a period of unplanned expansion and some re-organization. During the period 1930/31-1937/38, the movement under went a number of changes. This period is known for *the great depression*, which was a major setback for the cooperatives in India, mainly due to our backward economy and the disturbed political atmosphere. The arrears of the loans of cooperatives rose from 39% in 1930-31 to 63% by 1937-38. But the S*econd World War (*1939 to 1946) came as a boon for agriculturists, as the prices of agricultural commodities rose significantly, and the cooperatives revived. The repaying capacity of the farmers increased significantly, they were able to clear off their old debts and the arrears came down from 63% in 1937-38 to 39% in 1945-46. This period is considered the recovery period.

3.4.2 Post-independence Scenario

After the independence of India in 1947, the country adopted the policy of planned economic development for establishing an integrated and just society, providing individual liberty, equality of opportunity and a basic economic minimum for all. *Cooperation* was accepted as an effective and important instrument for achieving the objectives of rural economic development.

The first five-year plan (1950-51 to 1955-56) emphasized that all agricultural families/ households may join as members of primary agriculture cooperatives. In turn, these societies would take care of their needs and safe guard the interests of farmers and artisans. During this plan period, the number and membership of cooperatives went up from 115,462 and 5.2 million in 1950-51 to 159,939 and 7.8 million by 1955-56 respectively.

In the year 1951, the RBI set up a committee known as the All India Rural Credit Survey Committee and its report was published in 1954. At that time, the main thrust was on the *viability concept.* It was observed that only 20% of the cooperatives were found to be economically viable due to their limited operations and it was recommended that large size cooperative societies should be organized to procure more business. It was also recommended that a government, with a share capital to the extent of 51%, be allowed to become a partner in cooperatives. Beside, it was recommended that the credit delivery system be *three-tier* for short and medium term loans, and long-term credit be arranged through land development banks**.** Also, the need for an effective *cooperative training system* to develop a sound network of institutions from the village to the national level was emphasized in order to guide and implement the rural programmes effectively. Fortunately, the Government accepted all the recommendations of the committee.

3.4.3 Five-year Plans (Second to Fifth)

The broad objective of the second five-year plan (1956-57 to 1960-61) was to evolve a socialistic pattern of society. The plan envisaged building a cooperative sector as a part of the scheme of planned development. Subsequently, the National Cooperative Resolution 1958 recommended that credit and marketing should be linked and it was resolved to organize service societies instead of re-organizing large sized societies at the village level. This subject was referred to the Vaikunth Mehta Committee, which having studied both the aspects, recommended the middle path, i.e. the organization of medium sized societies for them to be viable and manageable. The third five-year plan concentrated on workers, consumer cooperatives and employment generation. Accordingly, eight different types of committee were set up. The need for the development of cooperative activity was emphasized in the fourth plan (1969-70 to 1973-74). During this period, the education and training setup was strengthened. Also the All India Rural Credit Review Committee was appointed to review the rural credit supply in the context of the fourth plan. On the basis of its findings, the committee emphasized (a) re-organization of rural credit, (b) the need for relevant primary education, (c) setting up of SFDA, MFDA, and IADP agencies and (d) ensuring adequate flow of credit for agriculture through cooperative and commercial banks. The fifth five-year plan recognized the cooperative society to be an important institutional framework for the development of weaker sections, particularly for providing relevant inputs and the management of the public distribution system. In 1977, the policy resolution of 1958 was reviewed in the context of the political, social and economic changes that had taken place during the period. The resolution, now adopted, recommended that a) a strong and viable cooperative system should be put in place for rural development, b) the Consumer Cooperative Movement should be developed to strengthen the public distribution system, c) cooperatives should be built to function as one of the major instruments of decentralized labour-intensive and rural oriented economic development, and d) professional management of cooperatives should be put in place as early as possible.

3.4.4 Five-year Plans (Sixth to Ninth)

The main emphasis during these plans was on a) the strengthening of the primary agriculture cooperatives (PACS) to act as multi-purpose societies to meet the diverse needs of their members, b) the development of professional manpower, and c) a re-examination of the existing cooperative policies and procedures in order to ensure that the programmes actually improve the economic condition of the rural poor. During this period, a committee to review the arrangements for the institutional credit for agriculture and rural development (CRAFICARD) was constituted. The seventh plan emphasized the need for cooperatives to a) increase food production, b) generate employment avenues, and c) increase productivity generally. This pointed to the importance of diversifying activities and also the consolidation of the efforts of the cooperative movement. During the Ninth plan period, it was emphasized that greater autonomy should be given to all the cooperatives. As a result, the Multi State Cooperative Societies Bill was passed and a new Act 2002 came into force to provide greater autonomy to the cooperatives. The other achievement of this period was that a new *cooperative policy* was declared. Among other things, it recognized the contributions of cooperatives and also pointed to their future role in rural development.

3.4.5 10th Five-year Plan and Cooperatives

The current, i.e. the 10th Five-year Plan has shouldered greater responsibility in relation to cooperatives for purposes of:

a) actualizing the vast potential of agriculture,

b) promoting more value additions to safe guard the interests of farmers,

c) transferring technology to cooperatives to bring them at par with other sectors of economy,

d) identifying new areas for cooperative action, such as insurance, tourism, health, irrigation, electricity cooperatives, etc., and

e) improving the social and economic health of the rural people.

Check Your Progress II

Note: i) Write your answers in the space provided.

ii) Check your answers with the possible answers provided at the end of the unit.

Tick mark the appropriate box:

1) a) The first cooperative society in India was registered in

i) 1904 ☐ ii) 1882 ☐ iii) 1885 ☐ iv) 1905 ☐

b) Under which Act did the *cooperatives* become a State/provincial Subject?

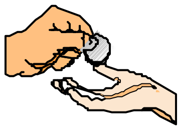
i) 1904 ☐ ii) 1919 ☐ iii) 1912 ☐ iv) 1922 ☐

c) Who appointed the All India Rural Credit Survey Committee?

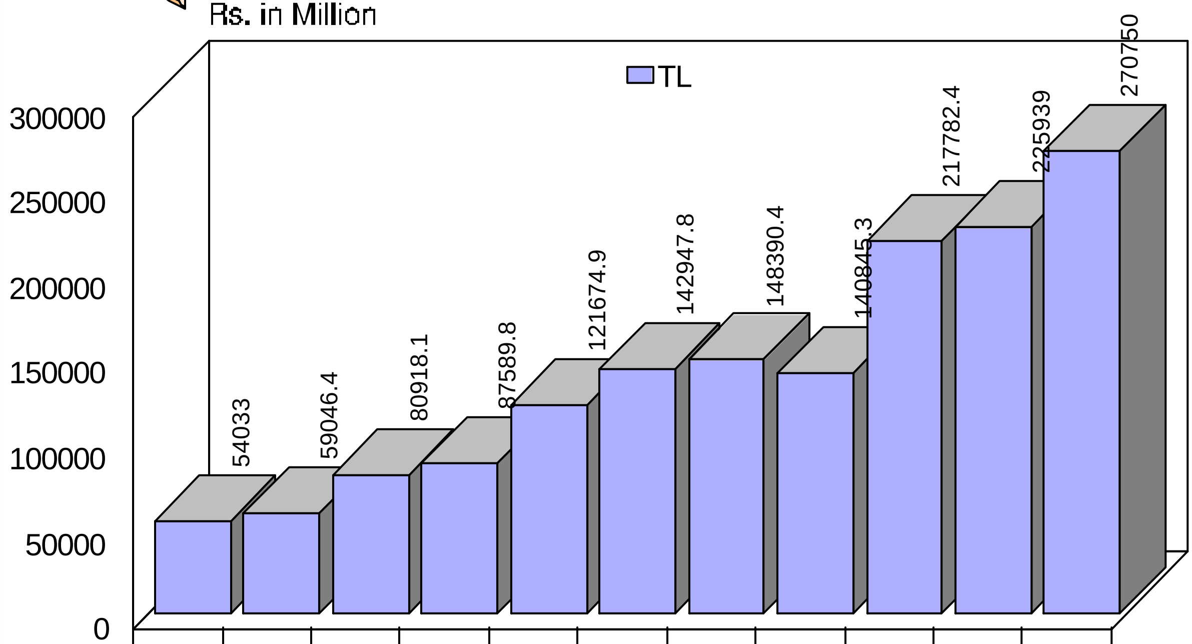
i) GOI ☐ ii) NABARD. ☐ iii) Planning Commission ☐ iv) RBI ☐

3.5 GROWTH AND DEVELOPMENT OF THE CREDIT COOPERATIVES

Let us now study the mechanism of the credit cooperatives and their delivery system. Since *cooperatives* in India constitute a state subject, the primary responsibility for the development of cooperatives vests in states. Cooperative credit has been classified into three category: a) Production Credit, i.e. short and medium term credit, b) Investment credit, i.e. long-term credit and c) Urban credit for urban areas. These credit systems are managed by different types of institution. The growth of the cooperative credit disbursement in recent years has been depicted through a graphic presentation as follows.



