CHAPTER I
INTRODUCTION

The Prelude

India lives in its villages. More than sixty per cent of India's population lives in its 5,75,936 villages. Rural India contributes about 50 per cent of the national income. Agriculture is the basic occupation that sustains the Indian economy. The progress of the country lies, therefore, in the development of villages where a large section of the population is woefully condemned to abject poverty, unemployment, want and squalor.

The World Bank has estimated that around 800 million people, constituting over 40 per cent of the developing countries, live in absolute or real poverty. By adopting an annual income level of $50 or less for a person in a state of absolute poverty, about 600 million people can be said to suffer from absolute poverty in rural areas of the developing world, and about 75 per cent of them live in rural areas of the developing countries of Asia alone.¹. The World Bank survey on poverty revealed that poverty is concentrated predominantly in rural areas and so the rural development programmes were to be synonymous with the development of agriculture, allied activities like animal husbandry, dairying, forestry, fisheries, and

infrastructural facilities such as drinking water, roads, schools, hospitals and rural electrification. It involves the extension of the benefits of development to the poorest among those who seek a livelihood in rural areas.²

Even after maintaining high growth rates and increase in average per capita income by over 50 per cent since 1960, the incidence of poverty has not decreased over the past three decades. Adelman estimated that the position of the poorest 40 per cent has worsened relatively as well as absolutely, while the share of the top 5 per cent and the middle 20 per cent have registered a marginal increase.³ While analysing the trends of the relative and absolute incomes of the rural poor since 1960, Griffin and Khan observed a steady up trend not only in the absolute numbers but also in the percentage of the rural population below the poverty line.⁴

Even during periods of rapid agricultural growth, the share of the poorer sections in aggregate income and consumption has been falling. More disturbing is the fact that in almost every case a significant proportion of the low income households has experienced an absolute decline in their real income, particularly since the early 1960s. In most of the countries real

wages of agricultural labourers have either remained constant or declined slowly.

Inspite of increasing urbanisation, India can still be regarded as a land of villages. A very high percentage of the rural poor is illiterate with an average life span of 40-45 years. A family consists normally of two adults and three children. The average age at marriage varies between 16 and 20. The percentage of children attending school is small and usually there is only one earning member per family. A considerable percentage of the people engaged in secondary occupations are employed for 150 to 250 days in a year. They have a low per capita income and spend about 90 per cent of it on food. They are indebted and are dissatisfied regarding clothing, health care and education. They live in kutcha houses or huts and their physical mobility is restricted, have limited contacts with mass media and their membership in village organisation is small.\(^5\)

There has been a continuous decay in villages on account of extraneous factors, as well as because of the impact of industrialisation. Apart from the economic differentiations arising from land ownership, productivity and application of science, there are socio-economic gradations on account of the caste system. As a result the village community has been stagnant for generations. There has been a steady migration to urban areas

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in constant search for employment and a better standard of living. The fruits of four decades of development planning have been reaped mostly by the rich farmers.

The 50 per cent of the population who live in utter poverty constitute the weaker sections of the society. They are a socially and economically handicapped lot. They are deprived of the full socio-economic benefits of the society like food, clothing, housing, recreation and health care. These sections comprise mainly of small and marginal farmers, landless agricultural labourers and traditional artisans, the scheduled castes, scheduled tribes and other backward classes.  

The percentage of persons depending on agriculture has marginally increased from 79.4 per cent to 82.1 per cent of the working population between 1961 and 1991. Small farmers and marginal farmers owning land upto two hectares dominated the agrarian structure, accounting for 74.5 per cent of all holdings. The share of agricultural labourers in the total work force increased from 16.7 per cent in 1961 to 30.33 per cent in 1991. 69.6 million marginal and small farmers occupied 46.76 million hectares of cultivable land while 2.89 million large farmers occupied 39.31 million hectares of land in 1991. The rural work force accounted for 81

