CHAPTER 1

INTRODUCTION
## Chapter 1

**INTRODUCTION**

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CHAPTER I

INTRODUCTION

1.1 POVERTY IN INDIA

1.1.1 MEANING OF POVERTY

1.1.1.1 The word "Poverty" is vague. It encompasses characteristics ranging from a 'Psychic state of mind' to extreme nutritional deficiency. Due to the very vagueness of the term, most of the procedures adopted in defining and measuring poverty are incomplete and can be reasonably questioned.

1.1.1.2 The Shorter Oxford English Dictionary gives the meaning of poverty as the quality or condition of being poor. The condition of being in need of material possessions; indigence: destitution (to various degrees)...

1.1.1.3 Absolute poverty refers to the individual or families who have to obtain the minimum subsistence level consumption packet. All similar approaches to poverty are biological approaches. The poverty line concept of Dandekar and Rath is one such biological approach where they have defined poverty line in terms of minimum calorie requirements translated into income equivalent. The biological or nutritional approach is riddled with problems arising out of asymmetry in the consumption habits and the composition of different communities in a society with widely different consumption habits and attitude towards life. The poverty line concept of Dandekar and Rath although has the greatest advantage of simplicity, lacks universal applicability because of this inter as well as intra-regional variations in the composition of the basic consumption basket. Further, the consumption should not refer to below subsistence consumption alone. It should take into account certain minimum of other items and services such as health, housing, education etc. which may be termed as minimum aspiration level. Amartya Sen however defines poverty as relative deprivation. His postulation of poverty as a condition of relative deprivation has the uniqueness of combining feeling of deprivation and
condition of deprivation. According to Lipton, poverty means insufficient income (or outlay) to provide household members with 100% of 1973 average FAO/WHO calorie requirements of their age, sex and activity groups when the household allocates income (or outlay) among foods, and between them and non-foods, typically for households with its size, age and sex structure and income (or outlay). *His definition of ultra-poverty replaces 100% with 80% in the above definition.* Poverty and ultra poverty may be assessed by surveying (per person or per CU) household income or outlay, food consumption, food/outlay ratios, caloric intake relative to requirements or anthropometric status. Kurien defined poverty as the socio-economic phenomenon whereby the resources available to a society are used to satisfy the wants of a few while many do not have even their basic needs met. Some western scholars like Ragnar Nurkse explained the problem of poverty by the concept of *vicious Circle of Poverty.* He wrote:

*The concept implies, of course, a circular constellation of forces tending to act and react upon one another in such a way as to keep a poor country in a state of poverty.* Poverty is generally manifested in terms of low incomes, inadequate housing, poor health, limited or no education, high infant mortality, low life and work expectancy, and in most cases a general sense of despondency and despair. In economic terms, it signifies a propensity to consume rather than to save income and hence it presents lower ratio of capital to labour. Poverty does not mean the physical condition of the poor. It also includes their attitude towards the rest of the society where they live. Robert Chambers emphasizes lack of power or powerlessness as a major plank of action. To quote him, "The household is powerless. Ignorant of the law, without legal advice, competing for employment and service with others in a similar condition the household is an easy victim of predation by the powerful. It has inherited or descended to low social status. Its position is weak in negotiating terms for the use of its labour or the sale of its produce or assets. It is easily exploited by money lenders, merchants, landlords, petty officials and police.*

According to Martin Rein, three broad concepts of poverty can be identified. Poverty can be

---

2 Robert Chambers, Rural Development - Putting the last first (1983), pp 110-111
defined as *subsistence, inequality and externality*. *Subsistence* is concerned with the minimum provision needed to maintain health and working capacity. *Inequality* is concerned with the relative position of the income groups to each other. The concept of poverty must be seen in the context of society as a whole. *Externality* is concerned with the social consequences of poverty for the rest of the society rather than in terms of the needs of the poor. Empowerment of the rural poor within a demarcation of societal framework, should, therefore, receive high priority in the poverty alleviation programmes of the government.

1.1.1.4 All the definitions revolve around the vision of *minimum or good life* obtaining in society. The concept of poverty in the U.S.A., would, therefore, be significantly different from that in India because the average person is able to afford a much higher level of living in the United States. The absolute standard of poverty expressed in terms of minimum requirements of cereals, pulses, milk, vegetables, butter, clothing or calorie intake is conditioned by the relative levels of living prevalent in the country. The deprivation of a significant section of the society of minimum basic needs in the face of a luxurious life for the elite classes, makes poverty more glaring.

1.1.2 CHARACTERISTICS OF POVERTY

1.1.2.1 Rural poverty is *widespread and deep-rooted* in many developing societies. The term poverty has different meanings to different persons. The methodological and substantial variations in defining and measuring poverty have no limits.

1.1.2.2 There are two approaches which are frequently employed for defining and measuring poverty. The first is the *minimum needs approach* in which people who lack the minimum necessities to sustain life are treated as poor. In the second approach, *income and expenditure* data is used in order to establish an income-threshold below which poverty may be said to exist. In this *relative approach*, the income distribution of the population in different fractile groups is estimated and a comparison of the levels of living of the top 5 to 10 per cent with the bottom 5 to 10 per cent of the population reflects the relative standards of poverty.
1.1.2.3 The method widely used in India is to specify some *minimum consumption expenditure level* and estimate the percentage of population below this level. The procedure usually followed is to specify a minimum nutritional requirement, such as daily per capita calorie intake, and work out the corresponding expenditure level.

1.1.2.4 The *Expert Group of the Planning Commission* under the Chairmanship of Prof. D.T. Lakadwala was of the opinion that the Poverty Line recommended by the Task Force on projection of minimum needs and effective consumption demand, namely a monthly per capita total expenditure of Rs. 49.09 (rural) and Rs. 56.64 (urban) rounded respectively to Rs. 49 and Rs. 57 at all-India level at 1973-74 prices be adopted as the base line. This was based on per capita daily intake of 2,400 calories in rural areas with reference to the consumption pattern as obtained in 1973-74. It also suggested the use of disaggregated commodity indices for Consumer Price Index for Agricultural Labourers (CPIAL) to update the rural poverty line and a simple average of suitably weighted commodity indices of consumer price index for industrial workers (CPIIW) and consumer price index of non-manual employees (CPINM) for updating the urban poverty line.

### POVERTY LINES WITH BASE 1973-74

<table>
<thead>
<tr>
<th>Year</th>
<th>Rural</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973-74</td>
<td>49.09</td>
<td>56.96</td>
</tr>
<tr>
<td>1977-78</td>
<td>56.84</td>
<td>72.50</td>
</tr>
<tr>
<td>1983</td>
<td>89.45</td>
<td>117.64</td>
</tr>
<tr>
<td>1987-88</td>
<td>115.43</td>
<td>165.58</td>
</tr>
</tbody>
</table>

Table No. 1.1

---

In India, in the year 1987, the per capita consumption norm remained at **2400 calories per head per day for rural areas and 2100 calories for urban areas**. The household income level or the poverty line is worked out at **Rs. 6400** per household of five persons per annum. For the VIIIth Plan, the annual income below **Rs. 11000** has been defined as “Below Poverty Line”.

1.1.2.5 Based on the economic viability of the household in the production process, the poverty may be the **transient or the persistent**. A household may be defined as economically viable in the production process when the interaction between the household-specific factors and the relevant parts of the macro-economic environment enables the household to sustain an above-poverty level of living. The household specific factors include income-earning capability in the form of resource endowments such as land or non-land assets, skills, unskilled labour etc. along with organizational capability to manage and deploy them in the production process. When the otherwise economically viable household is pushed below the poverty line due to a sudden but non-continuing fall in its income, this may be termed as the **transient poverty**. When the organization of economic activity and the character of the continuing growth process, interacting with the household-specific factors do not generate for the household enough sustainable income to enable the maintenance of an above-poverty level of living, this may be termed as **persistence poverty**. The transient poverty may be due to adverse weather cycles reducing the outputs as also demand for wage labour, temporary reduction in the prices of outputs or rise in the prices of purchased inputs. It is possible that a transient poor may slip into the persistent poor if, for example, he sells his assets or loses the animals during drought. Similarly, an economically viable household may become persistently poor due to sudden loss of assets or the death or disability or prolonged sickness of the breadwinners. Such contingencies should be covered through various insurance schemes funded or subsidized by the Government.

1.1.3 **DETERMINANTS OF POVERTY**

1.1.3.1 In view of the complex nature of poverty, the researchers such as Roy and Singh (1984), Wang (1985), Gupta (1987) etc. have advocated a **multidimensional analysis** for the solution of
the problem involved in understanding of its structure. The six broad dimensions to best understand the complexity of poverty status are:

(a) income
(b) assets and wealth
(c) access to basic services
(d) social mobility and education
(e) political power and
(f) status and satisfaction.

1.1.3.2 SOCIO-CULTURAL DETERMINANTS OF POVERTY

Economic factors apart, several socio-psychological factors influence changes in poverty levels among the rural poor. Factors such as low literacy level, low health status, malnutrition, larger size of family and lack of awareness, aspiration and motivation for further development are some of the important socio-cultural and psychological determinants which play an important role in determining the position of the poor in rural society.

1.1.3.3 PSYCHOLOGICAL DETERMINANTS OF POVERTY

Certain social and psychological conditions also influence the development of inner potentialities of an individual. The various psychological components of poverty interact together to generate unique values, interest and activities among the poor which play a part in the generation of poverty. Awareness, perception, motivation, attitudes and aspirations are some of the basic human processes influencing the responsiveness or otherwise of people to the stimulations emerging from development efforts. There is a sense of ability among the poor and they believe that their lives are fixed by immutable forces of fate, luck or chance. Pessimism and fatalism stem from a feeling of being victimized by super ordinate, capricious and malevolent natural and social forces. Poverty is perceived as a result of bad luck. The widely held desire for easy money without work, evaluation of a person on the basis of his wealth rather than his intrinsic qualities, self-seeking and dishonesty are some of the barriers for promoting change among the rural poor. Vested interest in backwardness, lack of information and lack of political
consciousness also hinder the development of the poor. The awareness and contacts with officials and non-officials and contact with mass media is less among the poor. The motivation centre on immediate problems of subsistence and daily living. Motivation by external stimulation like money with the general objective of bringing about betterment of people has only an immediate impact, it does not have long range substance value.

1.1.4 CAUSES OF POVERTY

The principal causes of poverty in India are underdevelopment, inequality, low per capita income, inadequate growth rate, regional disparities, low availability of essentials, inflation, low technology, capital deficiency, high growth rate of population and unemployment etc. For rural poverty, the most important factors are unemployment and low asset base. The incidence of unemployment and underemployment is highest amongst rural casual labourers. Due to their weak bargaining power, they are paid low wages even during the period of employment. Minimum wage legislation is observed more in breach than in compliance. The asset base of poor is not only low but also that it is in the form of durable consumer goods rather than such assets as land, farm implements, livestock which increase their productivity. The Sixth Plan commenting on the asset ownership problem states: "There has not been any major change in the structure of asset ownership in rural areas during the sixties. In fact, if poor' households are defined as those with less than Rs. 1,000 of assets in 1961 or to allow for inflation, Rs. 2,500 in 1971, the percentage of such households increased from 30 percent in 1961 to 35 per cent in 1971. The bulk of assets of these 'poor' households consist only of their huts, some household goods and some livestock.\(^4\)

\(^4\) Sixth Five Year Plan, p. 8
Low educational attainments of the poor is also major cause of poverty. Poor parents are not able to help their children reach higher educational levels. The earnings of arts, science and commerce graduates were nearly six times as compared with those of illiterates and 3.5 times as compared with those with primary level education. Moreover, these differentials tend to increase with age.

1.1.5 EFFECTS OF POPULATION GROWTH ON POVERTY

Unrestricted growth of population has a devastating effect on the quality of life on this planet. One single reason for this is the ever-increasing pressure of population on the limited resources of nations. More people means more mouths to be fed, more men, women and children are to be provided with potable water to drink, pollution-free air to breath and houses to live in and so on. With a population of 846 million as on the sunrise of March 1, 1991, India's share in the world population increased to 16% from 15.2% in 1981. According to some estimates, the billionth Indian has born. Every sixth person in the world is now an Indian. As per the official population projections (prepared in 1989), India's population will grow to 1164 million by 2011 A.D. of which 750 millions will be from rural India. The growth of rural population from 299 millions in 1951 to 629 million in 1991 has already put a lot of pressure on the scarce land resources in the country and the 750 millions will further aggravate the same. The forests in
certain parts of the country have already been cut to create cultivable land. Unemployment and underemployment in rural areas have also increased. Although efforts have been made over the past five decades to generate non-agricultural employment in rural areas through the Khadi & Village Industries Commission and certain other departments, still four-fifths of the rural workforce (80.3% in 1991 compared to 81.0% in 1981 but 79.2% in 1961) depends on agriculture for livelihood. The overall work participation rate (WPR) in the country improved slightly from 36.7% in 1981 to 37.5% in 1991. This improvement in WPR was due to increased employment of females as the male WPR actually declined from 52.6% in 1981 to 51.6% in 1991. The WPR of both males and females was higher in rural population than that of the urban population.

1.1.6 POPULATION RISE & EMPLOYMENT

Some studies have also concluded that the population growth adversely influences education (Premi, 1982), employment (Krishnamurthy, 1982) and food supplies (Mitra, 1978). Increased pressure of population can also lead to rapid rural-urban migration thereby aggravating the already serious problems of employment, housing, crimes and infrastructural facilities in the urban areas. (Selvaratnam, 1988). The rapid increase in population has serious implications on the overall socio-economic development of the nation. The additional resources requirement for meeting growing population needs are estimated as follows:

<table>
<thead>
<tr>
<th>Items</th>
<th>Every year</th>
<th>Every day</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Houses</td>
<td>22,20,000</td>
<td>63,000</td>
</tr>
<tr>
<td>2. Food grains (quintals)</td>
<td>1,11,00,000</td>
<td>35,000</td>
</tr>
<tr>
<td>3. Jobs</td>
<td>35,40,000</td>
<td>10,000</td>
</tr>
<tr>
<td>4. Cloth (Meters)</td>
<td>16,80,00,000</td>
<td>460,000</td>
</tr>
<tr>
<td>5. Schools</td>
<td>1,30,000</td>
<td>360</td>
</tr>
<tr>
<td>6. Teachers</td>
<td>3,30,000</td>
<td>1,000</td>
</tr>
</tbody>
</table>

Table No. 1.2
According to Seklker and Sampath, India faces currently a dual race on the Malthusian lines - one race between population growth and food production growth and the other race between labour supply growth and labour demand growth.

1.1.7 THE QUESTION OF NUMBER

1.1.7.1 Measurement of poverty is conveniently undertaken by a 'head-count method' i.e. by taking a census of individuals and families who lack the basic minimum requirements in terms of their income equivalent (fixed by any standard). Number of economists, statisticians and administrators have adopted this method while arriving at the 'number' which forms the target group for policy intervention.