AGRICULTURAL CREDIT DISBURSEMENT BY COOPERATIVES



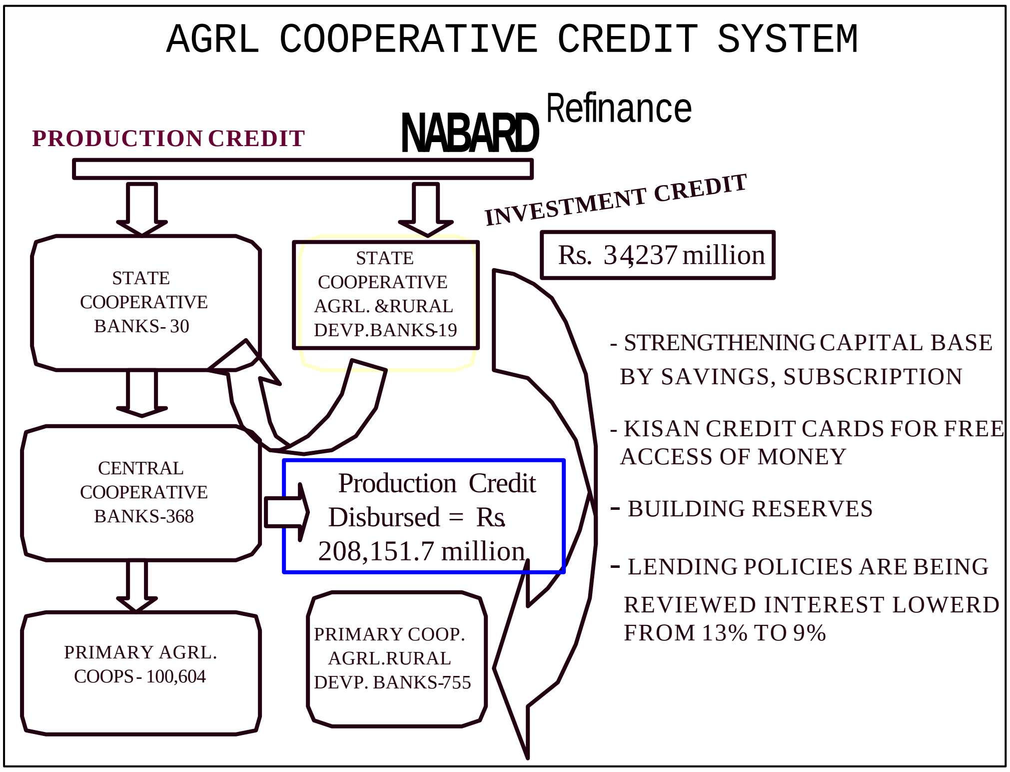
	90-91	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-0k	1-2
ST	39318.2	44029.2	60186.6	67292.2	95173.2	107895.2	93280	107400	157897	166803	208151
MT	7470.3	5703.9	9621	7814.8	12773.9	19425.6	36160	32270	11924	34176	34237
LT	7244.5	9313.3	11110.9	12482.8	13727.8	15626.9	18950	16934.2	23979.5	24957.1	28361.8

Year 2001-2002 Value in Million Rupees

Names of Cooperatives CREDIT COOPERATIVES	No. of Societies	Total Membership	Share Capital Total	Capital
Primary Agrl.. Cooperative Societies	100604	109832118	361943.59	4408333.25
Primary Cooperative Agri. Devp. Banks	730	7181650	68019.52	926090.17
Primary Urban Cooperative Banks	2038	17684798	214489.56	9102197.35
Employees Credit Societies	47491	22448844	292267.24	1343646.79
CREDIT TOTAL	**150,863**	**157147,410**	**936,719.91**	**15780,267.56**

3.5.1 Structure of the Cooperative Credit System

By and large, the structure of production credit is a three-tier system comprising the State Cooperative Bank at the state level, the District Cooperative Bank at the district level and the Primary Agriculture Cooperative Society at the village level. The investment credit structure has two tiers, i.e. the State Cooperative Agricultural and Rural Development Banks at the state level and Primary Agricultural Cooperative Rural Development Banks at the grass roots level. But wherever there is no structure for providing the investment credit, it is rooted through the production credit system as explained in the diagram below. Beside, there are national level Federations which take care of policy, planning and promotional works in this case. The *refinance* to cooperative banks comes largely from the National Bank for Agricultural and Rural Development (NABARD).



3.5.2 Primary Agricultural Cooperative Society (Production Credit)

The first Primary Agricultural Credit Cooperative Society was registered in 1905 at Dharwad in the former state of Bombay. By March 2003, the number had increased to 106,004 with a total membership of 109 million in the country. In 1960-61, the number of such societies was 2.12 lakhs, but the process of re-organization brought this number down considerably. Almost cent percent of the villages and 71% of the rural households have now been covered by these societies. Initially, the PACS used to provide only short and medium term credits (i.e. crop loans) to farmers, but after they were granted the status of multi-purpose societies, the PACS extended the number of services, which include distribution of inputs like fertilizers, certified seeds, insecticides, consumer goods, storage facilities and marketing of agricultural produce to farmers at the village level. By 2001-2002, the total loans advanced by these societies amounted to Rs. 247.38 billion to 42.69 million borrowers. These societies are also actively involved in the public distribution system and procurement of wheat, cotton and jute on behalf of the Government. Nearly 58% of the PACS are involved in consumer business and the distribution of inputs. During the year 2001-2002, these societies marketed 132.3 billion rupees worth of agricultural produce and also distributed consumer goods worth Rs. 9127.4 million. During the mid review period of the fourth five-year plan, it was emphasized that there were SFDA, MFDA and Tribal areas where PACS could not meet their requirement of inputs and seeds, nor market the tribal produce easily. As a result, Farmers Service Societies were organized in the SFDA/MFDA areas and LAMPS in the tribal areas to meet their needs in their respective areas. But later on, in 1989, Khusro Committee reviewed the viability norms of *primaries* and recommended that to materialize the viability of PACS, these societies should be transformed into multi-purpose institutions. The recommendations were accepted. Accordingly, PACS, LAMPS and FSS became multi-purpose institutions and are now involved, besides the credit services, in the distribution of inputs, consumer goods and also in the marketing of agricultural produce. They are, however, operating under differing nomenclature in their respective areas. Even after re-organization, nearly 36% PACS are not viable. The main problems are low participation of members in the business, high overdue amounts, lack of professionalism and little transfer of technology.

3.5.3 District Central Cooperative Banks

The District Central Cooperative Banks are the nodal banks for production credit at the district level. By 2002-2003, there were 368 DCCBs, which operated through 12,763 branches. These banks provide finances to Primary Agriculture Cooperative Societies at grass roots level. The borrowings from these banks flow largely from NABARD, which accounted for 87% of the total borrowings from the DCCBs by the end of March 2002. The rest of the finances come partly from the respective state governments (10.8%) and partly from the commercial banks (3.5%). The DCCBs function as fully-fledged banks at the district level and accept deposits from non-members also, but advance loans only to the members. By 31st March, 2001-2002, these banks had advanced loans to the extent of Rs. 506 billion. There are 1,12,692 employees deployed in these banks.