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per cent of the total force in 1991 of which 68.8 per cent of the total work force was in agriculture and allied activities. Scheduled castes and Scheduled tribes constituted 16.87 per cent and 8.32 per cent respectively of the population as per the 1991 census. They are economically and socially downtrodden and most backward communities.7

These people have little or no material property. Their major asset is their labour. Unemployment and under-employment persist in rural India. Both in the formal and informal sectors they are paid very low wages. They are not organised or self-reliant. Their abject poverty and subhuman living conditions demand a new policy framework, giving priority to the amelioration of the lots of these weaker sections. If an effort fails to improve the economic conditions of the bottom 50 per cent of the population, it can not be qualified as a development effort. If one is looking for a measure of development one should look for the per capita real income of the bottom half of the population and not the national per capita real income.8

Problem focus

Ever since the introduction of economic planning in India, various approaches like Community Approach, Target Sector Approach and

7  Census of India, 1991, Series 1 (India) paper 1, of 1993, p. 28.
8  Mohammed Yonus, "The poor as the Engine of Development" - Economic Impact, No. 63, 1988/2, p. 29.
Target Group Approach have been adopted for developing the rural poor. Poverty alleviation programmes were planned in such a manner as to solve the problems of people living below the poverty line; it is the strengthening of the productive capacity of those who produce very little. Each approach is briefly explained further.

Community Approach considered the rural habitat as an organic whole and conceived of improving it by attacking all elements of rural life simultaneously. The Community Development programme, launched in 1952 was an ambitious programme and required huge resources. It failed to produce the necessary impact because the resources were limited and priority to the food and poverty front was to be given immediately at the cost of anything else. This became the starting point for the Target Sector Approach.

The Target Sector Approach was in nature a segmental strategy for rural development. One segment, say, agricultural productivity was to be tackled at war footing. Intensive Agricultural Development Programme (IADP) 1960-61, Intensive Agricultural Area Programme (IAAP) 1963-64, High Yielding Variety Programme (HYVP) 1965-66, Land Reforms Programme, Schemes of Agricultural Marketing, Village Small Industries Programme, Special Livestock Production Programme were implemented

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with a view to increase agricultural activities and develop rural industries. While these programmes did ensure increased agricultural production, the benefits, by and large, went to large and medium farmers. A Micro Approach to a specified group of people over a specified area became necessary. It was at this stage that the concept of 'Priority Sector' came into consideration.

**Priority Sector**

The concept of priority sector lending has been evolved to ensure that assistance from the banking system flows in an increasing measure to certain vital sectors of the economy and according to national planning priorities. This concept has been reviewed from time to time with a view to ensuring that necessary changes are brought about by banks in their credit deployment policy.

The VI Five Year Plan placed a very high priority on alleviation of poverty. Almost all elements of the New 20 Point Programme were taken from VI Five Year Plan and a large number of points relevant from the point of view of bank assistance relates to programmes aimed at upliftment of the poorer sections of society.

The description of the Priority Sector was first formulated by RBI in 1972 on the basis of the report submitted by the Informal Study Group on Statistics relating to Advances to Priority Sector, constituted by Reserve Bank of India (RBI) in May 1971. RBI then introduced a revised
system of reporting of Priority Sector advances and certain guidelines were issued to banks indicating the scope of the items to be included under various categories of Priority Sector. A more detailed examination of various categories and sub categories of borrowers now being classified as priority sector was undertaken by Krishnasamy Working Group. The Group evolved the concept of weaker sections within the two main segments of priority sector, namely Agriculture and Small Scale Industries.