1.1.7.2 The estimates of poverty in India made by several economists and organisations can be summarised hereunder:

<table>
<thead>
<tr>
<th>Year</th>
<th>Author</th>
<th>Rural</th>
<th>Urban</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956-57</td>
<td>B.S.Minhas</td>
<td>181</td>
<td></td>
<td>181</td>
</tr>
<tr>
<td></td>
<td>M. Ahluwalia</td>
<td></td>
<td></td>
<td>181</td>
</tr>
<tr>
<td>1960-61</td>
<td>P.D.Ojha</td>
<td>184</td>
<td>6</td>
<td>190</td>
</tr>
<tr>
<td></td>
<td>P.K.Bardhan</td>
<td></td>
<td></td>
<td>131</td>
</tr>
<tr>
<td></td>
<td>Dandekar &amp; Rath</td>
<td>135</td>
<td>42</td>
<td>177</td>
</tr>
<tr>
<td>Year</td>
<td>Name</td>
<td>Page</td>
<td>(%)</td>
<td></td>
</tr>
<tr>
<td>----------</td>
<td>-----------------------------</td>
<td>------</td>
<td>-----</td>
<td></td>
</tr>
<tr>
<td>1963-64</td>
<td>EPW DA Costa</td>
<td>162</td>
<td>(34.5)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>B.S.Minhas</td>
<td>221</td>
<td>(57.8)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>M. Ahluwalia</td>
<td>171</td>
<td>(44.5)</td>
<td></td>
</tr>
<tr>
<td>1967-68</td>
<td>P.D.Ojha</td>
<td>289</td>
<td>(70.0)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>P.K.Bardhan</td>
<td>221</td>
<td>(53.0)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>M. Ahluwalia</td>
<td>235</td>
<td>(56.5)</td>
<td></td>
</tr>
<tr>
<td>1969-70</td>
<td>B.S.Minhas</td>
<td>210</td>
<td>(50.6)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dandekar &amp; Rath</td>
<td>166</td>
<td>49</td>
<td>215</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(40.0)</td>
<td>(50.0)</td>
</tr>
<tr>
<td>1970-71</td>
<td>Seventh Finance Commission</td>
<td>225</td>
<td>52</td>
<td>277</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(53.0)</td>
<td>(51.0)</td>
</tr>
<tr>
<td>1971-72</td>
<td>V.M.Dandekar</td>
<td>238</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(46.0)</td>
<td></td>
</tr>
<tr>
<td>1973-74</td>
<td>M.Ahuwalia</td>
<td>241</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(46.1)</td>
<td></td>
</tr>
<tr>
<td>1977-78</td>
<td>V.M.Dandekar</td>
<td>284</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(49.5)</td>
<td></td>
</tr>
<tr>
<td>1979-80</td>
<td>Sixth Plan (1980-85)</td>
<td>260</td>
<td>57</td>
<td>317</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(50.7)</td>
<td>(40.0)</td>
</tr>
</tbody>
</table>
1983 World Bank 252 65 317

(44.9) (36.4) (42.5)

1983-84 V.M.Dandekar 286

(44.4)

1987-88 Minhas, Jain and Tendulkar 284 77 361

(44.8) (36.5) (42.7)

Planning Commission 229 83 312

Expert Group (1993) (39.1) (40.2) (39.1)

1988 World Bank 252 70 322

(41.7) (33.6) (39.6)

1992 S.P.Gupta 269 86 355

(41.7) (37.8) (40.7)

Figures in parenthesis show the percentage to total population.

1.1.7.3 According to B.S.Minhas, the percentage of the rural poor has declined during the period 1956-57 to 1967-68. P.D.Ojha and Pranab K. Bardhan indicate the increasing proportion of the rural poor. According to them, the direction of change indicates a trend of growing pauperization. Dandekar and Rath have shown a constant proportion of both the rural and urban poor during the period 1960-61 and 1967-68, though the absolute increase has taken place in the rural poor from 135 million to 166 million and in the urban poor from 42 million to 49 million. Montek Ahluwalia is of the opinion that Indian experience over the past two decades does not indicate trend increase in poverty. The incidence of rural poverty falls in periods of good agricultural performance and rises in periods of poor agricultural performance. The Seventh Finance Commission estimates show that in 1970-71, 277 million persons were living below the poverty line - 225 million from the rural areas and 52 million from the urban areas. V.M.Dandekar's estimates reveal that 286 million persons were living below the poverty line in 1983-84. B.S.Minhas, L.R.Jain and S.D.Tendulkar opine that the incidence of poverty in 1987-88 at the all-India level comes to about 44.8 and 36.5 per cent in rural and urban areas.
respectively. In absolute terms, in 1987-88, 361 million were counted as poor - 284 million from rural areas and 77 million from urban areas. The estimates of Gaurav Datt and Martin Ravallion show that the persons below poverty line are 43.9 per cent - 40 per cent in urban and 45 per cent in rural areas. According to the Planning Commission Expert Group (1993), the rural poverty ratio has declined from 56.4% in 1973-74 to 39.1% in 1987-88 whereas that of urban poverty has declined from 49.2% to 40.1% during the same period. The overall poverty ratio has, therefore, declined from 54.9% in 1973-74 to 39.3% in 1987-88. World Bank estimates support the view that the proportion of persons below the poverty line has come down from 52.4% in 1970 to 42.5 per cent in 1983 and further to 39.6 per cent in 1988.

1.1.7.4 Dr. S.P. Gupta, Director, Indian Council for International Economic Relations has studied the changes in poverty ratios during the post-liberalization phase (after 1991). His study is based on the data of 49th round of the National Sample Survey. Dr. Gupta states, "If we take the NSSO estimates, which are based closely on methods suggested by the expert group appointed by the Planning Commission (July 1993), the poverty ratios in the rural and urban sector fell down from 57 per cent to 35 per cent and 45.9 per cent to 37.0 percent between 1970-71 and 1990-91 but moved up to 41.7 per cent in rural and 37.8 per cent in the urban sector in 1992. From 1988-89, these findings are based on NSS thin samples. Therefore, one should carefully compare these estimates with the earlier ones which were based on full sample. However, even when we compare all the estimates available since 1988-89, we observe the same declining trend with an upward turning in 1992. The big jump in the rural sector from 35 per cent to 41.7 per cent of people below the poverty line is a matter of great concern."

Similarly, the absolute number of poor, which showed a heavy reduction in number both in rural and urban areas, have risen by 56.9 million between 1990-91 and 1992. The directional changes in the poverty ratios in the post-liberalization phase are, thus, considered as alarming. Very recently, in a written reply to Lok Sabha, the Rural Areas & Employment Minister, Kinjrapu

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Yerannaidu informed that 24.4 crore persons are living below the poverty line, their percentage to the total population coming to 37.27.

1.1.7.5 Notwithstanding differences in methodology and estimates by various economists, the percentage of population below the poverty line has started declining as a consequence of the indirect benefit of higher growth rate as well as of poverty alleviation programmes. However, the absolute number of the poor has certainly increased over the years. "Judged by any reasonable standards, the extent of abject poverty in rural India is alarmingly massive. The precise estimate of whether it is two-fifths or one-half of rural people, who are beset with crushing poverty today, is a terribly academic matter. A far more important and practical need today is to focus policy analysis on concrete measures for the benefit of the poor, particularly the rural poor, who are more numerous but fail to catch as much attention as the urban poor."6

1.1.7.6 However, these methods conceal the 'intensity' or 'magnitude' of poverty. As a result, all the families below poverty line are treated as homogenous entities and because of this homogeneity approach, there is bound to be insufficient pulls or considerable mismatch between the policy objective and their actual realization. Within a layer of poverty (defined in any manner), there are sub-layers with varying intensity of deprivation. Policy measures directed towards poverty eradication should, therefore, be linked with the poverty level of each of the target beneficiaries rather than with the exigencies and conveniences of administration.

1.1.8 POVERTY ALLEVIATION

1.1.8.1 The period since 1950 has been marked by a remarkable and unprecedented economic performance in underdeveloped countries, as measured by the rate of growth of real per capita income. In a colloquium 'Towards a New Strategy of Development' held in the late seventies, the late Bill Warren observed: In terms of the standard measure of economic progress, GNP per capita, it must be stated unequivocally that the record of the third World postwar has been reasonably, and perhaps outstandingly, successful compared either with their pre-Second world

6 Minhas B. S., Rural Poverty, Numbers Games and Polemics, Indian Economic Review, New Series, April 1971, p. 102
War twentieth century record or with whatever past period one can care to take as relevant for comparison in the now developed market economies. 7

1.1.8.2 Despite remarkable growth performance, dissatisfaction with the growth process emerged in the 1970s because, to quote Bill Warren again, "the (economic) progress has been extremely uneven as between states, classes, regions and ethnic groups and has been accompanied by new and varied tensions." This disillusionment with the growth process led to the plea for a development strategy focused on a direct attack on poverty by the Perspective Planning Division 8 which suggested a set of measures later described as the pull-up strategy for attacking poverty. 9

1.1.8.3 In India, the anti-poverty strategy has relied and continues to rely on economic growth as one of the major instruments for poverty alleviation although the target-group-oriented and minimum needs programmes have been added since the late sixties. After two decades of planning, the country realized that its expectation of the trickle down effect of growth and hence amelioration in the economic lot of the poor had been cheated and, therefore, only simultaneous efforts on several fronts - what came to be known as direct assault on poverty - could alleviate poverty.

1.1.9 POVERTY ERADICATION POLICIES/PROGRAMME CHOICE & DESIGN

1.1.9.1 The poor can be divided into two categories:

i) those poor households which can be drawn into the main stream of economic activity

and ii) those which cannot.

1.1.9.2 This distinction depends on the presence or the absence of labour-endowments in the household for participation in economic activity. The absence of able-bodied adult members

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7 Warren, B.V., 1979, 'The Post-war Economic Experience of the Third World', in Hirschman et al., 1979, ch. 6, p. 147
may be caused by old age, infirmity or disability. It may also be due to the death of a breadwinner leaving behind children too young to work and a widow who may be prevented by social custom from working. This class of poor households has to be covered by social security provided by the community or the government. For those who can be drawn into the mainstream of economic activity, a direct attack on their poverty requires either their rehabilitation into self-employment activities or providing them with sustained employment in terms of adequate number of days and wage rates which together would enable such households to maintain an above-poverty level of living.

1.1.9.3 Poverty eradication programmes so far have covered two sets of economic measures:

i) those directed towards provision of employment opportunities and

ii) those directed towards income generating assets.

1.1.9.4 The National Rural Employment Programme (NREP) and the Integrated Rural Development Programme (IRDP) are centerpieces of the anti-poverty strategy. Both these programmes are centrally initiated, top-down attempts to reach the poor through mostly bureaucratic channels. NREP is a programme for generating wage-employment in slack seasons and hence can at best serve to provide temporary income supplements to the poor households. IRDP is a programme of rehabilitating the poorest rural households in potentially viable self-employment activities. Its rationale is derived from the premise that the non-availability of subsidized institutional credit is the basic constraining factor underlying the economic non-viability of the poor household.

1.1.9.5 Unless the beneficiary has ability and the mental inclination to manage an asset, his poverty would not be elevated. Asset management is an art and its success requires experience or training as well as abstinance i.e. postponement of present consumption. This abstinance again largely depends on the degree of poverty. If there is a acute poverty, abstinance will be belied even if the programme is supervised in the best possible manner, resulting either in the depletion of the assets or total transfer of the assets. As such, Job or Asset creation needs to be linked with the poverty level and capability of each of the target beneficiaries rather than the
exigencies and conveniences of administration. A blending of both may also be considered by resorting to a 'group-oriented' action plan like the *Poultry Complex Scheme* introduced by the *Government of Andhra Pradesh*. The chances of the assets being mismanaged and the investment becoming infructuous will be less in such cases.

**1.1.9.6 The policy for tackling the persistent poverty will also be different from the one for transient poverty.** Simple income-transfers or temporary avenues of income-generation would take care of the problem of transient poverty as the normal growth process would be expected to provide sustainable means of livelihood to transiently poor households. An attack on persistent poverty would need its transformation into an economically viable unit. The persistent nature of poverty is itself evidence of the household being insufficiently benefited by the normal development process. Technology and skill up-gradation, development of managerial and entrepreneurial capability to manage an upgraded asset-base and timely adequate financial assistance for income-generating assets may transform the persistently poor self-employed poor into a sustainable economically viable unit.

**1.1.9.7 With a view to eradicate the poverty, providing employment opportunities, creating durable assets and generating income from the activities undertaken, the Government of India introduced a number of programmes since independence:**

1. Intensive Area Development Programme (IADP)
2. Scheme for Development of Women & Children (DWCRA)
3. Scheme for Self-employment Programme for Urban Poor (SEPUP)
4. Scheme for Urban Micro Enterprise (SUME)
5. Scheme for Self-employment to the Educated Unemployed Youth (SEEUY)
6. Scheme on Differential Rate of Interest (DRI)
7. National Rural Employment Programme (NREP)
8. Rural Landless Employment Guarantee Programme (RLEGP)
9. Drought Prone Area Programme (DPAP)
10. Desert Development Programme (DDP)
11. Nehru Rozgar Yojana (NRY)
12. Minimum Needs Programme (MNP)
13. Intensive Command Development Programme (ICDP)
14. Rural Works Programme (RWP)
15. Special Nutrition Programme (SNP)
16. Rural Artisans Programme (RAP)
17. Command Area Development Programme (CADP)
18. Whole Village Development Programme (WVDP)
19. Food for Work Programme (FFWP)
20. Intensive Agricultural Area Programme (IAAP)
21. High Yield Varieties Programme (HYVP)
22. Tribal Development Programme (TDP)
23. Hill Areas Development (HADP)
24. Special Livestock Production Programme (SLPP)
25. Crash Scheme for Rural Employment Programme (CSRE)
26. Intensive Rural Employment
27. Training for Rural Youth for Self-Employment (TRYSEM)
28. Jawahar Rozgar Yojana (JRY)
29. Integrated Rural Development Programme (IRDP)
30. Swamjayanti Gram Swarojgar Yojana (SGSY)
31. Jawahar Gram Samridhi Yojana
1.1.10 PRIORITIES OF THE POOR

1.1.10.1 People's own criteria of well-being differ from those of strict PL-thinking. Jodha has presented a full list of categories used by poor people themselves, for assessing changes in their own economic status. He has elaborated and classified them under groups:

i) reduced dependence, expressed as reduced indispensability of support/mercy and resources of traditional patrons, landlords and resourceful people for the sustenance, employment and income of the poor

ii) less reliance on low pay-off jobs/options, improved liquidity and mobility

iii) shifts in consumption patterns

iv) consumer durables

He has then translated these into terms more familiar to economists as:

(a) Indicators of enlarging opportunity sets or increasing number of choices
   (e.g. in the matter of employment, borrowing, marketing etc.)

(b) Indicators of consumption activities with high income elasticities
   (e.g. travel, slack season purchases, length of maternity, feeding of women
   etc.)

(c) Indicators of investment in lumpy consumer durables
   (e.g. pucca structures of houses, compounds to houses
   etc.)

1.1.10.2 Poor people's priorities appear to include: incomes and consumption meaning higher and more reliable incomes and better consumption at lower personal and social costs, net assets meaning more wealth (assets and stocks, etc.) and fewer liabilities (mortgaged assets, debts, etc.) and security, independence and self-respect meaning better security against intimidation, exploitation and impoverishment, and independent ability to handle contingencies without undue hassle, subservience or dependent debt. The desire of poor people to command and own

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10 Jodha, N.S., 1988, "Poverty Debate in India: a minority view", Economic and Political Weekly, Special Number, November, pp. 2423
assets is a commonplace, whether these assets are land, a hut or house, equipment and tools, livestock, consumer durables, or others. The desire to be free of debt is also strong. In PL thinking, the net asset position of a household is not considered. Nor are assets on the one hand and income or consumption on the other linked in any simple linear manner. Indeed, poor people look on assets differently from officials and other professionals. Hirway found that non-participants in the IRDP want the schemes not for income generation but to acquire a cheap subsidized asset which also has a good resale value\(^{11}\). She has also emphasized the distaste her informants felt for debts, not just because of high interest rates, or forced labour from family members but also because what followed from them included **abuses and insults, helplessness, insults and pain, and touching the feet of the lenders and swallowing insults and abuses**\(^{12}\). They said, "**We always have to touch the feet of the rich to get a loan**"\(^{13}\)

### 1.1.11 OVerlooking Poor People's Own Criteria

Investigations, especially questionnaire surveys, almost always start from outsiders' assumptions about the poor, using outsiders' categories and indicators. It is rare for poor people themselves to be consulted about their own criteria for well being. Vulnerability and security are linked with independence and self-respect. But this is not part of conventional PL thinking and does not show up in normal statistical surveys. The IRDP arises from, and fits in with, PL-thinking with its emphasis on flows and measurements. Its aim is to raise incomes. From the hypothetical hierarchy of survival (flows), security (means to meet contingencies) and self-respect (independence), it is the first that the IRDP sets out to tackle. The IRDP does not, directly provide security of a sort which enables people to handle contingencies. To the contrary, it entails accepting the opposite of security - indebtedness - in order to raise income. It may then actually increase, not reduce, vulnerability, through dangers of failure, through inability to repay

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\(^{11}\) Hirway, Indira. 1986, Abolition of Poverty in India with Special Reference to Target Group Approach in Gujrat, New Delhi, Vikas Publishing House.