3.5.4 State Cooperative Banks

The State Cooperative Banks (SCBs) are the apex cooperative organizations for production credit, i.e. short and medium term loans, at the state level. These banks are classified as scheduled banks and perform all the business that a normal bank performs. There are 29 State Cooperative Banks, which operate through their 880 branches. The share capital of these banks is Rs. 6752.7 million and the government participation in the share capital accounts to only 8.5%. Major borrowings (nearly 80.5%) from these banks come from NABARD. The SCBs provide finances to their respective District Central Cooperative Banks, and also supervise, monitor and control their operations. The total amount of loans disbursed by these banks during the year 2002-2003 was about Rs. 366.4 billion. The deposits of these banks increased to Rs. 35992.8 million in 2001-2002 from Rs. 7525.1 million in 1990-91, and 80.50% of the total deposits are from the cooperatives.

3.5.5 State Cooperative Agriculture and Rural Development Banks

There are 19 State Level Cooperative Agriculture and Rural Development Banks (SCARDB). Of which 11 (those in Assam, Haryana, Himachal Pradesh, West Bengal, Karnataka, Kerala, Madhya Pradesh, Orissa, Punjab, Rajasthan and Tamil Nadu) have a Federal Structure, i.e. they function at both the state and the primary levels, and 8 (those in Bihar, Gujarat, J&K, Tripura, Uttar Pradesh, Maharashtra, Andhra Pradesh and Pondichery) have a Unitary Structure, i.e. they function only at the state level. In all there are 1421 branches of SCARDBs spread all over the country. These banks provide investment or long-term loans to farmers and to 726 Primary Cooperative Agriculture and Rural Development Banks (PCARDBs). Long-term credit is given for minor irrigation projects, farm mechanization, plantation and horticulture, diversified purposes, land development, rural housing and non-farm sectors. The total amount of loans advanced during the year 2001-2002 by these banks was Rs. 25185.8 Million, of which 80.04 % was advanced for farm sector development, 14.1% to non-farm sector and the remaining 5.58% to the rural housing sector. These banks raise their funds by floating special and ordinary debentures. The institutional membership of these banks has risen to 5556 members. The participation of the government in the total share capital of SCARDBs is 13.4%. In addition to their own operations, SCARDBs operate through the 1214 branches of PCARDBs also. The membership of the PCARDBs stands at 7.11 million. These banks have disbursed long-term credit to the extent of Rs. 17844.7 million, of which farm sector constitutes nearly 64.1% and non-farm sector 16.3%. The remaining 5.8% was disbursed to the housing sector. These banks are guided, controlled and supervised by their respective SCARDBs.

Check Your Progress III

Note: i) Write your answers in the space provided.

ii) Check your answers with the possible answers provided at the end of the unit.

1) What is the structural difference between production credit and investment credit?

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2) Name the cooperative institution that takes care of the tribal people at the village level.

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3) Who provides credit for non-farm sector development?

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4) Who is the major refinance provider to Credit Cooperatives?

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3.6 GROWTH AND DEVELOPMENT OF THE NON-CREDIT COOPERATIVES

In the previous units, you have learnt about the importance and role of credit cooperatives in the development of agriculture in India. Equally important are the non-credit cooperatives and their role in rural development. The important segments of non-credit cooperatives are Marketing, Consumers, Dairy, Fishery, Fertilizers, Handloom and Handicrafts, Labour, Irrigation, Agro–processing, Transport, Weavers, Industry, Farming, Electricity, Poultry, etc. The non-credit cooperatives came into existence partly out of necessity and partly out of ideological reasons. The non-credit sector has played a significant role in developing infra-structural facilities, which have helped in providing value additions to the agricultural produce as well as boosted employment in the rural sector.

Growth and Development of Non-credit Cooperatives In India

Year 2001-2002 (Value in Million Rupees)

Names of Cooperatives NON-CREDIT COOPERATIVES	No. of Societies	Total Membership	Share Capital Total	Capital
Marketing Cooperatives.	8869	5096863	49066.16	212459.00
Consumer Cooperatives	23975	7055185	10984.39	33772.05
Student Cooperatives	7688	14782458	1571.16	5214.44
Agro-Processing Coop.	1564	508862	2890.66	25555.32
Dairy Cooperatives	103305	11536704	27953.53	146678.67
Women Cooperatives	11374	999673	2896.23	13572.38
Housing Cooperatives	92000	6600000	36160.70	520000.00
Farming Cooperatives	7149	349589	709.68	4714.90
Irrigation Cooperatives	7315	571756	2648.19	82476.18
Electricity Cooperatives	56	939551	3543.52	30831.99
Industrial Cooperatives (Other than Weavers)	45017	2439291	9089.63	44811.39
Weavers Cooperatives	20037	2015600	22399.27	87209.24
Fisheries Cooperatives	13649	2130217	4043.54	17477.82
Poultry Cooperatives	4900	441694	2100.27	13008.43
Labour Cooperatives	30428	1671825	2711.43	23178.39
Forest Labour Cooperatives	3408	739530	535.72	17516.68
Transport Cooperatives	10446	156374	2326.69	14617.25
Sugar Cooperative Mills	281	4484000	216218.00	873661.00
Spinning Cooperative Mills	326	783635	94253.75	177561.25
Tree Growers Cooperatives	633	49618	3.36	61.35
Hospital Cooperatives	181	111824	1130.94	3508.35
NON - CREDIT TOTAL	**391370**	**63461007**	**493236.82**	**2347886.08**

3.6.1 Cooperative Marketing

The need for cooperative marketing was realized in view of the growing malpractices prevailing in buying and selling of agricultural produce. The producers were not getting the due share of their agricultural produce. They were forced to sell their produce on through away prices. So as to protect farmers, marketing cooperatives emerged after the enactment of Cooperative Societies Act 1912. Accordingly, an integrated programme of cooperative marketing was planned and a cooperative marketing structure was set up at various levels. The significance of cooperative marketing was recognized as early as 1928 by the Royal Commission on Agriculture, which remarked that *group marketing would be more efficient than marketing by individuals*, especially in conditions that prevailed during that period in India. The objectives of promoting the marketing cooperatives were: a) to strengthen the bargaining capacity of the member cultivators so as to secure them a better price for their produce, b) to help in improving the socio-economic conditions of producer members, c) to help in stabilizing marketing conditions to regulate the supply of commodities, d) to eliminate the middle men and moneylenders, e) to restrict the intermediaries and benefit the consumers directly asking them for reasonable prices, f) to systematize fair trading practices, g) to educate and persuade the farmers to grow better quality products, h) to arrange and provide the facilities of transportation, grading and storage of agricultural produce, i) to protect the economic interests of members by educating them about the latest techniques of farming and j) to inculcate the habits of self-help and thrift among the members of the cooperative marketing society.

The cooperative marketing structure in the country has two tiers, except in Andhra Pradesh, Gujarat, Haryana, Himachal Pradesh, Karnataka, Maharashtra, Manipur, Punjab, Tamil Nadu, Uttar Pradesh and Pondichery, where it has three tiers, i.e. primary at the block level, district marketing at the district level and state cooperative marketing federations at the state level. Initially, general purpose cooperative marketing societies were organized and later attention was shifted to more specialized or commodity marketing cooperatives, such as those for Fruits and Vegetables, Cotton, Tobacco, Areca nut, Coconut, Rubber, Sugarcane, Tea, etc. At present, there are 30 general purpose and 22 specialized state level cooperative marketing federations, 394 district marketing and 8869 primary marketing societies in operation. Besides, NAFED and TRIFED are two national level federations. NAFED has been recognized as the nodal agency for marketing agricultural commodities, price support and export channeling of agricultural produce.