The Group linked the definition with the availability of DICGC cover and/or refinance in certain cases like transport operators. The definition of professionals and self-employed persons was related to quantum of finance and certain ceilings were placed on the aggregate credit to individual beneficiaries for being classified as Priority Sector. Housing loans to weaker sections upto Rs. 3000 to individual cases and pure consumption loans not exceeding Rs. 500/- in aggregate were also brought within Priority Sector. Subsequently there were two changes in the definition of Priority Sector Advances viz.,

i) the amount of original investment in plant and machinery for SSI units/ancillary units was first increased to Rs. 25 lacs and later to Rs. 75 lacs and

ii) advances to State sponsored corporations/agencies engaged in development of decentralised sector for certain purposes were included.
At present PRIORITY SECTOR broadly includes, 1) Agriculture, 2) Small Scale Industries, 3) Industrial Estates, 4) Road and Water Transport Operators, 5) Retail Trade and Small business, 6) Professional and self employed persons, 7) Education, 8) Housing Loan to weaker sections and 9) Pure consumption loans.

Origin of the concept of Priority Sector

One of the objectives of social control over Banks and subsequent nationalisation of major banks in 1969 was to ensure that Banks so reorient their lending policies that credit flow to certain sectors of the economy in accordance with the national plan priorities. This, inter alia, implied flow of credit to sectors that had no easy access to the banking system at that time. The inclusion of any item in Priority Sector has two advantages, viz., i) priority in allocation of credit, ii) concessions in terms and conditions including rate of interest.

Agriculture and SSI constitute the two important segments of Priority Sector. Their share in total bank credit has been quite substantial over the years. At the end of December 1981 advances of Public Sector Banks to agriculture formed 17 per cent of total advances, while those to SSI constituted 14 per cent. Thus the two sectors together accounted for 31 per cent of total credit or 80.7 per cent of total Priority Sector Advances of banks.
The Target Group Approach identified particular groups which were economically deprived for the purpose of development and satisfying the minimum needs of such groups by laying down minimum standards of health, nutrition, housing and standards of living. Under this Approach the index of development is measured by the benefits that accrue to the weaker sections of the population. Programmes such as Small Farmers Development Agency (SFDA) - 1969, Agency for the Development of Marginal Farmers and Agricultural Labourers (MFAL) - 1969, Drought Prone Area Programme - 1970 (DPAP), Crash Scheme for Rural Employment (1971), Pilot Intensive Rural Employment Programme - 1972 (PIREP), Employment Guarantee Programme - 1972 (EGP), Food for Works Programme - 1973 (FFWP) Minimum Needs Programme - 1974 (MNP), Rural Functional Literacy Programme (1976), Antyodaya (1977), National Rural Employment Programme (1980) (NREP), Training of Rural Youth for Self-Employment (1980) (TRYSEM), Scheme for Development of Women and Children in Rural Areas (DWCRA), Rural Landless Employment Guarantee Programme (1983) (RLEGP) were introduced for the particular groups.

Simultaneously, in Area Approach, plans were drawn for specific areas and groups such as Tribal areas, Border Areas, Hilly areas, etc. on the basis of the assessment of resources, the infrastructural facilities available, and the institutional support existing and is likely to be made available. Such programmes were concerned not only with agriculture, irrigation, etc., but also with building up of the basic infrastructural facilities
like roads, transport, banking, marketing and processing. The Hill Area Development Programme (HADP), the Drought Prone Area Programme, the Desert Development Programme and Command Area Development were implemented for the development of specific areas and groups of people.

These approaches were selective, sporadic, piecemeal or sectoral in nature. They just covered one or two aspects of rural people in selected areas. These programmes were implemented with some degree of success by individuals, Central and State Governments, Voluntary agencies and the Co-operative Sector. However, the population of poor people continued to increase notwithstanding the fact that a number of people were helped to lift themselves above the poverty line. The village level worker, the Block Development Officers and others were not capable of meeting the increased and varied needs of the rural people and the reasons were the enormity of the problems and the limited funds.

The rural development policies have not been alive to the ever increasing complexities of the rural culture and the dynamics of rural change. Even the Panchayat Raj which was introduced to increase the people’s participation in developmental efforts and free themselves from the clutches of bureaucracy had landed the rural folks into the problem of how to get out of the clutches of power hungry politicians.