\(^{12}\) Hirway, Indira, 1985, "Discussion : "Garibi Hatao" : Can IRDP do it", EPW, Vol. 20, No. 13, 30 March, pp 142, 144, 147

\(^{13}\) ibid., p. 155
the debt, and through loss of the asset or having to dispose of it, as when landless families find they cannot afford to feed a milch buffalo between lactations. The misfit is that those who most need income are least able or likely to participate in the IRDP while those better able and more likely to participate have less urgent need of income, and care relatively more about security. Trees under Group Farm Forestry Programme can be good savings banks and insurance for the poor and their potential appears as vast as it has been unrecognized.

1.1.12 METHODS TO FIT PURPOSES AND CONDITIONS

It is easy to be wrong. All the same it seems right to follow through the lines of reasoning into the practical realm of what might be done. Poor people’s priorities can differ from those presumed for them by the non-poor. One of the least recognized areas of ignorance on the part of the non-poor is poor people’s own relative priorities. To overcome that ignorance requires a concerted and imaginative effort. Review of methods and approaches already used to elicit the values and priorities of poor people may be one effort in the direction. The R & D with poor people to further develop and refine such methods will also be useful. Collation and analysis of the priorities and attitudes revealed so far by the application of such methods and by other secondary data on an on-and-on going basis can be a powerful means to reversals, conscientization and a new professionalism which puts poor people first.

1.1.13 LOCAL MINIMUM STANDARDS FOR LIVELIHOOD

On the one hand, standard measures are needed for national planning and on the other, people’s own ideas and indicators of well-being vary by locality, region, social group, gender and so on. But standardized central criteria and decentralized local criteria need not be mutually exclusive. They can coexist, for their different purposes. The establishment of a local minimum standard for livelihood and well being could be standardized through tested methods of consultation. Criteria and their relative weights would then vary by region and by group. Local criteria put forward by poor people themselves have obvious and vital applications to broad policies and in detail to programme choice, design, monitoring and evaluation. The reversals they imply could
mean a better fit between what poor people want and the opportunities provided for them through official actions.

1.1.14 REVERSALS AND REALITY

Policy and research require reversals so that method does not define reality but reality determines method. When that occurs, policy and research can evolve to fit not the standardizing needs and strategies of bureaucrats and academics, but the varied and real needs and strategies of the poor.

1.1.15 RURAL POVERTY, CONCEPT OF RURAL POVERTY & POVERTY LINE

1.1.15.1 By the term rural poor we mean those vulnerable sections of the rural population who have income and consumption expenditure below what is considered to be the poverty line. They are persons who have only their labour to sell or have to pay exorbitant rent or share of the produce for cultivation of some land owned by others or being small owner cultivators, they have to pay exorbitant rate of interest for borrowed capital and are at a disadvantageous position in the commodity exchange market. They constitute a social group both under what is termed as capitalist mode of agriculture and under what is called semi-feudal mode.

1.1.15.2 M. Ravallion and K.Subbarao interpret the Head-Count Index of Poverty as a measure of incidence of poverty, the Poverty-Gap Index of Poverty as a measure of depth of poverty and the FGT (Foster, Freer and Thorbecke) index of poverty as a measure of severity of poverty. Any change in the incidence, depth or severity of poverty may be due to changes in the distribution of consumption - the redistribution component and changes in the average level of consumption - the growth component.

Planning Commission has defined poverty line as monthly per capita expenditure of Rs. 65 in rural areas and Rs. 75 in urban areas at 1977-78 prices corresponding to minimum calorie requirement of 2400 per capita per day in rural areas and 2100 per capita per day in urban areas. At 1984-85 prices, the per capita monthly expenditure at the poverty line has been estimated to be Rs. 107 in rural areas and Rs. 122 in urban areas.
1.1.15.3 Professor Dandekar's estimate of rural poverty in 1983 comprised 44.4 per cent of the rural population. Minhas and associates computed that in 1987-88, about 48.7 per cent of the rural and 37.8 per cent of the urban population were below the PL (after effecting appropriate price adjustment at the States' level for the relevant poor population). In 1989-90, 25.8 per cent of total Indian population was below the PL (210 million) - 28.2 per cent (168.6 million) in rural areas and 9.3 per cent (42.2 million) in urban areas. In 1992 A. Ghosh estimated nearly 43 per cent of the total population to be below the PL. In 1977-78, 307 million and in 1984-85, 273 million were poor. So, by 1989-90, there was another fall of nearly 38 million in the number of the poor in India. Growth that economy had achieved and real income redistribution that the direct programmes had brought about were the prime gents of this reduction in percent of the population below the PL. The fall in the incidence of poverty in urban areas was higher (29 per cent) than that in rural areas (23 per cent) between 1977-78 and 1989-90.

1.1.15.4 Gaurav Datt and Martin Ravallion in their paper "Regional Disparities, Targeting and Poverty in India" (1989) have developed the concept of poverty gap along with poverty line. They have measured poverty gap as the distance from the poverty line of average consumption expenditure of the poor in each state as a proportion of the national poverty line. The weighted co-efficient of variation reveals that poverty gap is relatively greater in rural areas than in urban areas. Greater effort are, therefore, necessary in rural areas for poverty alleviation with a focus on rural poor so that though a very large percentage may not cross the poverty line but a definite dent be made on reducing the intensity of poverty.

1.1.15.5 Rural poverty is mostly geographically dispersed and confined to the agricultural sector. The traditional village society has institutionalized community support mechanisms such as traditional payment systems. They provide institutionalized concessional access to common and personal property resources. These enable the poor to meet their subsistence needs and act as insurance against destitution. However, these mechanisms are breaking down with the progressive integration of the traditional village economy with the wider exchange economy.
Congested, unventilated shelter and unsanitary and unhygienic living environments are possibly smaller health hazards in rural areas than in their urban counterparts. Finally, the rural poor households can be easily classified into easily identifiable occupational target groups: artisans, agricultural labourers, marginal farmers, small farmers and traditional craftsmen or social groups such as scheduled castes and tribes.

1.1.16 RURAL UNEMPLOYMENT, WORK FORCE STRUCTURE
An integrated development of local level land, water and energy resources would not only step up rural growth rates but also ensure ecological preservation and local level labour absorption, thereby generating additional demand for viable self-employment. Non-availability of employment and employment at low wages accounted for low levels of purchasing power and hence inadequate intake of food by the poor in India. The population below PL who needed food needed, in fact, purchasing power, which only their being in employment could ensure. The race today is not, therefore, between population and food supply but between population and effective demand, as Seckler and Sampath affirm.

1.1.17 ANATOMY OF POVERTY
As G.B.Shaw remarked, the greatest of evils and the worst of crimes is poverty. On the basis of National Sample Survey (NSS, 38th Round), the World Bank report calculated the incidence of poverty among different categories of rural households. In wage-dependent families, (including those working in non-agricultural jobs) comprise 46% of the poor in rural areas. For agricultural labour households, 64% were below the poverty line in 1983. Self-employed households constituted the other large block of the rural poor. Nearly 38% of total poor were accounted for by the self-employed households. The question relevant here is of low paid job in case of wage employment or a low resource base in case of the self-employed. The extremely poor households have a larger number of dependents as they generally have more children. Extreme poverty leads to hunger, high susceptibility to disease, malnutrition and poverty related illness which may cause permanent harm or even death. They do not have fixed occupation. It is common for them to work as cultivators, hunters, gatherers, wage labourers, petty traders etc.
various times of the year. Their income vary according to the season. They spend nearly all their income on consumption mostly on food. Poverty is correlated with race and ethnic background. Scheduled castes and tribal peoples are among those most at risk of poverty. Women are often more severely disadvantaged.

1.1.18 ULTRA - POVERTY

The World Bank worked out the estimate of ultra-poor reckoned at 75% of the expenditure of poverty line. It was revealed by the World Bank study that whereas rural poverty for India as a whole got reduced from 53% in 1970 to 41.7% in 1988 and urban poverty declined from 45.5% to 33.6% during the same period, ultra poverty declined to a level of 20.4 per cent for rural areas and 15.8 percent for urban areas. The poverty line level attained for rural and urban areas show a difference of about 8 per cent whereas ultra-poverty levels show a relatively smaller difference of a little over 4 percent. It suggests that the percolation of the benefits of the growth process to the destitutes is even smaller than at the upper layers of poverty.

1.1.19 GROWTH WITH POVERTY

Second Five Year Plan stated, "The benefit of economic development must accrue more and more to the relatively less privileged classes of society and there should be a progressive reduction of the concentration of incomes, wealth and economic power". The basic aim of economic planning in India is to bring about rapid economic growth through the development of agriculture, industry, power, transport and communications and all other sectors of the economy. Indian planners aimed at increasing national and per capita incomes on the assumption that the continuous increase in these incomes would remove poverty and misery and raise the standard of living of masses. But when this did not happen, the objective of planning from the Fourth Plan onwards was not simply on growth but raising the standard of living of those who have been living in abject poverty for generations. According to the Fourth Five Year Plan, "the basic goal is a rapid increase in the standard of living of the people", and "emphasis is placed on the common man, the weaker sections and the less privileged." The slogans of "GARIBI HATAO" (Removal of poverty) and "GROWTH WITH JUSTICE" were coined during the early 1970s to
indicate clearly that the emphasis would be on removal of poverty and not simply on increase in national income.

1.1.20 THE DILEMMA OF FIGHTING POVERTY

Prof. Rajkrishna opined that Poverty will have to be attacked in India by direct measures because the weak multipliers of growth can alone never absorb the vast Indian labour surplus nor arise hundreds of millions of poor people above the poverty line. Brandt Commission recommended that development strategies which used to aim at increasing production as a whole will have to be modified and supplemented in order to achieve a fairest distribution of incomes taking into account the essential needs of poorest strata and urgency of providing employment to them.

1.1.21 RURAL POVERTY & NEO-GANDHIAN APPROACH

1.1.21.1 In 1991, about 627.16 million people lived in the Indian villages which is expected to increase to 699.31 million in 2001 and will constitute 69.50 per cent of the total Indian population. As the rural people constituted the core of the country - without whose development and prosperity the country could not progress - Gandhiji was emphatic that the rural development must precede the national prosperity. For this purpose, he proposed new education, Khadi and village industries and programmes of rural reconstruction. He wanted the villages to be self-sufficient. He wanted the villagers to produce enough for their sustenance and a little more for others.

1.1.21.2 Rural development is a process through which poverty is to be reduced or gradually eliminated by sustained increase in the productivity and income of the poor. Only a well coordinated programme of rural development could fulfill the Gandhian dream. This dream warranted that the people should also understand what was to be changed. The type of life the rural people live, the type of food they eat, the type of clothes they wear, the teachings they get, the sports they indulge in, the type of fellow feeling they foster, the type of relationship with the outside world they expect - all these are important in arousing the new quality of life that Gandhiji dreamt of. The first step in the direction is to arouse confidence among the villagers.
that they can live a satisfying life even in villages. Further, there consumption needs and production potential should be integrated.

1.2 MAIN OBJECTIVES OF ECONOMIC PLANNING

1.2.1 There is no uniform definition of the term "economic planning". Professor Robbins defines economic planning as "collective control or suppression of private activities of production and exchange". Hayek defined planning as "the direction of productive activity by a central authority". In the words of Lewis Lordwin, "Economic planning is a scheme of economic organization in which individual and separate plants, enterprises and industries are treated as coordinate units of one single system for the purpose of utilizing available resources to achieve the maximum satisfaction of the people's needs within a given time." According to Zweig, "Economic Planning consists in the extension of the functions of public authorities to organization and utilization of economic resources....Planning implies and leads to centralization of the national economy." To Dr. Dalton, "Economic Planning in the widest sense is the deliberate direction by persons in charge of large resources of economic activity towards chosen ends." Dickinson defines planning as "the making of major economic decisions what and how much is to be produced, how, when and where it is to be produced, to whom it is to be allocated, by the conscious decision of a determinate authority, on the basis of comprehensive survey of the economic system as a whole." To sum up, economic planning implies deliberate control and direction of the economy by a central authority for the purpose of achieving definite targets and objectives within a specified period of time. In the words of D.R. Gadgil, "Planning for economic development implies external direction or regulation of economic activity by the planning authority which is, in most cases, identified with the government of the state."14

1.2.2 SIGNIFICANCE OF & NEED FOR ECONOMIC PLANNING

At the time we became free, our economy was underdeveloped with poverty rampant and the quality of life was dismally low. Being an agrarian economy, there were virtually no industrialists.

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14 D.R Gadgil, Planning and Economic Policy in India, p. 88
People with money were not interested in investment in modern activities; they used to invest in non-development activities such as gold, land, luxury living etc. The difficult and unprecedented problems due to the partition of the country in 1947 such as influx of refugees on mass scale from Pakistan, big loss of raw material producing area etc. in addition to the problems inherited from history posed a great challenge before the country.

1.2.3 OBJECTIVES OF HISTORICAL ECONOMIC PLANNING

Just after the attainment of Independence, the Government set up the Planning Commission in 1950 to assess the country's need of material capital and human resources so as to formulate plan for their more balanced and effective utilisation. However, the need for economic planning was felt much earlier. During the pre-Independence period, a few unofficial development plans were prepared at the initiative of both the nationalist leaders and the leading industrialists of the country. The pioneering work was done by the National Planning Committee under the chairmanship of Jawaharlal Nehru towards the end of 1938. The Committee considered all aspects of planning and produced a series of studies on different subjects concerned with economic development. In the opinion of the Committee, the prevailing land tenure system was not only unjust but also arrested agricultural development. So it favoured agrarian reforms, including abolition of all intermediaries. For creating employment opportunities, it favoured protected growth of cottage industries. The Committee laid down that the State should own or control all key industries and services, mineral resources and railways, waterways, shipping and other public utilities and in fact, all those large-scale industries which were likely to become monopolistic in character. The Committee aimed at doubling the standard of living of the people in 10 years. Besides the National Planning Committee (NPC), eight industrialists conceived "A Plan of Economic Development" in 1940. Popularly known as the Bombay Plan, it was published in January, 1944 and got the wide publicity. It was a 15-year plan envisaging an expenditure of Rs. 10,000 crore and aiming at doubling the per capita income and trebling the national income during this period. It clearly stressed that the future development in this country should take place in the capitalist framework. It proposed to increase agricultural output.
by 130 per cent, industrial output by 500 per cent and services by 200 per cent of the 1944 figures. In August, 1944, the Government of India created the Planning and Development Department under the charge of Sir A. Dalal. The Department prepared a short-term plan for post-War reconstruction of the economy and a long term plan for the economic development of the country. There was also a Gandhian Plan which was prepared by Shriman Narayan Agrawal. The objective of this plan was to build a self-reliant rural economy - development of a decentralized self-sufficient agricultural society with emphasis on the development of cottage industries. This modest plan with an outlay of Rs. 3,500 crore was an idealist plan and neglected the development of basic and heavy industries. The world-famous revolutionary M.N.Roy's Peoples' Plan drafted on behalf of the Indian Federation of Labour, however, advocated creation of State capitalism. With an outlay of Rs. 15000 crore in 10 years, its emphasis was on the development of agriculture and consumer goods industries through the nationalization of all agricultural production and distribution. In 1946, a Planning Advisory Board was set up by the Interim Government for a rapid review of the projects prepared by the various government departments and to report on them. The Board submitted its report in December, 1946. All these plans were completely ignored by the government for obvious reasons. They remained paper plans and were never implemented. As such these plans are of only historical importance.