3.6.2 Processing Cooperatives

The marketing cooperatives did not seem to help much, as many of the earlier problems continued. And it was felt that without making any value additions to the agricultural products, the cooperatives would not be able to help much in ensuring better prices for the products. In order to reduce the number of middlemen and to obtain a greater return on the agricultural produce, processing of crops by the marketing cooperatives was felt to be necessary. This resulted in the emergence of *processing cooperatives*, such as those for paddy processing, ginning and cotton baling, rice mills and those for pulses, and gradually the operation was extended to Fruits and Vegetables, Cashew, Rubber, Cocoa, Copra, Isabgol and Straw Board. Later on, the All India Cooperative Planning Committee recommended that in the cases where the marketing/sales society was unable to put up a processing plant, separate processing societies be organized. As a result, sugar, spinning, dairy and many other processing cooperatives came up. The important ones among them are the sugar, spinning and dairy processing cooperatives, which have not only helped in promoting the economic well being of the farmers in the rural areas, but also generated rural employment by deploying a large number of local people and the promotion of ancillary activities.

3.6.3 Cooperative Sugar Mills

The second five-year plan also included a programme for starting cooperative sugar factories. In the middle of 1958, licenses under the Industries Act 1951 were granted to 38 cooperative sugar factories. By 2002, the number of cooperative sugar factories had increased to 281, of which 137 were in Maharashtra. The cooperative sector contributes nearly 59% of the total sugar produce in the country. By and large, sugar cooperatives have a two-tier structure, i.e. sugar mills at grass roots level and State

Cooperative Sugar Federations at the state level. Most of the sugar cooperative mills are concentrated in 15 states. These mills have promoted a number of ancillary units such as distilleries, paperboard units and baggasy. Besides, a number of educational and social institutions such as medical colleges, engineering colleges, schools, polytechnics, health centers, etc. are being promoted by these mills at their respective rural sites. Also, they are helping the rural youth in their efforts for higher education and are generating rural employments. During the year 2002, these sugar factories crushed 96,272 million tones of sugar cane and produced 10,499 million tones of sugar. These factories have not only assured a fair return to the primary producers but are also providing extension services to farmers for producing high yield varieties. Obviously, all walks of rural life have benefited directly and indirectly from rural industrialization.

3.6.4 Dairy Cooperatives

Dairy in India is closely interwoven with agriculture and plays an important role in the rural economy. Besides having vast employment potential, dairy provides not only milk, but also stabilizes farm incomes. Small farmers and landless Labourers account for 53% of the animals and 51% of milk production. Thus small, marginal and landless farmers play a very important role in milk production in the country. The need to form the dairy cooperatives emerged due to continued exploitation of these weaker sections of the rural population by the private local dairy owners and other traders. With the declaration of the National Policy on Dairying in 1956, the growth and development of dairy cooperatives received a major boost.

The present structure of dairy cooperatives in India is three-tier. The main objectives of the dairy cooperatives are: i) to increase the number of milk animals from the present average holding of 1-2 animals, ii) to collect and sell milk to *milk unions*, iii) to ensure regular and remunerative payment to producers, iv) to help members in increasing milk production, v) to provide veterinary first aid and artificial insemination services, vi) to sell cattle feed, vii) to increase timely flow of milk (which is a perishable commodity) to far off markets and viii) to make value additions to dairy products and the related activities. The present network of cooperatives serves more than 11.5 million farmers in over one lakh villages. The average milk procured by these cooperatives per day, is around 165.0 lakh liters and the liquid milk marketed per day comes to 133.6 lakh liters. The total turnover per annum was Rs. 5957.90 million by 2001-2002. Over the years, the dairy cooperatives have not only changed the economic situation of the rural people, but also taken care of improving the health of the animals. The production of milk has gone up from 38.8 million tones in 1983-84 to 81 million tones in 2002. The other important development related to these cooperatives is the empowering of the rural women. Now, women play a major role in dairying, as over 7000 village dairy cooperatives are now run by women. They have given many a woman some degree of economic independence. Almost two million women belong to these women's cooperatives. Overall, dairy cooperatives have played a significant role in the White Revolution. Today almost every district and state cooperative is engaged in processing activities and is manufacturing quality milk products, which compete favourably with the products of multinationals. Dairy cooperatives have also diversified their activities and entered into new commercial areas, such as oil manufacturing, food processing, water bottling and salt manufacturing through their subsidiary companies. They are also serving the farmers in providing nutritious feed for their animals, hygienic containers, veterinary services, artificial insemination and in organizing camps, study tours and educational programmes for their benefit.

3.6.5 Fertilizer Cooperatives

With the growing population and the increasing demand for food grains, pressure continued on farmers to grow more. So as to increase productivity, farmers were required to ensure adequate and quality inputs at reasonable prices. Faced with this requirement, farmers were facing immense problems in relation to the timely availability of quality chemical fertilizers. To solve these problems, a cooperative fertilizer plant was set up in 1967 at Kalol in Kandla in Gujarat under the aegis of the Indian Farmers Fertilizer Cooperatives with three major objectives: a) to produce chemical fertilizers and ensure that they reach the door steps of farmers, b) to educate the farmers how to use fertilizers effectively, and c) to transfer the required technology for modern farming to Indian farmers. With the success of the IFFCO fertilizer production and its network of distribution, the demand for quality and reliable fertilizers increased significantly. As a result, another plant under the aegis of Krishak Bharati Cooperatives was set up in 1980 at Hazira. These giant fertilizer cooperatives produce 29% of the total fertilizer needs and distribute 36% of the fertilizer requirement of the country through rural channels. Besides, these institutions continue to provide social services, such as developing the village farm forestry, setting up of storage-cum-community centers, adopting villages for integrated rural development, extending funds for building rural houses to earth quack affected people of Gujarat and for promoting educational and cultural activities.

3.6.6 Industrial Cooperatives

Along with agricultural production, it was thought necessary to promote village industries for rural development. The second five-year plan recognized the need for developing village and small-scale industries on cooperative basis as far back as the 1950s. With the acceptance of the recommendations of the first Working Group on Industrial Cooperatives in 1958, the industrial cooperatives made rapid progress. As against 7101 Industrial Cooperatives with a membership of 7.66 lakh in 1950-51, their number had gone up to 33266 with a membership of 25.64 lakh in 1960-61 and by 2001-2002, the number of industrial cooperatives had increased significantly: Weavers' cooperatives (20,037), Non-Weavers' (43,786) and Handicrafts' (1778), with memberships of 2.01 million, 2.436 million and 1.09 million respectively. The industrial cooperatives have a three-tier structure, but it is facing difficulties in obtaining finances, availability of raw materials and marketing due to competition and modernization. Well, this is a sector that has vast potential to assist the weaker and rural artisans and also to preserve the traditional arts. This sector has not received the needed support, and is now being reviewed to see how this sector may be improved.

Check Your Progress IV

Note: i) Write your answers in the space provided.

ii) Check your answers with the possible answers provided at the end of the unit.

1) In what way do the marketing cooperatives help the farmers?

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2) List the types of processing cooperatives that are run by marketing cooperatives.

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3) Name the major processing cooperatives, which have generated significant rural employment and have also promoted the various types of socials institutions.

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3.7 REGIONAL IMBALANCES IN THE GROWTH AND DEVELOPMENT OF COOPERATIVES

The growth and development of the cooperative movement in the country has been reviewed from time to time by various committees and measures devised to minimize imbalances in their development. Here we must remind you that with the enactment of the Cooperative Societies Act 1919, cooperatives became a state subject. Consequently, all the states enacted their own laws as per their connivance. The cooperative movement in this country emerged with the blessings of the government, which also works as an active partner in this enterprise. The laws framed by the government, however, were restrictive and in certain cases contrary to the principles of cooperation. The movement did not develop wherever the government equity was more, but it went well where the government control was minimal. For example, in the states of Gujarat and Maharashtra, where the governments did not have any stake in the equity of cooperatives, the movement has shown steady progress and the government control has been minimized. But in a number of other states, particularly in the North–East, Bihar, Uttar Pradesh, Rajasthan, Orissa and Madhya Pradesh, development got restricted. The major reasons for imbalances in the development of cooperatives are: a) excessive government control exercised through restrictive legal provisions; and b) the absence of definite policy on cooperatives. The Registrar of a cooperative society is considered to be the supreme authority empowered to supersede and suspend the elected board, nominate the board of directors and appoint the managing director. In absence of autonomy, the cooperatives could not develop professionalism, enlist the services of professional manpower, and manage the affairs efficiently. Secondly, the cooperatives were used as agents of governments to implement their schemes which did not help in achieving the viability of cooperatives due to the lack of profit margins in most of the activities they engaged in.