The implementation of the rural development programmes calls for an appropriate administrative apparatus. In order to remove the drawbacks, the Priority Sector concept was introduced and commercial
banks were directed to give at least 40 per cent of their advances to the Priority Sector. In each district a Rural Development Authority (DRDA) was established and a nationalised bank is made as a Lead Bank for each district. The Lead Bank is entrusted with the responsibility to prepare the Annual Credit Plan and are to take into account the full utilisation of the labour strength and to have a direct attack on poverty so as to pave the way for a better redistribution of income. It aims at bringing technological innovations, developing non-farm activities and nurturing people's Institution and integrating the rural and urban sectors of the economy.

The Priority Sector lending has received the maximum attention. A large volume of literature has been generated and a vast majority of them has been critical. The criticism is however, based on different perceptions of the critiques, their concerns and the varying levels of understanding of the programme.

So an objective and dispassionate look at the Priority Sector lending becomes necessary in order to find out what proportion of the assistance goes to the deserving poor, how much incremental income is actually generated, what are the sectoral variations in income generations, what is the difference between initial poverty gap and benefit derived, has the poverty gap been reduced, what were the liabilities before assistance, what are the post assistance liabilities, what are the changes in consumption pattern and living standard and what is the rate of recovery of such lendings. It becomes, therefore, necessary to find out whether the
assisted families or the beneficiaries were able to cross the poverty line and if so, are they significantly better off after the assistance compared to the position prior to their receiving the loans. It is also necessary to examine whether the resources spent on Priority Sector Lending can be justified on the grounds of equity and efficiency in order to place the programme in correct perspective. It is towards answering some of these questions the present study has been contemplated and the Union Territory of Pondicherry has been selected for study.

Objectives of the Study

The overall objective of the study is to evaluate the impact of the Priority Sector Lending on the weaker sections of the rural poor.

The specific objectives are,

1) to analyse the economic viability of the various schemes on which assistance is provided.

2) to analyse the extent to which the schemes assisted enabled the beneficiaries to cross over the poverty line in terms of employment generation and income generation.

3) to identify the problems, if any, in implementation of the various schemes.

4) in the light of the above, to suggest if found necessary, suitable remedial measures for facilitating early achievement of the objectives.
Hypothesis

The above focus has led to the basic hypothesis that Priority Sector lending has generated additional income to the weaker sections so as to enable them to cross the poverty line.

Scope and Limitations of the study

The study would shed light on the impact made by the various schemes under which assistance is provided. In addition, the study would also indicate the viability of the various schemes, the extent of crossing over the poverty line by the beneficiaries, the problems associated with the implementation of the programmes of assistance, and the like. Thus the results would help not only the organisational executives in implementing the scheme, but also the authorities concerned in making policy changes.

However, in making generalisations there are certain limitations. This study is based on the primary data collected from a sample of beneficiaries by Survey Method. As detailed accounts were not maintained by these rural households some of the particulars sought were furnished from out of their memory and hence the collected data were not free from recall bias to a certain extent. More over a general tendency towards an understatement of income and assets and overstatement of expenditure among the respondents was noticed. However, every effort was taken to minimise the bias by cross checking. Therefore, the findings
of the study may be considered appropriate for the situation prevailing in the study area.

The presentation

The results of the study have been reported under the following chapters.

First chapter covers the setting, problem focus, hypothesis, objectives, scope and limitations of the study.

The Second chapter reviews the various concepts and the related past studies and presents the operational definitions.

The Third chapter describes the study areas, its socio, agro-economic features and the methodology adopted indicating the sampling design, method of collection of data and the methods of analysis.

The Fourth chapter presents an Analysis of General Features and Economic Evaluation of the Schemes.

The Fifth chapter deals with the impact of Priority Sector Lending on Income levels and on crossing the poverty line.

The Sixth chapter contains an Analysis of Employment Generation by Priority Sector Advances and standard of living of the beneficiary households and functional analysis.

The Seventh chapter is the summary of the thesis.