1.2.4 ECONOMIC PLANNING IN FREE INDIA

1.2.4.1 India's independence in 1947 paved the way for the adoption of economic planning. As the very slow and imperceptible changes cannot catch the imagination of the people, the economic growth fostered under planning should be perceptible. What an unplanned society can achieve over a long period can be achieved in a short period by the planned society. This fact alone can establish the faith of the community in planning as a lever of social and economic change. In the words of Jawaharlal Nehru, the architect of planning in India, "There are so many things we want to do in India and we want to do them quickly and passionately. The question of finding proper way to reach a certain goal becomes important."
1.2.4.2 On 26 January, 1950, the new Constitution of the Republic of India came into force which enunciated the Directive Principles of State Policy to be followed by the State for the economic rejuvenation of the country. The Directive Principles of our constitution laid down:

"The State shall, in particular, direct its policy towards securing

a) that citizens, men and women equally, have the right to an adequate means of livelihood
b) that the ownership and control of the resources of the community are so distributed as best to subserve the common good
c) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment."

The directive principles are an expression of the will of the people for economic growth and consequently, the Government adopted planning as a means for fostering economic development.

1.2.5 OBJECTIVES OF ECONOMIC PLANNING

1.2.5.1 In March, 1950, the Planning Commission was set up by the Government of India under the Chairmanship of Pandit Jawaharlal Nehru to prepare a Plan for the "most effective and balanced utilization of the country's resources". Four long-term objectives were set out by the planners in India:

i) to increase production to the maximum possible extent so as to achieve higher level of national and per capita income

ii) to achieve full employment

iii) to reduce inequalities of income and wealth

iv) to set up a socialist society based on equality and justice and absence of exploitation.

1.2.5.2 The First Five Year Plan expressed clearly the long-term objectives or goals of economic planning in India: "Maximum production and full employment, the attainment of economic equality or social justice, which constitute the accepted objectives of planning under
present day condition, are not really so many different ideas but a series of related aims which the country must work for. None of these objectives can be pursued to the exclusion of others. A plan of development must place balanced emphasis on all of these.\(^{15}\)

1.2.5.3 B.S.Minhas states: "Securing rapid economic growth and expansion of employment, reduction of disparities in income and wealth, prevention of concentration of economic power and creation of the value and attitudes of a free and equal society have been among the objectives of all our plans.\(^{16}\)

1.2.6 **MAIN OBJECTIVES OF ECONOMIC PLANNING**

1.2.6.1 **RAPID ECONOMIC GROWTH**

The *rapid economic growth* has been the *prime objective* of economic planning in India. The government has always given the greatest attention to this. Growth often enables the nation to become self-reliant, creates more employment opportunities, eliminates poverty and also reduces income inequalities. In a country with very low per capita income, stepping up of the production is obviously the basic thing to do. The planners, therefore, appear to have assumed that the realization of other objectives is very much linked with the realization of the growth objective. The objective also envisages a certain pattern of growth. Of the contemplated increase in the two types of goods, namely consumption-goods and capital goods, the emphasis has so far been on a faster rise in *capital goods* in order to achieve sharp stepping up in the productive capacity of the country. When it was found that growth under unstable conditions could not be accelerated beyond a certain limit, the emphasis of the *Fourth Plan* was on *growth with stability*. In India's economy, most instabilities are caused by fluctuations in agricultural production and uncertainties about foreign exchange. In the *Draft Fifth Five Year Plan*, economic growth was mentioned as an objective complementary to self-reliance and removal of poverty. However, in the final form, the Fifth Plan also accorded the highest priority to the objective of growth.

\(^{15}\) Planning Commission, *The First Five -Year Plan*, p. 28

\(^{16}\) B.S.Minhas, *Planning and the Poor*, p. vii.
1.2.6.2 SELF-RELIANCE

Self-reliance means "a reduction in the dependence on foreign aid, diversification of domestic production and a consequential reduction in imports for certain critical commodities and the promotion of exports to enable us to pay for imports from our own resources". Self sufficiency implies that a country produces all the goods and services it requires within the country itself without depending on others. Self-reliance implies that a country generates sufficient surplus to buy what it needs and therefore, it does not depend upon other countries for the resources of funds needed to acquire them. While self-sufficiency rules out imports, self-reliance allows a country to import provided it has the capacity to pay for it. For almost two decades since Independence, India could not adopt self-reliance in the sense of ability to pay for imports. But the excessive dependence on foreign aid, both bilateral and multi-lateral, affected the decision-making processes in India. This focused the attention of the Government for the urgent need of pursuing self-reliance as a goal of economic development - policy of economic autonomy and of not depending on foreign aid. The under-current in the basic philosophy of the Five Year Plans has been one of self-sufficiency. The First Plan gave top priority to agriculture so as to reach the goal of self-sufficiency in food. The goal of self-sufficiency was extended to the industrial sector in the Second Plan. It stated: "Rapid industrialization and diversification of the economy is thus the core of development. But if industrialization is to be rapid enough the country must aim at developing basic industries and industries which make machines to make machines needed for further development."\textsuperscript{17} The first clear enunciation of the goals of self reliance was made in the Third Plan: "The period of the Third Plan represents the first stage of a decade or more of intensive development leading to a self-reliant and self-generating economy."\textsuperscript{18} It further stated: "In the Third Plan, as in the Second, the development of basic industries such as steel, fuel and power and machine-building and chemical industries is fundamental to rapid economic growth. These industries largely determine the pace at which the economy can become self-

\textsuperscript{17} Planning Commission, Second Five Year Plan, p. 25
\textsuperscript{18} Planning Commission, Third Five Year Plan, p. 48
The concept of self-reliance was further developed in the Fourth Plan: "Self-reliance not only means freedom from dependence on foreign aid but also involves the establishment of an acceptable minimum standard of living for the masses and a continuing rise in this standard. With self-reliance, therefore, has been linked the capacity for self-sustaining growth. This means that the objective is not only to take the country towards freedom from dependence on external aid for its economic development but also to generate domestic capacities that will enable it to have a steady and satisfactory rate of economic growth without dependence on external aid." It also projected the philosophy formulated in Draft Outline. According to the Fourth Plan (1969-74), "National Self-reliance and growth with stability can be attained only if additional effort is put forward at every level. Dependence on foreign aid will be greatly reduced in the course of the Fourth Plan. Foreign aid net of debt charges and interest payment will be reduced to about half by the end of the Fourth Plan compared to the current level. Planned increases in production of food grains, raw materials and manufactured goods are calculated to make it possible to limit the growth of other imports to manageable proportion. A sustained increase of exports by about 7 per cent a year is another essential element of strategy in the Fourth Plan to secure balance on foreign account and approach speedily towards the goal of self-reliance." The Fifth Plan stated at the very outset: "Removal of poverty and attainment of self-reliance are two major objectives that the country is set out to accomplish in Fifth Plan. As necessary corollaries, they need higher growth, better distribution of income and a very significant step up in the domestic rate of savings." The Sixth Plan (1980-85) also considered removal of poverty and achievement of self-reliance as its two main objectives. There has been a shift in the meaning and significance of self-reliance in the last decade. It is now advocated that in the context of a global development strategy, a developing country like India need not deliberately plan for self-reliance and instead, it can accept transfer of resources from rich and

19 Planning Commission, Third Five Year Plan, p. 50
20 Planning Commission, Fourth Five Year Plan - a draft outline, August 1966, p. 24
21 Planning Commission, Fourth Five Year Plan (1969-74), pp. 13-14
developed countries. Further, the developing countries experience acute scarcity of investible domestic resources and have to supplement them by flows of external assistance. Dr. Manmohan Singh, the former vice-Chairman of the Planning Commission opined that in order to sustain the tempo of development, there is today no alternative to maximum possible self-reliance. In his own words, "Developing countries can no longer rely on increasing flows of concessional assistance to sustain the tempo of their development. They have no option today but to take self reliance more seriously than before." "Self-reliance has been defined in terms of the country's ability to sustain a reasonable rate and pattern of economic growth without excessive dependence on external resources supplied on concessional rates." "Thus self-reliance is consistent with continued use of non-concessional flows of capital which take place in response to normal commercial consideration." The Seventh Plan states clearly that the guiding principles of planning would be growth, modernization, self-reliance and social justice. In the words of the Seventh Plan, "Self reliance has been conceptualized not merely in terms of reduced dependence on aid but also in terms of building up domestic capabilities and reducing import dependence in strategic commodities." In the words of Dr. Manmohan Singh, "Our vision of a self-reliant economy should be of an economy which can meet all its import requirements through exports, without undue dependence on artificial external props such as foreign aid." As correctly pointed by the Eighth Plan, rural poverty in India is inextricably linked with low rural productivity and unemployment, including underemployment. To effectively tackle the problem of rural unemployment and underemployment, the Eighth Plan placed emphasis on the on-going programmes of employment creation, namely, Jawahar Rozgar Yojana (the wage employment programme) and the Integrated Rural Development Programme (the self-employment programme. The Eighth Plan correctly pointed out that "While these programmes do meet the short-term objective of providing temporary work to the unemployed, they must contribute to the


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creation of productive capacity of areas and/or individuals. This would be better achieved by a greater integration of the existing special employment programmes with other sectoral development programmes, which, in turn, would generate larger and more sustainable employment.\textsuperscript{24} The Approach Paper to the Ninth Five Year Plan (1997-2002) points out that a sustained and long lasting solution to the problem of poverty depends on the creation of adequate employment opportunities through a broad-based programme of development and economic growth. The ultimate objective of planning will be to improve the living conditions of the poor and the various disadvantaged sections of the society.\textsuperscript{25}

1.2.6.3 INCREASE IN EMPLOYMENT

Economic development in any country depends on natural and human resources. Economic growth without natural resources may be possible to some extent but growth without human resource is even unthinkable. Unemployment and under-employment are important factors for poverty in the country. The solution of unemployment/under-employment is directly linked with the amelioration in the condition of the poor. Hence, from the very beginning, removal of unemployment and underemployment has been an important objective of economic planning of the country, though it never received the priority it deserved. Low priority to employment under the various plans is clear from the fact that never in the history of economic planning in India was any plan framed keeping employment generation in focus. The Planning Commission argued explicitly in the Third Plan that as national income increased in response to investments and development outlay, the demand for labour would automatically rise and employment would expand. All the Plans before the Janata Plan (1978-83) had programmes of economic growth, with increase in employment as inherent in the development programme. The Planning commission has generally ignored the fact that increase in investment and increase in national product would not automatically result in larger employment. It was, in fact, always assumed that an increase in investment would automatically result in an increase in

\textsuperscript{24} Government of India, Planning Commission, Eighth Five Year Plan, 1992-97, Vol. II, p. 10
\textsuperscript{25} Government of India, Ministry of Information & Broadcasting, India 1998 : A Reference Annual, p.290
employment. Pramit Chaudhuri has aptly brought out this weakness of our economic goals:

"Although full employment was regarded as a desirable objective, its achievement was seen to depend on the fulfillment of achieving a capital stock objective and that in the long run. There was no serious concern in the formulation of the strategy for the compatibility of the employment targets with the various output and investment targets."\(^{26}\) For the first time, the Planning Commission admitted in the Janata Sixth Plan (1978-83) the possibilities of real conflict between employment and economic growth and accorded the importance to the employment in the Plan. Arun Ghosh has noted that for tackling unemployment problem effectively, employment opportunities should increase at a minimum rate of 3 per cent per annum and to realize this objective, it is necessary to restrict the pattern of investment and output in favour of areas, sectors and production processes with greater employment potential.\(^{27}\) The failure to create meaningful employment is the most tragic failure of development.\(^{28}\) Approach paper for the Fifth Five Year Plan pointed out, "The main causes of abject poverty in India are: (a) open unemployment, (b) under-employment and (c) low resource-base of a very large number of producers in agriculture and service sectors."\(^{29}\)

1.2.6.4 REDUCTION OF INEQUALITY OF INCOMES

There is a very small section of people who are better-off and who have no experience of poverty or misery. But the majority of the people are poor because their income is very low. Income and wealth inequalities have their roots in the traditional social formation and feudal system. There are large disparities between the rural and urban incomes also. Further, in the earlier phase of industrialization, a small minority manages to secure high incomes and the common people's share remain low. There are three main sources of very high incomes viz. capital gains receipts, entrepreneurial and speculative profits and salaries and perquisites of

\(^{26}\) Pramit Chaudhury, The Indian Economy, 1978, Vikas Publishing House, New Delhi, p. 221
\(^{29}\) Towards an Approach to the Fifth Plan, Government of India, Planning Commission, New Delhi, p. 5
business executives. According to the Planning Commission, reduction of inequalities arising from the generation of these high incomes will require both restrictive measures and fiscal efforts. Reduction of income inequalities has always been mentioned as one of the objectives in all the plans. However, the plans carried the imprint of Nehru's argument that in any poor country, this problem cannot be solved merely by redistributing income and wealth. The Fourth Plan stated, "To some extent, income disparities can be reduced through fiscal measures aiming at reduction of income at the top level; but for us it is important to lay far greater stress on positive steps for ameliorating the conditions of poor people through planned economic development. In a rich country, greater equality could be achieved in part by transfer of income through fiscal, pricing and other policies. No significant results can be achieved through such measures in a poor country." The Indian Plans never had a clear and positive strategy to redistribute wealth and income. From the Fifth Plan onwards, only a passing reference has been made to this objective presumably because of the low priority accorded to this objective in the economic planning. The Planning Commission itself admitted in the Sixth Plan document that during the earlier three decades of economic planning the country had made no significant advance towards the removal of income inequalities.

1.2.6.5 REMOVAL OF POVERTY

The Indian planners visualized the establishment of a socialist society in which every one would have equal opportunities in the matter of education, occupation etc. Wealth would be distributed equally and there would be no concentration of economic power in the hands of a few individuals or families. There would be no scope for exploitation of man by man. The first three plans talked of the setting up of a 'socialist pattern of society' or 'development along socialist lines'. The Fourth Plan talked about the establishment of a social and economic democracy. The objective is to render social justice to the poor of the country. Improving the living standards of the weaker sections of the population such as landless agricultural labourers, artisans, members

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30 Planning Commission, Fourth Five Year Plan, p. 15

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of scheduled castes and scheduled tribes etc., and reduction in the inequalities in the asset-distribution particularly in rural areas where the principal source of living for large many viz. land is very unevenly distributed are the two main dimensions of this objective. The Second Plan talked of creating a 'milieu' for the small man. The Fourth Plan talked of improvement in the condition of the common man and the weaker sections, especially through provision of "employment and education". Emphasis was also given on the attainment of a 'national minimum' as an essential pre-requisite to improve the conditions of the 'lower income groups'. The Fourth Plan stated: "The broad objectives of planning could thus be defined as rapid economic development accompanied by continuous progress towards equality and social justice and the establishment of a social and economic democracy." In India, the broad definition of economic democracy is the availability of opportunities for education, public health and sanitation, drinking water supply etc. for large masses of people, irrespective of whether they are rich or poor. It also recognised that the small farmers and the landless labourers constitute the bulk of the agricultural proletariat 'having no productive base and depending for its livelihood on wage employment'. It categorically stated: "In the implementation of the programme, the weakest are looked after and the benefits of development are made to flow by planned investment in the underdeveloped regions and among the more backward sections of the community."31 The Fifth Plan stated: "Unemployment, under-employment and low resource base of a multitude of producers, particularly in agriculture, are the principal causes of poverty... The elimination of abject poverty will not be attained as a corollary to a certain acceleration in the rate of growth of the economy alone. In the Fifth Plan, it will be necessary to launch a direct attack on the problems of unemployment, under-employment and massive low-end poverty."32 It also stated: "Employment is the surest way to enable the vast numbers living below the poverty level to rise above it. Conventional fiscal measures for redistribution of income

31 Planning Commission, Fourth Five Year Plan, 1969-74, p. 23
32 Planning Commission, Towards an Approach to the Fifth Plan, July 1972, p. 7

39
cannot, by themselves, make a significant impact on the problem." The Sixth Plan document stated: "The incidence of poverty in the country is still very high. Thus determined measures are necessary to combat poverty. A substantial increase in overall rate of growth of the economy will no doubt create favourable conditions for a reduction in poverty and unemployment. However, in the light of past experience, it will not be realistic to rely solely on the growth process to find a solution to this problem. Specific policy measures will be needed not only to influence the composition of output in favour of mass consumption goods but also to ensure a more regional and class distribution of output, paying special attention to stimulating growth in more backward regions. In addition, the ongoing poverty eradication programmes aimed at the specified target groups population will have to be improved and enlarged with regard to both content and coverage."