But with the passing of the Reform Act, i.e. the Multi State Cooperative Societies Act-2002 and the enactment of parallel Acts in 9 states, namely Andhra Pradesh, Bihar, Chhattisgarh, Delhi, Jammu & Kashmir, Karnataka, Madhya Pradesh, Orissa, and, Rajasthan, the powers of the Registrar have been limited only to register, audit and hold timely Annual General Body Meetings. With these reforms, cooperatives will have more autonomy to function freely, take their own decisions to plan and mange their business hopefully effectively. Moreover, with the announcement of the National Cooperative Policy –2002, for the first, the ideology and principles of cooperatives have been recognized along with their current role in the rural economic development and also their future role in the overall developmental process. Once these reforms are implemented by all the states and cooperative policies endorsed by all of them, the movement will be able to contribute effectively in the development of rural economy and actualize vast agricultural potential, which should boost rural employment significantly.

3.8 ASSESSMENT AND EVALUATION

The size and volume of cooperative business during the post-independence period has shown rapid growth and multiplied many fold. The coverage of villages by cooperatives, which was 30% in 1950-51, has reached cent percent and by 2001-2002, 75% of the rural households were brought into the cooperative fold. Cooperatives have entered into every sphere of economic activity and emerged as one of the significant segments of Indian economy. Their contributions in shaping the rural economy also are substantial. The share of cooperatives in rural credit disbursement amounted to 49.3% during the year 2001-2002, fertilizer distribution was 36.0%, fertiliser production 29.0%, sugar production 59.0%, branded oil marketing 50%, ice cream production 45%, animal feed production 50%, spindling 12%, fabrics production 22.0%, handloom cooperatives 55%, wheat procurement 36.0%, jute procurement 21%, fishermen's cooperatives 11%, rural fair price cooperatives 28%, salt manufacture 7% and employment was created for 15.1 million people. The contribution of milk cooperatives in milk production, procurement and distribution is significant. Cooperatives were also organized at grass roots level for fisheries, forest labour, farm forestry, poultry, weavers, handlooms, handicrafts, and irrigation to organize the rural people and provide them necessary services for the development of rural community. The education and training networks of cooperatives have promoted awareness regarding development, advantages and techniques of living under the umbrella of cooperatives. This has helped in curbing the migration of the rural people from rural to urban areas. The cooperative venture and its programmes have also promoted diversification in crop production; effective use of chemical fertilizers, insecticides and better seeds; new techniques for improving the fertility of the land and various ancillary activities. The setting up of marketing and processing cooperatives has not only helped the farmers in ensuring better prices for their produce but have also generated significant rural employment.

With the present size and network of the cooperatives, their contribution should have been much more than what it is today. The major problems that have limited the size of their contribution are, to name the important ones, the increasing amount of non-performing assets (NPA), limited resources, lack of infra-structural facilities and professionalism, absence of modernization and little technology transfer, over dependence on governments, absence of effective monitoring and poor market information systems.

3.9 LET US SUM UP

In the introductory part of the unit, we explained the concepts, values and principles concerning rural cooperatives in order to distinguish them from other cooperative enterprises. Then we moved to the circumstances, which forced us to organize the cooperatives, i.e. details about the evolution of cooperatives during the pre-independence and the post-independence periods were presented. The post-independence developments were presented sequentially with plan-wise responsibilities assigned to cooperatives along with the details regarding their progressive stages of development. Besides, details about the important committees, which were constituted to review the progress and shortcomings of the cooperatives at various stages, were also presented. Later on, the development of credit and non-credit cooperatives was presented with details specifically about their structure, functions and operations. Here, we described every level of working with facts and figures and also detailed the extent to which the services of cooperatives have helped in shaping the rural economy. Some of the problems inhibiting speedy development were also highlighted.

3.10 SUGGESTED READINGS AND REFERENCES

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3.11 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

Check Your Progress I

1) Both the definitions of cooperatives have certain common elements, such as: a) association of individuals/persons, b) achieving common goals and c) working voluntarily on democratic lines. So, we may say that *cooperatives* are democratically run institutions managed and controlled by their members.

2) The cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity.

Check Your Progress II

1) a) iv)

   b) ii)

   c) iv)

Check Your Progress III

1) *Production credit* has a three-tier structure, i.e. it operates at the state, the district and the primary levels, whereas *investment credit* has a two-tier structure, i.e. it operates at the state and the primary levels.

2) The name of the cooperative institutions organized for tribals at the village level is LAMPS, i.e. Large Size Agricultural Multipurpose Cooperative Societies.

3) The non-farm sector is covered by investment credit. Therefore, State Cooperative Agriculture and Rural Development Banks and Primary Cooperative Agricultural and Rural Development Banks provide the non-farm credit.

4) The National Bank for Agriculture and Rural Development (NABARD) is the major refinance provider for Cooperative Credit Institutions.

Check Your Progress IV

1) The marketing cooperatives have been established to fulfil various objectives, namely: a) to ensure that the producers get remunerative prices for their produce, b) to increase the retention power of producers by storing their produce in godowns, c) to stabilize the marketing conditions to regularize the supply of commodities, d) to eliminate the middlemen and moneylenders, e) to stabilize fair trading practices, and f) to promote value additions to all the products and services.

2) The *processing societies*, mostly promoted by marketing cooperatives, are: paddy processing, rice mills and those for pulses, rubber, coca, copra, isabgol, etc.

3) The important processing cooperatives are sugar cooperative mills, spinning mills and dairy cooperatives, which have not only generated significant employment, but are actively involved in promoting social activities and institutions for the welfare of their members.

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UNIT 4 RURAL CREDIT AND BANKING

Structure

4.0 OBJECTIVES

After studying this unit you should be able to:

- define the role of credit in rural development;
- explain the source and nature of non-institutional credit in rural areas;
- analyse the functioning of credit cooperatives and micro-credit providing sources, like self-help groups, and describe their evolution and development; and
- assess the functioning of organized sector rural banking credit institutions and describe the overall policy framework and structure under which they work.

4.1 INTRODUCTION

Even today, a large section of the population of developing nations like India lives in villages. These people carry out several economic activities like production, consumption, saving, investment, etc. All these activities are prone to fluctuations and it is quite likely that there are fluctuations in the level of income and consumption among many rural people. Therefore, there is a need for augmenting finances through ways other than the known and expected incomes of the rural populations. Hence the role of credit sources is, as you might anticipate, crucial for rural development. Rural people have to borrow for a variety of needs.

In the rural areas of developing nations, there is tremendous inequality in the distribution of income. There are a few individuals who own a disproportionate amount of all assets, and have very high incomes. On the other hand, there are people without any assets, such as the landless labourers, and also people with low incomes, such as the labourers and marginal farmers. Thus, different people or sections of the population have different credit needs. To satisfy these needs in a timely fashion, the state has taken policy initiatives to provide institutional credit. Such initiatives are required for another reason as well—to weaken the traditionally informal sources of credit such as the *moneylenders*, who have a strong grip on the provision of credit for the rural people.

Historically, the provision of credit for the rural sector has been beset by several problems. First, institutional credit was almost negligible. Secondly, rural credit markets have been segmented, fragmented and highly imperfect. On top of this, the huge presence of informal credit has helped moneylenders charge high rates of interest with complicated terms and conditions, sometimes accompanied by an element of cruelty. Finally, historically credit has not been distributed equitably or fairly, and there have been huge disparities in terms of class, caste and regions. At the time of independence, the rural credit scenario was rife with these problems.