1.3 UNEMPLOYMENT

1.3.1 Unemployment is the state of affairs or condition in a country when there are a fairly large number of able bodied people with adequate skills and abilities who are willing to work at the prevailing rates of wages, but cannot find work or get jobs.

1.3.2 TYPES OF UNEMPLOYMENT

1.3.2.1 VOLUNTARY AND INVOLUNTARY UNEMPLOYMENT

Unemployment may be voluntary or involuntary. Voluntary unemployment exists when people have no desire to work due to any reason such as owning huge ancestral property etc. Thus, in any country, there is a certain percentage of rich persons who think that there is no need to work to earn a living. Even if they possess the requisite skills, they do not go to the labour market. Involuntary unemployment is a situation when a person with requisite skills and ability is willing to work at the prevailing rates of wages but cannot get any work or job suitable to him on a permanent basis.

33 Planning Commission, Approach to the Fifth Plan (1974-79), p. 8
1.3.2.2 SEASONAL AND PERENNIAL UNEMPLOYMENT

Rural unemployment in India has two aspects: Seasonal unemployment and Perennial unemployment. Not only that agriculture is the main occupation of the majority of the working population in rural India, but also that agriculture still continues to depend upon seasonal monsoon rains. Agricultural season in India is from sowing time to harvesting time. During this season, there is a near-full employment situation in villages. But once the harvesting is over, agricultural operations practically come to an end. Agricultural season depends upon amount of rainfall, availability of irrigation facilities, nature of soil, types of crops grown and nature of cropping pattern. Once the agricultural season is over, the seasonal unemployment starts. This seasonal unemployment ranges from four to seven months a year.

In many villages, even today, there are no worthwhile rural or cottage industries which can provide employment opportunities to people affected by seasonal unemployment. This seasonal rural unemployment problem is quite serious and requires close attention and effective measures for the solution of the problem. Perennial unemployment in rural India is more serious. On the one hand, the working population engaged in agriculture is increasing and on the other hand, neither the area under cultivation is increasing proportionately nor the adequate development of industries in rural India is taking place.

1.3.2.3 OPEN AND DISGUISED UNEMPLOYMENT

Open unemployment refers to the category of those who have no work to do. They are able as also willing to work but do not get the work. This type of involuntary idleness is found partly in villages and largely in cities. Disguised unemployment refers to a situation where employment is mostly a work-sharing device i.e. more people are employed on work than required. As a result, there is some surplus labour in agriculture which can be transferred to some other activity without affecting the output level in agriculture adversely. This is so because as the number of persons working on the farms increases, the marginal productivity of labour show a tendency to decline and sometimes becomes nil. Some of the persons are totally redundant and their removal from work may not have any adverse effect on the productivity. Coined by Joan
Robinson, this term has been used by Ragnar Nurkse and W.A. Lewis in the context of the densely populated agricultural countries. Open unemployment is to be distinguished from disguised unemployment and underemployment in that while in the case of former, workers are totally idle, in the latter, they appear to be working and do not seem to idling away their time.

1.3.2.4 UNEMPLOYMENT AND UNDER-EMPLOYMENT

1.3.2.4.1 Seasonal unemployment and disguised unemployment are frequently clubbed together and given the name underemployment. In the words of the Ninth International conference of Labour Statisticians, a situation of underemployment exists where persons in employment who are not working full-time would be able and willing to do more work than they are actually performing or when the income or productivity of persons in employment would be raised if they worked under improved conditions of production or transferred to another occupation, account being taken of their occupational skills. Accordingly, the ILO experts suggested in 1966 that persons with abnormally low earning should be considered as underemployed. This is known as the poverty approach to the employment problem.

1.3.2.4.2 Raj Krishna discusses four criteria of unemployment: time, income, willingness and productivity. The time criterion refers to the number of hours or days spent in gainful work. A person is severely underemployed if he is engaged in gainful work for 28 hours or less in a week and moderately unemployed if he is engaged for more than 28 hours but less than 42 hours in a week. The income criterion refers to the situation where the earning of an employed person is not sufficient for him to rise above the poverty. Such person may be working full time in terms of hours per day (time criterion) but earn little and so he is still poor e.g. casual labourers in rural areas. The willingness criterion refers to the situation where one is forced by unemployment to take a job that is not adequate for his purpose or not commensurate with one's ability and he is considered to be under-employed. The productivity criterion refers to disguised unemployment prevalent among the self-employed and hired labour force in rural India.

36 Raj Krishna, "Unemployment in India", Economic and Political Weekly, 3 March, 1979
1.3.3 MAGNITUDE OF UNEMPLOYMENT/UNDEREMPLOYMENT

1.3.3.1 Notwithstanding a very large number of people in rural India living without any regular and permanent income-earning jobs, the accurate calculation of the extent of unemployed and estimation of the under-employed is very difficult due to many statistical and practical difficulties. According to Bhagwati Report, out of 1.87 crore unemployed in the country in 1971, 1.61 crore were from rural areas. According to the same report, unemployed as a percentage of total working population worked out at 10.9 per cent for rural areas in the country.

1.3.3.2 The estimates of the Planning Commission at the end of each Five Year Plan reveal that the total unemployment at the end of each Plan had been on the increase. At the beginning of the First Plan, there were 3.3 million unemployed which increased to 5.3 million at the end of the Plan. The number of the unemployed increased to 7.1 million at the end of the Second Plan, to 9.6 million at the end of the Third Plan and to 13.6 million at the end of the Fourth Plan. Since these estimates were uni-dimensional, they failed to show the extent of unemployment and underemployment in rural and urban areas. Hence they were discontinued from the beginning of the Fifth Plan.

1.3.3.3 A person working 8 hours a day for 273 days of the year is regarded as employed on a standard person year (SPY) basis. On the basis of the recommendations of the Committee of Experts on Unemployment Estimates set up by the Planning commission, the National Sample Survey Organization uses three concepts to estimate the rates of unemployment in the country. The first is the measurement of unemployment on the Usual Principal Status (UPS) concept in terms of which a person is considered unemployed if he/she was not working but was either seeking or was available for work for a relatively longer time or throughout the reference year. The estimates are given in terms of numbers or persons. The second is unemployment on Current Weekly Status (CWS) concept according to which the reference period is a week and a person is considered unemployed if he/she has not worked even for one hour during the week but was seeking or available for work. The estimates are made in terms of the average number of persons unemployed per week. The third concept is unemployment of Current Daily Status
which records the activity status of person for each day of the seven days preceding the survey. A person having worked for one hour or more during a day was considered having worked for half a day and the one having worked for four hours or more during a day was considered as employed for the whole day. The estimates are given in terms of the total person days of unemployment.

1.3.3.4 Sixth Plan (1980-85) in its preamble to employment policy admits: "In the field of employment, the picture has been far from satisfactory. The number of people unemployed and under-employed have risen significantly over the last decade. In the above context, therefore, our employment policy should cover two major goals: Reducing underemployment by increasing the rate growth of the gainfully employed and reducing unemployment on the basis of usual status commonly known as open unemployment.

MAGNITUDE AND RATE OF UNEMPLOYMENT IN INDIA

1980

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<td>Weekly Status</td>
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<tr>
<td>Daily Status</td>
<td>20.74</td>
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Table No.1.3

Note: Rates of unemployment have been worked out as proportion of the number of unemployed persons to the total labour force.

Source: Compiled from Sixth Five Year Plan (1980-85)

On the eve of the Sixth Plan (1980-85), 12 million persons constituted backlog of unemployed. During 1980-85, new additions to the labour force were expected to be of the order of 34.3
million. Thus, the total number of unemployed were expected to be 46.3 million. The Sixth Plan projections estimate an employment generation of the order of 34.3 million during 1980-85, meaning that 12 million persons would account for the backlog of unemployed. Reviewing the growth of employment during the Sixth Plan, the Seventh Plan mentions: "In the Sixth Plan document, overall employment was expected to grow from 151.11 million standard person years (SPY) in 1979-80 to 185.389 million SPY in 1984-85 i.e. an increase of 34.28 million SPY. It has now been estimated that the employment in 1984-85 would have been of the order of 186.705 million SPY, implying an increase of 35.60 million SPY. The growth rate of employment generation during the Sixth Plan works out to 4.32 per cent per annum."37

1.3.3.5 On the eve of the Seventh Plan, the backlog of unemployment was estimated at 9.2 million for the age group 5-plus and the expected net addition to the labour was estimated at 39.38 million. Thus the overall magnitude of employment requirement for the Seventh Plan was worked out to 47.58 millions. Working on the envisaged growth rate of 5 per cent in GDP and the impact of poverty eradication programmes aimed at providing self-employment and wage employment for the poorer sections of the community, the Seventh Plan stated: "It is expected that additional employment of the order of 40.36 million standard person years would be generated during the Seventh Plan with an implied growth rate of 3.99 per cent per annum. The special employment programmes of NREP and RLEGp would generate 2.26 million standard person years of employment in 1989-90. The employment generation from IRDP has been estimated at 3 million SPY mainly concentrated in agriculture and other sectors."38 Outlining the employment strategy, the Seventh Plan mentioned: "The solution to the problem of unemployment and the poverty that goes with it - has to be found ultimately through a high rate of overall economic growth."39 However, the Seventh Plan document made it abundantly clear: "Employment generation as an objective does not mean the adoption of a static technology. It is

37 Seventh Five Year Plan (1985-90), Vol. II, pp. 113-14
38 Seventh Five Year Plan (1985-90), Vol. II, p. 115
39 Seventh Five Year Plan (1985-90), Vol. II, p. 112
not advisable to insulate the economy from the world trends in technological changes. Technological upgradation, modernization and scientific advances in production processes constitute the essence of growth of productivity whether it be in organized industry, agriculture or small industry. The Seventh Plan, thus not only followed the employment strategy of the Sixth Plan but also emphasized on technological upgradation and modernization of productive processes.

1.3.3.6 The Planning commission has estimated the extent of unemployment on the basis of 43rd round of the National Sample Survey (NSS) for 1987-88. Unemployment was estimated to be 12.43 million according to Usual Principal Status (UPS), 15.30 million according to Current Weekly Status (CWS) and 18.95 million (person years) according to Current Daily Status (CDS). As a percentage of labour force, the rate of unemployment in 1987-88 according to the three concepts works out to be 3.77, 4.80 and 6.09 respectively. Unemployment rates are much higher for the urban areas than for the rural areas and for women than for men. For instance, Usual Principal Status Unemployment rate was 6.56 per cent for urban areas as compared to only 3.07 per cent for rural areas. Similarly, UPS was 3.52 for rural females as against 2.87 per cent for rural males.

1.3.3.7 The UPS unemployment is considered as a measure of chronic or long-term unemployment during the reference year. The CWS unemployment also measures chronic unemployment but with the reduced reference period of a week. Its estimates indicate seasonal and part-time unemployment or underemployment. The CDS is a comprehensive measure of unemployment.

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The estimates of unemployment as on 1st April, 1990 are shown in the following chart:

**UNEMPLOYMENT BY UPS**

[Chart No. 1.2]

**UNEMPLOYMENT BY CDS**

[Chart No. 1.3]

Taking all the persons under the Weekly Status criterion, 16 million persons can be considered as unemployed in the sense of "Open Unemployment". On the basis of the ratio derived from the earlier round of NSS, about 12 million are estimated to be severely under-employed in the beginning of 1990. Taking 28 million as the backlog of unemployed in 1990, net additions to the
labour force during 1990-95 are expected to be 37 million. Thus 65 million would require employment during the Eighth Plan. It is expected that during 1995-2000, labour force would increase by 41 million. Thus by the year 2000, the total number of job seekers would be around 106 million. The Planning Commission, therefore, concluded: "Employment growth in the aggregate over the estimated employment of 300 millions in 1990 would have to be about 4 per cent compound per annum if the goal of providing employment to all is to be achieved by the end of the Eighth Plan and over 3 per cent per annum if it is to be attained by 2000 AD."41 The Approach paper of the Eighth Plan has accepted 3 per cent growth of employment as its goal for 1990-95.

1.3.4 EMPLOYMENT-ORIENTED GROWTH STRATEGY

1.3.4.1 The experts opine that an employment oriented strategy of industrial development provides the best answer to the challenge of unemployment and under-employment posed to an under-developed economy like India. Notwithstanding with the assumption of economic growth leading to increase in production and increase in employment, ILO statistics about a number of countries bring out the lack of correlation between production and employment growth. Obviously, the rate of investment and choice of technology determine the growth of employment.

1.3.4.2 Data about employment elasticity of the Indian economy indicate that "a one per cent growth in GDP was accompanied by 0.6 per cent growth in employment during 1972-73/1977-78, this figure continued to be reasonably high at 0.55 during the next five years 1977-78/1983; but steeply declined to 0.38 per cent during 1983/1987-88."42 To achieve a 4 per cent growth of employment would require, on the basis of the employment-elasticity of the eighties, 10.5 per cent growth of GDP per annum which is totally unrealistic. It would, therefore, be necessary that a restructuring of growth on the following lines is achieved so that employment opportunities grow at an accelerated pace and the country can achieve the goal of full-employment by 2000 AD with 6 per cent sustained growth of GDP. The Planning Commission suggests:

a. Economic growth would be mainly derived from sectors which have high observed and potential employment content.

b. Within each major sector, growth of commodities and lines of production with high employment intensity would be accorded high priority, subject of course, to the overall supply and demand (including export) balance.

c. Wherever possible, use of production techniques with higher employment potential per unit of capital, would be encouraged in different production lines; and tendency towards indiscriminate and often unnecessary increase in capital-intensity would be discouraged.

d. Besides reorienting public sector investment towards employment inducing sectors and lines of production, macro-economic -fiscal and credit - policies would be used for more effectively influencing private investment decisions in favour of the sectors and technologies with high employment potential.

1.3.4.3 AGRICULTURE AND ALLIED SECTORS

It has been observed that one per cent increase in irrigated area leads to 0.38 per cent increase in employment. Besides this, field studies in Andhra Pradesh, Orissa and Karnataka indicate an irrigated hectare of sown area uses 50 to 150 percent more labour than an unirrigated area. Thus the strategy of growth with employment should bring about extension of irrigation. Extensive use of technologies developed in the case of crops raised in rainfed area, community efforts for water conservation and management may also accelerate both growth in output and employment. High value and high labour using crops such as vegetable and fruits should be encouraged as vegetable are considered to be among the most labour intensive crops. Estimates for apple, from studies in Himachal Pradesh and UP hills, are 180 and 170 man-days per hectare, and for mango, 355 in Gujarat, 124 in Maharashtra, 91 for UP and 85 for Karnataka, the average being 140 days. A study by the National Council of Applied Economic Research (NCAER) shows that one hectare of planted area provides employment of the order of 600-700 man-days per year. Other allied agricultural activities which are highly employment generating
are animal husbandry and fishery. An estimate, using norms given by National Commission on Agriculture, puts the figure for 1990-95 at 61.50 million person years for animal husbandry and fishery sectors. Based on the recent studies by the National Dairy Development Board (NDDB) and earlier estimates by the National Commission on Agriculture, it is estimated that the animal husbandry sector, with the existing stock, can generate employment equivalent to 86 million person years inclusive of employment in processing and marketing of milk and milk products. Programmes of afforestation, regeneration and restoration of degraded land are not only likely to generate considerable employment but also create benefits for the disadvantaged social groups such as tribals and women who are most adversely affected by the degradation of eco-systems. The extent of cultivable wastelands is estimated to be around 130 million hectares. It is estimated that development of one hectare of wasteland will generate 128 man-days of employment with a wage component of as high as 70 per cent of the outlay. The Planning Commission, therefore, mentions: "A regionally diversified agricultural growth of round 4 per cent with marginal diversion of areas in favour of high value crops like fruits, vegetables and other cash crops and a 5 per cent per annum growth in animal husbandry is likely to generate a 2.5 per cent growth of employment in agriculture and allied sectors."^43

1.3.4.4 RURAL INDUSTRIALIZATION

1.3.4.4.1 Over one-fifth of the rural workers are currently engaged in non-agricultural activities. This proportion has shown a significant increase in recent years. From 14% in 1972-73, the proportion of non-agricultural employment in rural areas has increased to 19 per cent in 1983 and further to 22 per cent in 1987-88. This shift is attributable to the growth of productive employment opportunities in the non-farm sector in rural areas and is not a mere result of the overcrowding in agriculture which has led to the eviction of people from land. There is need to strengthen this trend further so that employment generation potential of rural areas can be realized. Removal of poverty necessitates an improvement in the level of employment as also

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alleviating under-employment. At the same time, excessive dependence on State schemes to create employment leads to the development of a psychology which hinders self-sustaining growth. The Government support to programmes and institutional assistance accorded to rural development as a matter of fact, instead of arousing the spirit of local initiative and enterprise, have actually benumbed them and the village population have begun to consider these aids as political succour instead of catalyst for their developmental efforts.

1.3.4.2 A programme of rural industrialization should be launched so that the problems of unemployment and under-employment in rural areas could be controlled to a great extent. The processing of agricultural produce should be done at a place near the place of origin so that rural labour gets employment. Ancillary and feeder industries should also be established in or near the rural areas. Processing of rice, cotton ginning, preparation of milk and milk products, oil extraction, jute manufacture and extraction of sugar is an illustrative but not exhaustive list of industries which can be established in rural area so that a full-time employment can be provided to a large number of rural people. Fruit and vegetable processing including packing, canning and preservation of fruits and vegetables units, preparation of jams, pickles and other food products etc. can be undertaken in rural areas. Industries using agricultural by-products as raw materials for manufacturing units such as alcohol from molasses and bagasse, use of rice husks to serve as fuel; broken rice for wine-making and oil from rice bran etc. offer good scope for employment. For this purpose, techno-economic surveys of rural areas should be planned to assess the need and potentialities of various regions and necessary administrative, technical, financial and organizational support should be made available by the State. Cottage and village industries can be encouraged further. They may manufacture not only the consumer goods such as ploughs, picks, shovels, wheel barrows etc. but also the items used by large scale industries. In order to achieve the objectives of more production with more employment, reduction of the capital intensity of industrialization has become a must. A deliberate shift towards a more labour-intensive product-mix and a more labour-intensive technology mix may
result in labor-intensive industries which combine the advantages of low capital per worker and per unit of output.

1.4 RURAL FINANCE

1.4.1 NEED FOR RURAL CREDIT

1.4.1.1 Credit is an important resource and every sector of the national economy - agriculture, industry, trade, transport and various services - need finance both for carrying on day-to-day activities and also for growth and progress. Even today, the agriculture sector continues to function as the backbone of the Indian economy as the highest contributor to Gross Domestic Product (GDP) and also as provider of large employment. Credit plays a crucial role in oiling the wheel of agricultural production.

1.4.1.2 PRODUCTIVE AND UNPRODUCTIVE LOANS

An agriculturist may need credit for carrying on the activities of production. He has to buy seeds, fertilizers, water etc. He has to pay wages if he engages workers. He has to meet expenditure for making permanent improvements on land such as digging wells, installation of pump sets and laying of pipelines, fencing the land, clearing marshy areas, purchase of modern agricultural implements and machines etc. During the period between the harvesting of crop and its sale, he needs finance to meet his expenses of consumption. All these fall under the "Productive loans". The farmer may have to incur expenses on marriages, on birth and death ceremonies, for purchase of jewellery, for litigation and so on. Such expenses do not contribute to the production and hence they are called "unproductive purposes". Still the farmer has to incur these expenses to maintain his so called social status. They become critical if the amount involved is high compared to the repaying capacity of the farmer. When they do not get the finance for such unproductive purposes, either the loan taken for productive purposes is diverted to unproductive purposes resulting in misutilisation of loan or they approach the private moneylenders for getting the finance. In both the cases, they fall in the vicious circle of indebtedness. Indian farmers used to carry the dead weight of such type of loans for centuries together.
1.4.1.3 SHORT-TERM, MEDIUM-TERM AND LONG-TERM CREDIT

1.4.1.3.1 SHORT-TERM LOANS

Short-term loan is normally required for raising short-duration crops. Purchase of seeds, manure and fertilizers, pesticides and insecticides, fodder for animals, payment of electricity and water bills, land cess and rent, wages etc., expenses for carrying goods to the market, for meeting the domestic expenses specially in the years in which the crops have failed require the money and the agriculturist without savings, has to depend on the short-term loans. Such loans are required for short periods of less than 15 months and are normally repaid after the following harvest season.

1.4.1.3.2 MEDIUM-TERM LOANS

The farmer requires finance for medium period ranging between 15 months and 60 months for the purpose of making improvement on land, buying bullock cart, bullock pairs, cattle such as cows and buffaloes, agricultural implements, digging or repairs of wells, installation of pump sets, laying of pipelines, sprinklers and drips etc. Such expenses facilitate production over a longer period. Such loans are called medium term loans and repayment thereof along with interest is also spread over a period extending up to 5 years.

1.4.1.3.3 LONG-TERM LOANS

The farmers may require finance for the purpose of buying additional land, to make permanent improvement on land, to buy costly agricultural machinery such as tractors, for setting up horticulture or plantation etc. The loan may be required for a period extending more than 5 years. Such loans are called long term loans.

1.4.1.4 SPECIAL FEATURES OF AGRICULTURAL LOANS

1.4.1.4.1 The need for agricultural loan depends more upon the nature of agricultural operations - area to be sown, type of crops to be raised etc. than the output - quantity, quality, price etc. Agricultural output may be more or less and the quality may be good or coarse depending upon the monsoon, weather and other natural conditions. In spite of technological breakthrough and green revolution, Indian agriculture continues to be a gamble in the monsoon - two good
crops followed by two bad crops and an indifferent one. Market value of agricultural produce again depends upon the prices in the market at the relevant time of sale of produce. Generally they are lowest at the time of harvest. The farmer has very little command over all these. It is, therefore, not possible to make very precise calculations about credit in terms of the output.

1.4.1.4.2 Whereas the agriculture is a seasonal operation, the consumption needs of agriculturists have to be met out throughout the year. Irrespective of production process, finance is needed to meet consumption needs of farmers to sustain them for agricultural work.

1.4.1.4.3 Unlike the businessmen/industrialists who can hypothecate their stock-in-trade as security for loan, the agriculturist has to hypothecate his future crops which are uncertain. The repayment of short-term loans and instalments of medium term loans solely depend upon the crops. The failure of crops may worsen his position. A very little insurance and that too for certain specified crops is available to him. The mortgage of land is not an easily encashable security.

1.4.1.4.4 Farmers need the finance at the right time in right quantum and for all their needs. Any one factor missing from this may result in misutilisation/diversion of funds. Since the majority of farmers are poor and not highly educated, the chances of diversion of finance from productive to unproductive purposes are comparatively more and hence close supervision and follow up by the financial institutions is all the more necessary in rural credit.

1.4.1.4.5 A sound system of rural credit should take into account the above stated special features of rural credit to ensure increase in production, productivity and income of the borrowers, prompt repayment of loans and expeditious alleviation of poverty.

1.4.2 SOURCES OF RURAL CREDIT

1.4.2.1 The farmers get short-term financial requirements satisfied through loans borrowed from money lenders, cooperative credit societies, banks and the Government. For long-term needs, the farmers depend upon the money-lenders, land development banks, commercial banks and the Government. The sources of rural credit can be divided into two categories - non-institutional and institutional. Non-institutional sources include moneylenders, traders and commission
agents, relatives and friends and landlords. The institutional sources include the Government, the cooperative credit societies/banks, the land development banks, the commercial banks and the regional rural banks. According to All India Rural Credit Survey in 1951-52, the share of non-institutional sources in rural credit was 92.7% whereas that of the institutional sources was only 7.3%.

**SOURCES OF RURAL CREDIT:**

**ALL INDIA RURAL CREDIT SURVEY, 1951-52**

![Chart No. 1.4](chart.png)

However, as revealed by All India Debt and Investment Survey (1981), the share of non-institutional sources in rural credit came down to 36.8% in 1981 and that of the institutional sources went up to 63.2%. This is because of emphasis on strengthening and expanding cooperatives and commercial banks to meet the growing demand for agricultural credit.
1.4.2.2 NON-INSTITUTIONAL SOURCES OF RURAL CREDIT

1.4.2.2.1 MONEYLENDERS

The moneylenders have been the prime source of credit in rural areas, though they are losing the ground to institutional agencies since introduction of First Five Year Plan. The money lender may be a professional moneylender or he may be a shop keeper undertaking the activity of moneylending also. There are agriculturist moneylenders also who combine farming with money lending. The share of moneylenders in rural credit has come down from 69.7 in 1951 to 16.1 in 1981.
The preponderance of the moneylenders in rural credit is because of his easy accessibility and supply of credit for productive as well as non-productive purposes in a very simple and elastic method. However, number of malpractices are associated with the moneylenders. High rate of interest, obtaining of promissory notes or bonds for amount higher than the loan amount, no receipt for repayments etc. are some of the rogueries committed by the moneylenders. Their main interest has been to exploit the farmers for their benefit and grab their lands. In order to prevent the moneylender from catching poor and needy farmers into their trap by unscrupulous practices, most of the State Governments have passed Money-lenders Act with a view to restrain them from their malpractices and for registration, licensing and regulation of activities of moneylenders. Under the 20-point Economic Programme, the Prime Minister made an announcement in July 1975 regarding a plan for liquidation of rural indebtedness and legislation for a moratorium on recovery of debt from landless agricultural labourers, small and marginal farmers and rural artisans and regarding declaring labour in bondage, generally for non-payment of debt, as an illegal practice and freeing them from bondage. Following this, various State Governments introduced Debt Redemption and Moratorium Legislation. However, the Rural Credit Survey had already come to the conclusion that debt relief legislation generally proved powerless against moneylenders. Further, in view of 5.6 lakh villages, many of them with
powerless against moneylenders. Further, in view of 5.6 lakh villages, many of them with population of 500 or less, it is going to take a long long time for the institutional credit to reach all the needy rural population and till then, the moneylenders will continue to be an important source of rural credit.

1.4.2.2.2 TRADERS & COMMISSION AGENTS

Traders and commission agents accounted for 5.5% share in rural credit in 1951-52 which had come down to 3.2% in 1981. They supply funds to farmers for productive purposes much before the crops mature and force them to sell their produce at low prices and charge a heavy commission for themselves. This source is all the more important in case of cash crops like cotton, groundnut etc.

**TRADERS' SHARE IN RURAL CREDIT**

![Chart No. 1.7]

Traders and commission agents possess all the weaknesses and shortcomings of the moneylenders.

1.4.2.2.3 RELATIVES & FRIENDS

From 14.2% in 1951-52, the share of relatives and friends in rural credit has come down to 8.7 per cent in 1981. The villagers borrow from the relatives and friends to meet the temporary needs. This informal source of credit is either interest free or carry a very low rate of interest and the loans are generally repaid after the harvest.
However, this source of rural credit is uncertain and cannot meet the increased needs of modern agriculture.

1.4.2.2.4 LANDLORDS AND OTHERS

Farmers - specially small and marginal - and landless labourers depend upon landlords and others to meet their financial requirements. In addition to all the defects associated with the system of moneylenders and traders/commission agents, this source of finance forces the landless labourers to become bonded slaves. Small farmers are cheated and their lands are appropriated. However, this source of finance is becoming more important as its share in rural credit increased from 3.3% in 1951-52 to 14.5% in 1961-62 and 10.7% in 1971. Though it has come down to 8.8% in 1981, it is still greater than its share of 3.3% in 1951-52.
1.4.2.2.5 SHORTCOMINGS OF NON-INSTITUTIONAL SOURCES OF RURAL CREDIT

The non-institutional sources of rural credit are predominantly governed by personal profit motive and are therefore, more exploitative. They give the loans for non-productive purposes also. The rate of interest is high and the borrowers find it difficult to pay the interest as well as to repay the loan. Once they fall in the vicious circle of the non-institutional sources of rural credit, it is next to impossible for them to get out of it. It is like Chakravyuha of Mahabharat in which Abhimanyu could enter but not exit. As the Report of the All-India Rural Credit Survey admirably summed up, "Private credit, generally unsuitable, is wholly unsuitable in the context of planning for larger production." Notwithstanding all this, the non-institutional sources of rural credit will continue to play their role because of the personal relationship between the moneylender and borrowers, least business formalities, flexible arrangement, inability of institutional sources to meet all their credit needs specially for consumption and non-productive purposes. However, their share is likely to decline in coming years.
1.4.2.3 INSTITUTIONAL SOURCES OF RURAL CREDIT

1.4.2.3.1 The major policy of rural credit has been its progressive institutionalization for supplying agriculture and rural development programmes with adequate and timely flow of credit to assist weaker sections and less developed regions. The basic objectives of this policy are:

- To ensure timely and increased flow of credit to the farming sector
- To reduce and gradually eliminate the money-lender from the rural scene
- To make available credit facilities to all the regions of the country i.e. reduce regional imbalances
- To provide larger credit support to area covered by special programmes such as Pulses Development Programmes (PDP), Special Rice Production Programme (SRDP), National Oilseeds Development Project (NODP), Integrated Rural Development Programme (IRDP) etc.

1.4.2.3.2 Institutional sources of rural credit such as cooperative societies, banks, farmers' service societies etc. are relatively cheaper. Their basic motive is always to help the farmers to raise their productivity and maximize their income. They make a clear distinction between short-term credit and long-term credit requirements of the borrowers and accordingly fix the repayment period/instalments and rate of interest. They also give consumption loans to a limited extent. Institutional credit is fully integrated with other needs of borrowers. They have vast resources of funds to meet the growing demand of agricultural and rural sector. In modern age, agriculture needs coordination of a number of activities such as extension, proper estimation of credit needs, timely and adequate supply of inputs, repayment arrangements suited to the ability and convenience of the farmers, effective machinery for recovery of loans and adequate market facilities. Only institutional channels of credit can meet these requirements of a co-ordinated approach in a modernized agriculture.