This unit discusses the problems faced by rural people, particularly the poor in terms of their consumption in relation to their income. This unit discusses the role of credit in rural development, prevalence of risks in rural economic activities and the strategies that are adopted to cope with these risks. Later we discuss non-organisational and organisational sources of credit in rural areas. The roles of institutions like credit cooperatives, self-help groups, formal commercial banks, regional rural banks, etc. also have been discussed. Finally, we attempt an assessment and evaluation of the performance of the credit sources and the outcomes these have led to.

4.2 THE ROLE OF CREDIT IN RURAL DEVELOPMENT

In this section, we provide some basic ideas about the importance of credit in the rural economy. It is of help to know what role credit and finance play for the rural populace, both for consumption and investment purposes. Who needs credit? Why do they need it? Who provides this credit? These are the questions we will look into. Before we describe the situation of rural credit in India, we must get some theoretical points out of our way.

For any strategy of rural development, the provisions of credit and the generation of savings are essential. Credit plays an important role not only in modernisation of agriculture, but also in the fight against rural poverty. But we must be careful not to equate credit flow with capital creation in rural areas. The mere increase in the flow of money to rural areas does not constitute credit. Similarly, if the savings of the rural people are used only for consumption purposes, capital accumulation will not take place.

What are the main characteristics of rural credit markets? To attempt to answer this question, we must try to understand the basic features of a 'market'. A market in an abstract sense is an institutional arrangement for the exchange of commodities and services, or even the factors of production, for the mutual benefit of buyers and sellers. At 'equilibrium' or a 'state of balance', the prices prevailing are such that no buyer or seller has any incentive to change the quantity that they would like to buy or sell. Whenever conditions arise to create shortages or gluts, prices are supposed to adjust to bring back the situation to equilibrium. For these things to take place, a number of conditions are supposed to hold. All buyers and sellers are assumed to possess perfect information about all the aspects of the transactions concerned. No buyer or seller should ideally be in a position to influence or control the market and acquire a disproportionately large share of wealth. Also there should not be any spillover effects. Often, the credit market does not conform to what has been detailed above.

There are several features of the rural credit markets. First, they are characterised by imperfect and incomplete information. All the parties do not have the same level of information. Credit providers typically do not have all the required information about their clients, their habits, and their credit-worthiness. Secondly, credit markets are often segmented. Small farmers for small quantum of loans tend to go to the same moneylenders, bigger farmers to another set of moneylenders, and so on. Thirdly, there is credit rationing. Even at the going interest rates, all those who desire to borrow do not get loans, while there is no upward pressure on interest rates.

4.2.1 Risk in Rural Economies

The nature of risks faced by rural people in their day-to-day lives is different from those faced by people outside the rural sector. The rural poor in developing nations do not face risks, like stock market crashes, business cycles, and product cycles, which those living in the developed nations face. The rural poor, however, face a much larger incidence of risks. First, the rural poor are more vulnerable to disease and ill health. They also face environmental hazards. Infectious and communicable diseases are much more prevalent in poor societies. Secondly, the rural people, particularly the poor, face risks in carrying out their work or profession. For many rural people, unlike those working in the urban organised sector, there is no fixed and assured wage. Rural people may be self-employed farmers or landless labourers. These groups are much more vulnerable to risk. This type of risk is exacerbated by the fact that the rural poor typically depend on the cultivation of a few basic primary products. Thirdly, the rural people are also faced with technology related risks, and these tend to spread through the entire society. On top of this, the rural poor are spatially less integrated, as they tend to be isolated. They are also less able to cope with risk. Let us now see what strategies are adopted by the poor to cope with risks.

4.2.2 Risk Coping Strategies

Broadly, two types of strategies to cope with risks may be identified. The first type comprises those strategies which are used before the occurrence of a shock, while the second type consists of those strategies which are used after the shock has taken place. The first type is also known as 'risk reduction' strategies, while the latter type is called 'risk coping' strategies. The first type thus comprises strategies that are devised to reduce exposure to risk, and the magnitude of the shock. The risk coping strategies are themselves of two types, those that try to build and accumulate assets, and those that help share risk with others.

4.3 NON-ORGANISATIONAL CREDIT IN RURAL AREAS

Non-organisational, non-institutional, or informal credit is an important part of the rural financial system. It provides the bulk of credit for the poorer sections of the rural society. An important part of credit for the rural poor happens to be consumption credit, which is not met by organized sector credit institutions.

4.3.1 Informal Credit Sources

Informal credit in the rural areas of many developing nations, including India, has many common features all over. As the name suggests, the informal sector escapes regulatory mechanisms and a legal framework, which together bind organized sector credit institutions. Since there are no restrictions on capital subscription, liquidity, lending and deposit rates, the lenders of informal credit do not have to pay legal fees, and transaction costs related to paperwork and documentation are reduced considerably. The borrower, too, avoids the hassles of paperwork and processing fees. Also, the time between when the need for the loan is felt and actually obtaining it is much shorter in the case of informal credit. The informal moneylender usually is willing to accept many different types of assets as collateral. The poor often have only labour or somewhat less often some land as collateral. Formal credit institutions are often not willing to accept these things as collateral, but the moneylender, who is often also a trader or large farmer-employer, does accept them all. Another way in which the rural moneylender controls the borrowers is to employ them on his/her farms or to compel them to purchase his/her products. Thus the credit market is interlinked with the labour and the commodity market.

Informal credit has historically played an important role in meeting the financial needs of the rural people in India. Even after independence, its importance has continued. In 1951-52, the All-India Rural Investment Survey found that professional moneylenders provided almost 83 per cent of cash loans. As part of a general development strategy, the government decided to focus on rural credit needs, and to actively intervene in the rural credit markets. It aimed at expanding the institutional credit infrastructure systematically, with the RBI playing a supervisory role. Formal credit arrangements and their growth are discussed in the next section, but here we may point out that the hold of professional moneylenders has come down over time. By 1971, only 36.1 per cent of cash loans were provided by moneylenders.

In 1990, the report entitled 'A Review of the Agricultural Credit System in India' mentioned that by 1982, 6.12 per cent of the rural household borrowings were provided by the formal sector. For cultivators, the formal sector provided 63.3 per cent of the total loans. We must, however, keep in mind the fact that the total quantum of loans does not by itself reflect the pattern of distribution. In 1981-82, for instance, according to the All India Rural Debt and Investment Survey conducted by RBI, only 13 per cent of the rural cultivator households borrowed from the formal sector. Loans from the formal sector went mainly to the better off households. In stark contrast, for those in the lowest asset group, those having assets of up to Rs. 1000, only about 6 per cent of cash loans were from the organised sector institutions.

The informal financial market is legal but consists of unregulated financial markets. These are outside the ambit of regulated financial intermediaries. Other than informal borrowing and lending among friends and relatives, which (strictly speaking) should not be considered a part of the rural credit, the indigenous lenders provide informal credit, but they do not maintain their books properly and are not regulated by the monetary authorities.

4.3.2 Credit Cooperatives

We should start discussing credit cooperatives by taking a look at the credit cooperative scenario in India. There are non-credit cooperatives as well, but here we are concerned with credit cooperatives only. There are two types of credit cooperatives: short-term credit cooperatives, and medium and long-term credit cooperatives. The term has to do with the period for which credit is provided to the members of the cooperatives.

At the village level, the Primary Agricultural Credit Societies are the backbone of the credit structure. A cooperative society can be started by 10 or more members. Membership and the quantum of loans advanced by PACs have steadily increased over the years.

The second level of the cooperative credit structure for short and medium term loans comprises the Central Cooperative Banks. These banks perform the important function of linking the primary agricultural credit societies with the state level credit cooperative banks, called the state cooperative banks. The Central Cooperative Banks lend to the affiliated primary societies.

4.3.3 Micro Credit

It has been noted that in many developing countries, formal credit and financial institutions have not been able to penetrate much into the rural credit markets, and even where they have, they have not been able to displace the indigenous moneylender entirely. The providers of credit in informal markets enjoy some advantages over their formal-sector counterparts. They have more intimate knowledge of the borrowers, especially regarding the small borrowers and are better able to deal with the risk of default. One policy implication is that if these informal sector institutions cannot be supplanted by the formal institutions, it is quite possible to design and develop small micro-level institutions that mimic the informal credit institutions, without the attendant exploitative conditions that accompany the traditional informal credit institutions. Micro-finance institutions have emerged at many places with this policy perspective behind them.

Since the skills, resources and the technology base of the poor are weak, and scales of their operations small, they need to rely on self-help to meet credit needs and to alleviate poverty. But individual effort would be very weak. Credit programmes for the rural poor can help to expand their economic base through the multiplier effect of investment. In developing countries, particularly in rural areas, there is what is called a vicious cycle of poverty: low income means low saving; low saving leads to low investment; low investment, in turn, generates low income, and the cycle continues

It is usually the case that savers and those who borrow (for investment) are two separate groups of people. Savers deposit their savings in banks to earn interests, while borrowers borrow from banks for investment at the prevailing rates of interest. In the case of poor people, often the investor himself is the saver. If the habit of saving is encouraged, the quantum of savings can be enhanced. Here self- help groups have a role to play. *Groups* imply that there is peer pressure, and possibilities of building collective strength. Group savings have several advantages over individual savings. They create discipline among the members of the group. Also, in groups there is better protection against normal business risks**.** Hence savings and credit can be a useful source that Self-Help Groups can depend on. If a group comprises poor people, who have low incomes and feel that they have very little access to credit, they will be encouraged to form a Self-Help Group. Such credit groups could come up on their own, or could be formed through the interventions of NGOs, which can provide the starting capital. These groups should ideally have less than 50 members, who should emphasis *saving* among other strategies of self-help.

Check Your Progress I

Note: i) Write your answers in the space provided.

ii) Check your answers with the possible answers provided at the end of the unit.

1) Describe the characteristics of rural credit markets.

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2) What are the elements of risk faced by the rural people, and what strategies do they adopt to reduce, as well as to cope with such risks?

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Self Help Groups (SHGs) work on much the same principles as cooperatives, but being less formal, are much more cohesive. SHGs are better than cooperatives in making the poor aware of their problems, to enhance their skills and build their capacities for resource management. SHGs are better instruments for empowerment of the rural people. SHGs have a deep participatory nature. Cooperatives are more formal, and the poor have less representation in them. Stand-alone credit programmes also do not help the poor very much because they are temporary, and can be inflationary. SHGs, on the other hand, are more open-ended and wider in scope.

4.4 ORGANISED BANKING AND RURAL CREDIT

In the previous section, we have acquainted you with some features and characteristics of informal credit markets. There is also the formal financial sector that operates in the rural areas. Chief among the formal sector institutions are the commercial banks. To study the role and impact of commercial banks on rural credit, we divide the period beginning with independence into two: one till 1969, and the other the period since 1969. The year 1969 is chosen as the dividing point since 14 major commercial banks were nationalised in that year.

4.4.1 Commercial Banks and Rural Credit in India: the pre-1969 Period

The All- India Rural Survey Committee (1951) had found that cultivators depended on private moneylenders for about 94% of their credit needs. Looking at the future credit needs, the committee felt that rural credit would be needed for production as well as consumption. It hoped that credit would be available to all who are credit worthy, and that this credit should be properly supervised. The interest rate also must not be too high. The committee put a lot of hope in cooperatives. It averred that "cooperation has failed, but cooperation must succeed". The All India Rural Credit Survey Committee (1954) proposed an integrated scheme for rural credit. It suggested that the RBI should take steps to strengthen the cooperative movement.

An important step towards gearing the banking system for rural credit was the formation of the State Bank of India by amalgamating the Imperial Bank of India with other state-associated banks. It was felt that with the assistance of the RBI, the State Bank would play a crucial role in providing rural credit.

4.4.2 Commercial Banks and Rural Credit: the Later Phase

In July 1969, 14 major commercial banks were nationalised. The government had observed that although the quantum of agricultural credit had increased, the direction and channelling of rural credit had not taken place to the desired extent. This was particularly true in the context of the Green Revolution in agriculture. The New

Strategy favoured rich farmers because of the large scale of its operation. It also necessitated the purchase of a large amount of inputs. This meant that credit was required. Unfortunately, credit was grabbed by the better off farmers. Also, private banks were not too keen to lend in areas and for purposes where profit was not high enough. All this meant that nationalisation of banks seemed a reasonable policy response.

Since nationalisation, branch expansion and deposit mobilisation have both increased. An important aspect of rural credit in the post-1969 period has been the priority sector lending, whereby rural banks had to direct a substantial proportion of their credit to rural areas.

4.4.3 Regional Rural Banks

By the mid seventies, the government wanted to take stock of the institutional credit in rural development. Rural cooperatives were already several years into their operation. Bank nationalization had taken place about half a decade earlier. Thus the Government appointed a Working Group under the chairmanship of Shri M. Narsimham to assess the flow of institutional credit in the rural sector, particularly to the weaker sections. The Group examined the working of two major credit provides, the cooperatives and the commercial banks. It found that there were some deficiencies in the provision of credit. One of the major deficiencies was that several geographical gaps and regional disparities existed in the provision of credit. These deficiencies, the Working Group felt, could not be removed by taking short-term measures to restructure cooperatives and commercial banks. A long-term concentrated effort was needed. The Government took steps to remedy the situation. To this end, the Regional Rural Bank Act came to be passed in 1976. Thus the Regional Rural Banks were established under the Regional Rural Bank Act, 1976, although technically they have been in operation since 1975.

The idea behind the Regional Rural Banks (RRBs) was that these would combine the strengths of both the cooperative banks as well as the commercial banks. It was felt that these would extend cheap and adequate credit, while at the same time be operationally efficient and provide easy access. The primary objective of Regional Rural Banks was to end the culture of rural debts and narrow the gaps that existed among geographical regions in the provision of credit. Operationally, the RRBs are sponsored by the scheduled banks, which in most cases happen to be public sector commercial banks. Instead of burdening commercial banks by extending their functioning over large areas and spreading resources thinly, it was felt that RRBs could function intensively and confine their operations to a single region comprising one or two contiguous districts. Thus RRBs function like commercial banks but with a smaller geographical reach for each for them.

The RRBs aimed at developing the rural economy by providing credit for both agriculture and non-agricultural productive activities, particularly to the weaker sections like small and marginal farmers, agricultural labourers, artisans and small enterprises.

The Central Government, the State Governments, the Reserve Bank of India (RBI) along with the smaller banks, all cooperate for setting up new RRBs and help in their operations. Since 1978, the promotional functions have been carried out mainly by RBI, while the statutory functions are to be carried out by the state governments.

To examine the functioning of RRBs, the government set up the Review Committee on Regional Rural Banks under the chairmanship of Prof. M.L. Dantwala in 1977. The committee made certain recommendations, some of which were that setting up of RRBs should be promoted in areas where central co-operative banks can be transferred to RRBs. According to the committee, the better off sections of rural society should not be entirely deprived of credit because that would affect mobilisation and also depress it.

4.4.4 NABARD

In the sixth five-year plan, tremendous emphasis was laid on rural credit and its proper disbursal. It was also felt that there should be greater emphasis on recovery of loans and proper planning and monitoring of credit. Coordination was sought to be effected among the different levels. To this end, operational efficiency was sought to be enhanced. It was felt that this could be done if the cooperative system was strengthened. It was also felt that total reliance could not be placed only on the cooperative system. The National Commission on Agriculture in 1976 had strongly recommended the setting-up of an organisation at the apex level to integrate the total structure of agricultural finance. In 1979 the Reserve Bank set up the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) under the chairmanship of Shri B. Sivaraman. The committee submitted its report in January 1981. It led to the formation of NABARD, which came into operation in 1982. We will discuss its role and evaluate its performance in section 4.5 below.

4.4.5 Service Area Approach

Since some years after the nationalization of commercial banks in 1969, a disturbing view gained ground progressively—that although the number of branches had increased in rural areas and the quantum of credit disbursal had gone up, yet the rise in the quantity of credit had not borne fruit in the sense of rise in agricultural productivity. The government thus felt that the quality of credit needs should be looked into. To this end, the RBI introduced the Service Areas Approach on 1st April 1989. Under this approach, each branch of a commercial bank or an RRB was assigned a group of 20 to 25 villages. This group of villages was termed a 'service area'. The bank branch concerned would meet the credit needs of the actual and the potential borrowers in this service area.