1.4.2.3.3 Institutional sources accounted for 7.3 per cent of total credit requirements in 1951-52 which jumped to 63.2 per cent in 1981 - 30 per cent from cooperatives and 29 per cent by commercial banks (including RRBs) and 3.2 per cent from other institutions.
1.4.2.3.4 The cooperatives and commercial banks (including RRBs) raised the disbursement of rural credit from Rs. 24 crore in 1960-61 to Rs. 26,450 crore in 1995-96. The outstanding level of credit of the various credit agencies for the period 1989-90 was as under:

OUTSTANDING OF INSTITUTIONAL RURAL CREDIT

<table>
<thead>
<tr>
<th>Credit Agency</th>
<th>No. of Branches</th>
<th>Rs. in Crore</th>
</tr>
</thead>
<tbody>
<tr>
<td>PACS</td>
<td>88,341</td>
<td>7,290</td>
</tr>
<tr>
<td>DCCBs</td>
<td>352</td>
<td>10,686</td>
</tr>
<tr>
<td>PLDBs(714)</td>
<td>1,416</td>
<td>1,498</td>
</tr>
<tr>
<td>SCBs</td>
<td>28</td>
<td>6,833</td>
</tr>
<tr>
<td>SLDBs(19)</td>
<td>698</td>
<td>3,924</td>
</tr>
<tr>
<td>Commercial Banks(28)@</td>
<td>31,444</td>
<td>40,383</td>
</tr>
<tr>
<td>RRBs(196)</td>
<td>14,511</td>
<td>3,554</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>74,168</strong></td>
<td></td>
</tr>
</tbody>
</table>

@ Rural and Semi-Urban Branches. Figures in Parenthesis are the number of the Institutions.
1.4.2.3.5 The Government as a source of rural finance, in spite of low rate of interest and convenient mode of repayment in instalments and known as taccavi loans, has not assumed any significance.

**PERCENTAGE SHARE OF GOVERNMENT IN RURAL CREDIT**

![Bar Chart](chart.png)

Chart No. 1. 11

Its percentage share in rural credit has slightly increased from 3.3 in 1951-52 to 3.9 in 1981. State Governments annually advance around Rs. 350 crore to Rs. 400 crore in the form of short-term loans to agriculture. Delay in getting loan and bribe to the Government Officials connected with sanction/disbursement of taccavi loans are two major reasons because of which farmers do not prefer this source of rural credit.

1.4.3 COOPERATIVE BANKS

1.4.3.1 HISTORICAL BACKGROUND

1.4.3.1.1 The earliest attempt towards institutional rural credit was the formation of Cooperative Organizations with a view to relieve the farmers from the clutches of money lenders and indigenous bankers and to provide easy credit to promote the economic interest of the peasants. The official recognition to the co-operative movement took the shape of passing cooperative legislation. The first Cooperative Societies Act was enacted in 1904. It was called as Co-operative Credit Societies Act, 1904. The Act permitted the formation of agricultural credit societies only. To make the movement comprehensive, the said Act was subsequently amended
in 1912 and it was called the Cooperative Societies (Amendment) Act, 1912. According to Indian Cooperative Societies Act, 1912, cooperative society means a society which has, as its object, the promotion of the economic interest of its members in accordance with co-operative principles. The steep fall in the prices of agricultural commodities and rising indebtedness of the Indian peasantry due to the Great Depression of 1929-33 threatened the very existence of primary cooperative credit societies as also some of the district level and state level cooperative credit societies. A number of committees went into the question. The Agricultural Finance Sub-Committee (1945) under the chairmanship of D.R. Gadgil examined the whole question thoroughly and comprehensively. It recognised cooperation as "the best and most lasting solution for the problem of agricultural credit" but felt that the cooperative societies as they existed then could not be solely relied upon to meet the needs of rural credit fully or substantially. The Cooperative Planning Committee appointed by the Government of India in 1946 with R.G. Saraiya as the chairman recommended that the village level cooperative credit societies should be made multi-purpose as also that Government should contribute to the share capital of central cooperative banks and the Apex Banks and also associate with their management. The Government accepted these recommendations. The Agricultural Credit Organization Committee appointed by the Government of Bombay in 1947 under the chairmanship of Manilal Nanavati opined that cooperatives are the most suitable agency for providing agricultural credit. However, until independence in 1947, the main objective of the cooperative movement was to protect the peasantry from the clutches of unscrupulous money lenders and help them to improve their condition through relatively cheap credit from the cooperative credit societies.

1.4.3.1.2 The Committee of Direction to conduct an All-India Rural Credit Survey appointed by the Reserve Bank of India submitted its report in 1954. It opined that cooperative credit at 3% of the total borrowings of the agriculturists had proved thoroughly inadequate to meet the financial needs of agriculturists. However, the Committee was convinced that in the Indian context, the cooperative society was the most suitable agency to provide credit to agriculturists.
The Survey Report of 1954 provided a blueprint for the future development of the Cooperative Movement in India.

1.4.3.1.3 The Government of India appointed a committee on cooperative credit under the chairmanship of V.L. Mehta in 1959. The Committee recommended that the cooperatives should generally be organised on the basis of a village as a basic unit. It also made recommendations about making primary cooperative societies viable, membership, type of loans, security, State-participation in the share capital of PACS etc. The Government accepted practically all the recommendations of the Mehta Committee. Attention was given more to the reorganization of primary societies and ensuring sufficient credit to all types of cultivators with special emphasis on the financial needs of small and medium class cultivators. A programme was introduced by the Government and RBI to reorganize and revitalize the primary agricultural credit societies and for amalgamation of non-viable societies with farmers' service societies or large sized multipurpose societies. It was completed in Rajasthan, Orissa, Madhya Pradesh, Kerala, Tamil Nadu and Gujarat. The number of PACS had come down from 2,12,000 in 1960-61 to 1,61,000 in 1970-71 and 88,000 in June, 1990. The number of strong, revitalized PACS has remained around 88,000 even now.

1.4.3.2 PRIMARY AGRICULTURAL CREDIT SOCIETY (PACS)

The primary agricultural cooperative credit society is the basic unit of the cooperative credit organization. "It is supposed to be an association of borrowers and non-borrowers who, residing in a locality, know one another and take interest in one another's affairs." The value of each share is generally nominal so as to enable even the poorest farmer to become a member. Loans are given for short period, normally for one year, for carrying out agricultural operations. Now-a-days, they give the long term loans also. The rate of interest is low as compared to that of private lenders. The working funds consist of the own funds of the PACS (Share Capital, Membership fee, reserve funds etc.), deposit of members and non-members and loans from

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District Central Cooperative Banks and the Government. The usefulness of the primary cooperative credit societies will be clear from the fact that the loans advanced by them increased from Rs. 23 crore in 1950-51 to Rs. 9,970 crore in 1995-96.

1.4.3.3 PACS & COMMERCIAL BANKS

To supplement the efforts of the cooperatives in areas where the district central cooperative banks are either organizationally or financially weak to shoulder the responsibility of financing all the farmers in their areas, a scheme to help PACS was introduced by the Reserve Bank of India under which commercial banks are to finance primary agricultural credit societies which, in turn, will finance the farmers. Accordingly, the branches of commercial banks in rural areas have adopted some PACS for disbursing agricultural loans. The scheme is being implement in 142 districts in 13 states and nearly 2,725 primary societies are being assisted. The scheme, however, has not been as successful as was anticipated.

1.4.3.4 PACS & WEAKER SECTION

Cooperation has been considered as an instrument of economic development of the disadvantaged, particularly in the rural area. The non-exploitative character of cooperatives, voluntary nature of membership, the principle of one man one vote, decentralized decision-making and self-imposed curbs on profits eminently qualified them as an instrument of development combining the advantage of private ownership with public good.

1.4.3.5 DISTRICT CENTRAL COOPERATIVE BANKS (DCCBs)

The district central cooperative bank is a federation of primary credit societies. The membership of the bank is confined to primary societies only. Some banks have mixed membership, consisting of both primary societies and individuals possessing some financial status or influence or some special business capacity or experience in the field of cooperative banking. Their area of operation normally extends to the whole district and that is why they are called district central cooperative banks. They are mostly located at District Head Quarters. They may have branches at the other places in the district, usually at taluqa level. The main task of these banks is to lend to village primary cooperative credit societies. They act as an intermediaries between the State
Cooperative Bank on the one hand and the village primary credit societies on the other and constitute key link in the chain of relationship between the Apex State Cooperative Bank and the grass-root primary societies. They accept deposits from general public. The branches establish close contact with and exercise effective supervision over the Primary Agricultural Credit Societies. They maintain staff of inspectors who keep watch on loans given to primary societies, progress of recovery of loans from primary societies, examine statements of assets and liabilities of PACS and thus keep the DCC Bank in touch with the working of the PACS affiliated to them. They are the banks through whom the schemes of agricultural/rural development/poverty alleviation of Central /State Governments as also instructions of NABARD/RBI are routed for implementation at grass root level. The NABARD has formulated a scheme for rehabilitation of weak central cooperative banks. It also provides liberal assistance to the State Governments for contributing to the share capital of the weak central cooperative banks selected for the purpose. At present, there are 361 District Central Cooperative Banks. Their share capital has gone up from Rs. 4 crore in 1950-51 to Rs. 2783 crore in 1994-95. Their working capital has gone up to Rs. 30,543 crore in the same year. The total loans advanced have gone up from Rs. 83 crore in 1950-51 to Rs. 22,373 crore in 1994-95.

1.4.3.6 STATE CO-OPERATIVE BANKS (SCBs)

State Cooperative Bank is the apex cooperative bank at the State level. It is the federation of District Central Cooperative Banks working in the state. It finances and controls the working of the central cooperative banks in the State. It is a link between NABARD from which it borrows and the district central cooperative banks. Its working fund consist of own funds (share capital and reserves), deposits from the general public and loans and advances from NABARD. The State Cooperative Bank is not only interested in helping the rural cooperative credit movement but also in promoting other cooperative ventures and in extending the principles of cooperation. In the words of All-India Rural Credit Survey Committee, "The state cooperative banks form the keystone of the cooperative movement in the state. They link the movement not only with commercial money markets but also with the Reserve Bank of India as a potential source of
credit for seasonal and emergent needs." "Thus, the state cooperative banks occupy a parental
position in the cooperative credit structure."

1.4.3.7 WEAKNESSES OF COOPERATIVE CREDIT MOVEMENT

A highly distressing fact of co-operative credit is the heavy overdues of co-operative credit
institutions, presently estimated at over Rs. 3000 crore. The percentage share of credit from
cooporatives to tenants, share-croppers, landless agricultural labourers and rural artisans, who
are the poorest and most needy, is only around 3 to 5 per cent. Many PACS are financially
weak and are not in a position to meet the production-oriented needs of the villagers in time.
The PACS have failed to become self-reliant cooperative financial institutions meeting fully the
genuine needs of their members. Lack of cooperation on the part of the people and defective
management and leadership also did not allow the cooperative credit to make much headway.

1.4.4 LAND DEVELOPMENT BANKS

1.4.4.1 Agriculturists require two type of loans - short term loans for raising short duration crops
and long/medium term loans for land development, purchase of machinery, raising long duration
crops etc. The period of short term loan may extend up to 15 months whereas the period of long
term loan may range between 3 to 10 years. In case of long term loans, the amount involved is
comparatively large and such loans could be repaid over period of years. The Government set
up its own machinery for giving long-term loans to agriculturists from its funds under the Land
Improvement Loans Act (1883) and Agriculturist Loans Act (1884). However there was
extremely slow progress in granting of long-term loans under the above two acts. The
Cooperative Movement started in 1904 and though the PACS were permitted to give long term
loans under certain circumstances, it was found that they were unsuitable for such loans to the
farmers. A need was, therefore, felt for a special type of institution to provide long term credit
requirements of Indian farmers.

45 C.B. Mamoria, Agricultural Co-operative Structure in India, p. 115
1.4.4.2 The Cooperative Land Mortgage Banks were started in Punjab (1920), Madras (1925) and Bombay (1929). It gradually spread to other states. The Conference of the Registrars of Cooperative Societies held in 1929 recommended that Land Mortgage Banks should be organised on cooperative lines and should be registered under the Cooperative Societies Act. The Royal Commission on Agriculture (1926) and the Central Banking Enquiry Committee also made certain recommendations regarding bringing about healthy growth of Land Mortgage Banks. During the great depression (1929-1933), the land development banks received some stimulus as agricultural prices fell considerably and the farmers needed financial assistance. The Second World war resulted in prosperity of the farmers who could repay their debts with the land development banks. This resulted in shrinkage in the loaning activities of the LDBs. The All-India Rural Credit Survey Committee recognised the crucial role and importance of the Land Mortgage Banks and made certain recommendations of far reaching significance. Land Development Banks (LDBs) have now been renamed as Agricultural and Rural Development Banks (ARDBs) to cater not only to the investment needs of agriculture and allied activities but also to meet the credit needs of non-farm sector such as rural and cottage industries and small enterprises in rural area.

1.4.4.3 STRUCTURE OF LDBs

There are central land development banks, generally one for each State and the primary land development banks. In some states, there are no primary land development banks but there are branches of central land development banks.

1.4.4.4 OBJECTIVES OF LDBs

The primary objective of the LDBs is to provide long term financial assistance for agricultural development. The financing may be for a variety of purposes such as redemption of old debts, improvement of land, purchase of costly agricultural equipments e.g. tractors, construction of well, erection of pump sets and laying of pipelines. For last few years, irrigation and farm mechanization are the two main purposes for which the farmers are borrowing from LDBs.
1.4.4.5 SOURCES OF FUNDS OF LDBs
LDBs obtain their funds from share capital, reserves, deposits and issue of bonds or debentures - ordinary and rural. Ordinary Debentures for long term are issued by the Central Land Development Banks for fixed periods, carrying fixed interest. Normally, the period is up to 20 years. Such debentures are guaranteed by State Governments for repayment of principal and payment of interest. They are subscribed by NABARD, the commercial banks, Life Insurance Corporation of India. Rural debentures for a period up to 7 years are also floated by the LDBs and are subscribed by farmers and Panchayats. LDBs also enjoy substantial refinance facility from NABARD.

1.4.4.6 LENDING OPERATIONS OF LDBs
As the loans granted by LDBs generally run for several years, security is given more importance. Normally, it is against the first mortgage of agricultural property, though they may give loans against second mortgage also. The repaying capacity is also given weightage. Landless labourers, village artisans and marginal farmers are not able to secure credit from the LDBs as they do not possess land or adequate security to offer against loans. Though their nomenclature has been changed from Land Mortgage /development Banks to Agricultural and Rural Development Bank, financing agro-processing industries, rural and cottage industries, dairy farming, poultry farming, inland and marine fisheries, sheep rearing, sericulture, gobar gas plants, bullock carts etc. against the hypothecation of assets, charge on land, third party guarantee etc. is yet to take off.

1.4.4.7 PROGRESS OF LDBs
The number of primary land development banks and their branches increased from 286 in 1950-51 to 2,450 in 1994-95 whereas that of Central (or State) land development banks increased from 5 to 19 during the same period. Total loans advanced by the land development banks would come to Rs. 2,800 crore and the loans outstanding would be around at Rs. 5,000 crore in 1995-96.
1.4.4.8 PROBLEMS OF LDBs
Mounting overdues reported to be between 42 and 44 per cent have caused innumerable financial problems for LDBs. It has also limited the capacity to lend in view of limited refinance, based on recovery percentage, available from NABARD. Faulty loaning policies, inadequate supervision, misutilisation of loans, ineffective measures for recovery are the main reasons for poor recovery. Lack of trained manpower capable of shouldering the increasing volume of business and to face the emerging challenges is also another area that needs serious attention.

1.4.4.9 FUTURE OF LDBs
The changes in the legal framework of respective Cooperative Societies Acts and bylaws of the LDBs to enable them to grant loans for non-traditional purposes of agricultural development and for non-land based investment activities may result in expansion of loaning activities of LDBs. There is a tremendous scope for financing for minor irrigation, farm mechanization as well as for agro-processing and rural industries. Given proper support, LDBs would be in a position to play effectively their role in rural development.

1.4.5 COMMERCIAL BANKS
1.4.5.1 The Banking Industry in India at the time of its inheritance by independent India was modeled on the British Banking system. It was conservative in outlook and the credit policies were oriented in favour of established industries and trade, with low element of risk. The soundness of loans was by and large determined by the security offered by borrowers as also the period for which they were required. But these "could be seriously in conflict with the larger economic and fiscal considerations which should govern the distribution of the investible resources in an economy. Again, the rule of profit maximization in private enterprises has prevented them from helping rural people."\(^{46}\) They kept themselves aloof from the problems of agriculture and had remained largely indifferent to the credit needs of farmers for agricultural operations and land improvement.