Each bank was expected to prepare an economic profile of the villages concerned. On the basis of this economic profile, an annual credit plan would have to be prepared. Accordingly, the annual credit plan of each branch in a district was required to be prepared. The plans of the districts in a state would likewise be aggregated to from the State Credit Plan. A computerized Service Area Monitoring and Information System (SAMIS) was introduced in 1991. The main purpose of the Service Area has been to prepare credit plans at various levels, including the micro credit plans at the grassroots level.

Another important step has been the creation of village profiles and the preparation of databases. Occasionally, service area violations have taken place. Also, there have been several cases where the service area plans have not matched with the performance budgets of the banks. To facilitate the working of the Service Area Banks, the concept of Local Area Banks was introduced in many states in 1996-97.

Check Your Progress II

Note: i) Write your answers in the space provided.

ii) Check your answers with the possible answers provided at the end of the unit.

1) Describe the functioning of the commercial banking system and its role in meeting the rural credit needs.

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2) When was NABARD set up? How successful has its functioning been?

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3) Analyse the working of the Service Area Approach.

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4.5 ASSESSMENT AND EVALUATION

Any assessment of rural credit in the post-independence period has to focus on the provision of credit by the formal organizations, largely cooperatives and banks, as well as in recent times, on Self Help Groups. We should also keep in mind that the Government has started a number of programmes for direct attack on poverty, and several of these are credit linked.

We have already discussed the growth of formal commercial banking in India. Here, we will discuss some of the measures taken with respect to rural banking after 1991, when economic reforms were initiated in India. Till the onset of economic reforms, the interest rate was under an administered regime. At present, the government has deregulated interest rates, and there is no link between interest rates and priority lending. But the practice of priority sector lending continues, whereby banks have to channel part of their total credit to priority sectors—while 18 per cent of the total credit should be specifically for agriculture, of this, 13.5 per cent should be as direct loans.

When a bank fails to meet its target of priority sector lending, it needs to contribute to Rural Infrastructure Development fund set up by NABARD, which in turn provides these funds to state governments to help them to complete various types of rural infrastructure projects.

The reforms of 1991 included reforms in the financial sector. These reforms aimed at making the credit organizations operationally and financially efficient, and increasingly self-reliant. Accordingly, budgetary support given to these institutions by the government was reduced, as were commercial resources. Many prudential norms for RRBs pertaining to asset classification were introduced and they have become operationally more efficient as a result. Among the cooperatives, too, there is greater awareness about efficiency and deregulation.

Some important committees were set up by the Government to assess the working of the Credit System in the rural areas. The RBI set up the Agricultural Credit Review Committee (ACRC) to evaluate the major problems afflicting the system and agricultural credit. This evaluation was to be done on the basis of five earlier review studies carried out by consulting firms to look into various aspects of rural credit, such as the operation and management of NABARD, credit-based poverty alleviation programmes, over dues in agricultural credit system, and so on.

The ACRC went into the issues in depth and submitted its report in1989. It made adverse remarks about the rural credit system. It observed that the credit system was inefficient, poorly managed, and had inadequate resources. The system was characterized by large-scale non-payment and had very poor participation. The committee felt, that banks were more interested in disbursing credit than taking step for their recovery. Basically, the banking system was characterised by too many targets and procedures, with the result that efficiency and professionalism had suffered.

This led the government to set up a high-level committee under the chairmanship of M. Narasimham to look into all aspects of the financial system. The committee submitted its Report on November 30, 1991, and made its recommendations on the general financial system in the backdrop of the then recent reforms. Its recommend aims also reflected the then current thinking. Among its suggestions were: banks should raise capital through public issues; there should be no bar on new private sector banks; policy towards foreign banks should be liberalized; concessionary rates of interest should be gradually phased out; and dual control should be abolished. The committee's approach was that the financial system should function on the bases of operational autonomy and flexibility and that efficiency, productivity and profitability should not be lost sight of.

To improve the functioning of the rural credit system, the government set up the Gupta Committee in December 1997. Its major recommendations were provided in April 1998. These included:

1) Like cooperative banks and RRBs, commercial banks should be free to determine their interest rates.
2) Banks should prepare special agricultural credit plans.
3) Ninety per cent of all loan applications should be decided at the branch level to ensure timely loans.

4.6 LET US SUM UP

In this unit we familiarised you with credit and banking in rural areas. We introduced you to some concepts and ideas of rural saving, investment and finance, and then moved on to a discussion on rural financial markets and their features. We also discussed the role of credit. The concept of risk and the various forms in which it can emerge was explained. How people in rural areas, who face risk, cope with it was also explained.

Later we took up for discussion the institutional and non-institutional sources of credit. Three types of non-institutional sources were discussed: the informal sources of credit, such as moneylenders who are not easily regulated by rules and policies; credit cooperatives, which continue to play an important role as providers of credit and micro-credit providers such as self-help groups, which are increasingly gaining importance in the rural areas of several developing nations.

The story of organized finance and banking pertaining to rural India after independence was discussed in detail, including details about the role of commercial banks, both before and after nationalization of some major ones; the growth in deposits: the increase in the quantum of credit: and the expansion of branches. Two important banking institutions related to rural development and agriculture, namely the Regional Rural Banks and the Lead Bank Scheme have also been discussed. We also analysed the working of the apex institution for organized sector rural credit, namely the

National Bank for Agriculture and Rural Development. Finally, we presented an analytical assessment and evaluation of the rural credit situation in India. It looked at various achievements of formal organizations in providing credit, mentioned the various shortcomings and the areas where institutional credit has performed poorly and also discussed the impact of micro-credit and self-help groups.

4.7 KEY WORDS

Commercial Banks : The banks, which operate in the formal sector, engage in accepting deposits and providing credit and function under the regulations of the Central Bank of India.

Cooperatives : Usually, non-profit voluntary organisations formed by association of people to engage in production, savings, investment, etc.

Credit Market : An abstract concept denoting a set of arrangements where suppliers of credit try to meet the needs of borrowers.

Micro-credit : Credit that is small in quantum and is provided to a large group usually by non-formal sources.

Risk : Broadly it implies such uncertainties in outcomes as can in principle be insured against.

4.8 SUGGESTED READINGS AND REFERENCES

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4.9 CHECK YOUR PROGRESS–POSSIBLE ANSWERS

Check Your Progress I

1) Rural credit markets are characterized by imperfect and incomplete information. These markets are often segmented. There is credit rationing in these markets.

2) The rural poor are vulnerable to disease and ill health. They face environmental hazards. They face risks in their work, and often do not have any fixed or assured wages. When self-employed, they face risks in relation to production. They are spatially less integrated and tend to be isolated. They cope with risks by trying to reduce risks, usually by attempting to accumulate assets or devise ways of pooling or sharing risks with other poor people.

Check Your Progress II

1) The history of the functioning of commercial banks can be divided into two periods: the pre-1969 period, when most of these were not nationalized, and the

post-1969 period, when first 14, and later six more banks were nationalized. In the latter period, the outreach of rural banks increased tremendously, and the number of branches and the quantum of deposits have gone up. Poorer sections of the society have greater chances of obtaining credit now, and also credit is going to priority areas.

2) NABARD was set up in 1982 on the basis of recommendations of the Committee to Review Arrangements for Institutional Credit for Rural Development, which was set up in 1979, and submitted its Report in 1981. The institution has been fairly successful in acting as an apex bank for the provision of rural credit and integrating the structure of agricultural finance.

3) The Service Area Approach was introduced by the RBI on April 1st, 1989. Under this approach, each branch of a commercial bank or Regional Rural Bank was assigned a group of 20 to 25 villages. To facilitate better functioning, the concept of *local area banks* was introduced in 1996-97. The *service area approach* has played a major role in improving credit availability in rural areas. Some problems of operational efficiency, however, continue unresolved.