1.4.5.2 STATE BANK OF INDIA

The Committee of the Direction of the All-India Rural Credit Survey appointed by the Government of India in 1951 to review the problem of rural credit strongly recommended the setting up of a State Bank as one strong integrated State-partnered commercial banking institution with an effective machinery of branches spread all over India providing remittance facilities to cooperative credit societies and other commercial banks and following a credit policy in accordance with the national plans and priorities and thus making efforts to meet credit needs of the agricultural sector without departing from the sound principles of commercial banking. Accordingly, the State Bank of India Act was passed in 1955 and the State Bank of India (S.B.I.) was constituted on 1st July, 1955 by conversion of the Imperial Bank of India. The preamble of the Act setting the S.B.I. stipulated one of the main objective of the Bank as the extension of banking function on a large scale, more particularly in the rural and semi-urban areas and this was followed by the stipulation that no less than 400 branches should be opened within the first five years of the Bank's working. S.B.I. exceeded the target by opening 416 branches between July 1955 and June, 1960. 274 of these branches were located in centers with population below 25000.

1.4.5.3 SUBSIDIARIES/ASSOCIATES OF STATE BANK OF INDIA

In 1959, the State Bank of India (Subsidiary Banks) Act was passed enabling the State Bank of India to take over, as its subsidiaries, the eight formerly State-associated banks. Subsequently two subsidiaries were merged into one and now there are seven subsidiaries namely State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Indore, State Bank of Mysore, State Bank of Patiala, State Bank of Saurashtra and State Bank of Travancore. These subsidiaries were later designated as Associate Banks. They opened 425 new branches by June 1969. The number of branches opened by SBI group after June 1969 till March, 1998 numbered 10,719.
1.4.5.4 PERFORMANCE OF STATE BANK GROUP

1.4.5.4.1 It may truly be said that the State Bank of India was and has been a pioneer in the field of rural banking. It was the S.B.I. which set the direction and pace in respect of opening branches in rural areas of the country, in providing remittance facilities and credit to cooperative credit societies, to the agricultural sector and to small scale industries. It evolved Area Approach, the Village Adoption Scheme, Agricultural Development Branches manned by trained officials and personnel.

1.4.5.4.2 The SBI group had 13,314 branches as at March, 1999 - 8,930 branches of SBI and 4,384 of Associates. The total deposits of the Group were Rs. 2,19,277 crore - 1,69,042 crore of SBI and Rs. 50,235 crore of the associates. The advances of the group, the SBI and the Associates were Rs. 1,08,325 crore, Rs. 82,360 crore and Rs. 25,965 crore respectively. Amongst the public sector banks, (as at the end of March, 1997), the SBI group emerged as the biggest unit with 13071 branches, deposits aggregating 1,24,879.8 crore and advances of Rs. 83,913.6 crore. The SBI group accounted for around 34 per cent of aggregate banking “Business” (aggregate of deposits and advances) conducted by the public sector banks and around 27 per cent of the aggregate “Business” of the entire banking system.

1.4.5.4.3 The SBI advances to the priority sector as a proportion of its net bank credit comes to 40.7% as at March, 1999. The assistance to the weaker sections (including SC/ST, small and marginal farmers, landless labourers and the beneficiaries of Integrated Rural Development Programme and Differential Rates of Interest schemes) comes to Rs. 4,658 crore. Under IRDP, over Rs. 3,212 crore have been disbursed to over 69 lakh beneficiaries. Women and SC/ST beneficiaries constituted 21.5% and 34.5% respectively of the total IRDP beneficiaries. With a view to ensuring proper identification of IRDP beneficiaries, the Bank implemented a pilot project on its own in 24 districts spread over 220 branches in 11 States. Under the Prime Minister’s Rozgar Yojana, the Bank has so far assisted 1,88,429 beneficiaries to the tune of Rs. 1,143 crore.
1.4.5.4 It gave a lead to other banks in rural banking and agricultural finance and continues to occupy pre-eminent position in the matter. Truly, S.B.I. is the pace setter and innovator in financing agriculture and allied rural activities.

1.4.5.5 NATIONALIZATION OF MAJOR PRIVATE COMMERCIAL BANKS

1.4.5.5.1 On 14th December, 1967, the Deputy Prime Minister made a statement in Lok Sabha on social control of the Commercial Banks. When social control experiment on banks failed because ownership and credit policy can not be divorced, 14 major Indian Commercial banks i.e. banks having deposits of Rs. 50 crore or more were nationalized on 19th July, 1969. The main objective of nationalization as set forth in the Preamble to the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 was "to control the heights of the economy and to meet progressively and serve better the needs of development of the economy in conformity with national policy and objectives and for matters connected thereof or incidental thereto." The then Prime Minister set forth the following considerations as influencing bank nationalization:

*Nearly fifteen years ago, Parliament approved that we should set before ourselves the goal of a socialist pattern of society. Since then, Government have taken several measures towards the achievement of this goal. Public ownership and the control of the commanding heights of national economy and of its strategic sectors are essential and important aspects of the new social order which we are trying to build in this country. We regard this as particularly necessary in a poor country which seeks to achieve speedy economic progress, consistent with social justice in a democratic political system which is free from the domination of a few and in which opportunities are open to all.

Financial institutions are among the most important levers that any society has at its command, for the achievement of its social and economic objectives. It is in recognition of this fact that we nationalized life insurance business and the Imperial Bank of India over a decade ago. Since then, we have also set up in the public sector other institutions for the provision of medium or long-term finance to industry and agriculture.*
The nationalization of major banks is a significant step in the process of public control over the principal institutions for the mobilization of people's saving and channelising them towards productive purposes...

1.4.5.5.2 In the second phase of nationalization, 6 more banks with deposits (demand and time) exceeding Rs. 200 crore were taken over by the Government from 15th April, 1980.

1.4.5.5.3 Thus the process of inducting commercial banks into the fold of rural lending in general and agricultural lending in particular was completed with the nationalization of commercial banks.

1.4.5.6 PERFORMANCE OF NATIONALIZED BANKS

The important aim of nationalization of banks was to provide more banking facilities, particularly in unbanked/underbanked areas, so as to reduce regional imbalances as among states, as also between rural and urban areas. The nationalized banks together with the State Bank of India and its associates did a commendable job of increasing the number of bank offices from 7,015 in June 1969 to 66,252 in March, 1998. Of these 66,252 branches, 32,895 (49.65%) were the rural branches while 14,233 (21.48%) were the semi-urban branches. Quite a large number of them were located in backward states. The average population per bank office came down from 65,000 in June 1969 to 15,000 in 1998. There was a large increase in deposits from Rs. 3,897 crore in 1969 to Rs. 6,05,410 crore in March, 1998. Bank credit too increased tremendously from Rs. 3,599 crore to Rs. 3,24,079 crore during the period. The amount outstanding under priority sector increased from Rs. 441 crore in June 1969 to Rs. 93,807 crore in March, 1997, the number of accounts increasing from 260 thousands to 34,859 thousands. In percentage terms, the share of the priority and neglected sectors out of the total bank credit increased sharply from 14.9 per cent in June 1969 to over 41.7 per cent in March, 1997, exceeding the stipulated lending target of 40% by 1.7 percentage points. The public sector banks have thus made considerable progress in promoting development and in fulfilling the social objectives of the country.
1.4.5.7 CREDIT DEPOSIT RATIO
Credit deposit ratio is one of the measures to check unequal distribution of credit among different regions of the country. In order to stop the emigration of credit from rural area to urban areas, public sector banks were required to achieve a credit-deposit ratio of 60 per cent in rural and semi-urban areas separately by March, 1979. The same target was subsequently extended to private sector banks also. The credit deposit ratio of rural branches has increased from 56.7 per cent as on March, 1980 to 64.4 per cent as on March, 1988. In fact, the actual credit-deposit ratio in rural areas crossed the target of 60 per cent by 1982. Since then, the credit-deposit ratio has been well above the target ratio.

1.4.5.8 SPECIALIZED RURAL BANK BRANCHES
After nationalization, the commercial banks established separate rural bank branches to meet the special needs of rural economic activities. Apart from Agricultural Development Branches by State Bank Group, Bank of Baroda launched Gram Vikas Kendra for the purpose of integrated rural development of the villages. Dena Bank established specialized branches known as Rural Service Centers to provide technical support. Syndicate Bank promoted Farm Clinics to help the farmers for finance as well as supplies.

1.4.5.9 SERVICE AREA APPROACH
1.4.5.9.1 The commercial banks have adopted a new strategy for rural lendings viz. "Service Area Approach" since February, 1988. In February, 1988, N.D.Tiwari, the then Finance Minister, announced in his budget speech that the banks were to adopt the new service area approach. RBI instructions were issued immediately and by December, 1988, the banks had ready credit plans for every village in all the 445 districts of the country. On 1st April, 1989 - within a year of its announcement - the scheme was launched all over the country. It is obvious that political expediency has dictated this speedy implementation. Each semi-urban and rural branch and some of the urban branches of commercial banks have been allotted a specific area comprising a cluster of villages within which it will operate, adopting a planned approach for its economic growth. In accordance with this approach, rural and semi-urban branches of the banks
commercial banks and regional rural banks) have been allotted villages all over the country. Besides, the banks branches have also been allotted villages for covering non-target group beneficiaries in the service areas of Regional Rural Banks whom the latter are not expected to serve. The cooperative banks, regional rural banks and land development banks have been advised to fall in line with the commercial banks. The rationale of this approach is to avoid duplication of efforts and scattered lending over wider areas. It would also ensure credit planning and close monitoring of the end use of funds.

1.4.5.9.2 The growing flow of funds into the agricultural sector after the introduction of the service area approach is clearly indicated by the official statistics:

FLOW OF AGRICULTURAL CREDIT

<table>
<thead>
<tr>
<th>Year</th>
<th>Commercial</th>
<th>Cooperatives</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs.</td>
<td>Rs.</td>
<td>Rs.</td>
</tr>
<tr>
<td>1984-85 (End of VI Plan)</td>
<td>2,790</td>
<td>3,440</td>
<td>6,230</td>
</tr>
<tr>
<td>1989-90</td>
<td>4,930</td>
<td>5,260</td>
<td>10,190</td>
</tr>
<tr>
<td>1990-91</td>
<td>5,010</td>
<td>3,970</td>
<td>8,980</td>
</tr>
<tr>
<td>1991-92</td>
<td>5,400</td>
<td>5,800</td>
<td>11,200</td>
</tr>
<tr>
<td>1994-95</td>
<td>9,200</td>
<td>11,910</td>
<td>21,110</td>
</tr>
<tr>
<td>1995-96 (Target)</td>
<td>13,680</td>
<td>12,770</td>
<td>26,450</td>
</tr>
</tbody>
</table>


Table No. 1.5

As on 31st March, 1997, the commercial banks had 222.25 lakh accounts with limit of Rs. 30,946.21 crore and outstanding of Rs. 27,217.36 crore under direct "Agriculture". So far as indirect "Agriculture" financing is concerned, the banks had 3 lakh accounts with credit limit of
Rs. 6,034.34 crore, the outstanding being at 4,416.8 crore. 47 Thus the total agricultural advances from the commercial banks come to Rs. 31,634.15 crore under 225.24 lakh accounts with limits of Rs. 36,980.55 crores.

1.4.5.10 The emergence of SBI as a dominant force and leader of the banking system, followed by nationalization of banks, resulted in boosting our economy from creeping to take off stage. Mitigation of poverty through credit facilities resulting in removal of unemployment and creation of income-generation is a complex enigma. The commercial banks have been instrumental in converting static credit into dynamic credit. Initially, commercial banks were rather hesitant to enter the field of rural finance but today they have forged ahead of cooperatives in extending rural credit. It will thus be clear that the commercial banks have made considerable progress in promoting rural development and in fulfilling the social objectives of the country. Apart from the credit requirements of the traditional sector, the banks have geared up by opening special agricultural branches to exclusively attend to hi-tech and export oriented projects in the fields of floriculture, aquaculture, tissue culture and agro-processing etc. Bank credit is now readily available for 'thrust area' activities such as livestock improvement, animal husbandry and dairy development, minor irrigation, promotion of high-yielding crops in traditional and non-traditional areas, agro-processing of horticulture produce etc. With the milk production of 710 lakh tonnes in 1997-98, India is now the second largest milk producing country in the World, after United States. Our foodgrains production is estimated to have touched 191.17 million tonnes by the end of 1997-98. The irrigation potential has increased from 22.6 mha in 1951 to 89.44 mha by the end of VIII Plan (1992-97). The supply of credit by the banks have its own share in such a big progress in "Agriculture" sector.

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47 Reserve Bank of India, Statistical Tables Relating to Banks in India, 1997-98
1.4.6 REGIONAL RURAL BANKS (RRBs)

1.4.6.1 NEED FOR RRBs

The commercial banks suffered two handicaps in the task of providing rural credit - firstly the high cost structure of their branches operating in rural areas and secondly lack of proper approach and training to deal with rural clientele and problems of agricultural and rural finance.

"Commercial banking developed class-banking and not mass banking." As a matter of fact, "the commercial banks had not lived up to expectations." "It was against this background that it came to be contemplated that specialized financial institutions should be established to handle effectively the problem of providing credit to rural areas." The Banking Commission (1972) recommended that a chain of Rural Banks be established in addition to the regular branches of commercial banks already operating or to be opened anew in rural areas. However, the long-felt need could be fulfilled when Government of India promulgated an ordinance on 6th Sept., 1975 for establishment of Regional Rural Banks to provide rural credit which became an act after the Parliament passed it on 9th February, 1976. The Working group headed by Shri M. Narasimham observed, "The existing institutions, as they are presently structured would not be able to fill the regional and functional gaps in the rural credit institutional system within a reasonable period of time, even with such adaptations, reorganization and restructuring as may be considered. In a country of the size and regional diversity as ours, no single pattern, be it commercial banking or cooperative credit, can be expected to meet all the emerging requirements in all areas. A degree of adaptation and improvisation is called for and the range of institutional alternatives widened. It is in this context that we have come to the conclusion that a new type of institution is necessary." "The new institutions were expected to combine the strength of both the co-operatives as well as the commercial banks." The RRB carries an

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48 B. Ramchandra Rao, Current Trends in Indian Banking, p. 173
49 Smt. Indira Gandhi, Statement in Parliament on 11-04-1976 (Indian Express, 12th April, 1976)
50 S.S.M. Desai, Rural Banking in India, p. 287
51 Quoted in report of the working group on Regional Rural Banks, 1986
advantageous position since it possesses a blend of rural experience of co-operative system and the commercial and professional touch of development of commercial banks in as far as deposit mobilization, dealing with money market etc. is concerned.\textsuperscript{53} "What is needed is an institution which combines the local feel and familiarity with rural problems which the cooperatives possess and the degree of business organization, ability to mobilize deposits, access to central money markets and a modernized outlook which the commercial banks have."\textsuperscript{54}

1.4.6.2 OBJECTIVES OF RRBs

1.4.6.2.1 The preamble of the RRB Act, 1976 envisages the establishment of Regional Rural Banks in the country with a view to developing the rural economy by providing, for the purpose of development of agriculture, trade, commerce, industry and other productive activities in rural areas, credit and other facilities particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs, and for matters connected therewith and incidental thereto. The main objectives of RRB, as envisaged in the RRB Act, 1976 are:

1. to develop rural economy
2. to provide credit for agriculture, trade, commerce, industry and other productive activities in rural areas
3. to provide credit and other facilities, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs
4. to provide credit for matters connected with or incidental to rural economy

1.4.6.2.2 The other objectives of RRBs are\textsuperscript{55}:

1. to reduce dependence of rural people on money-lenders
2. to fill the gap created by moratorium on borrowings from money-lenders
3. to help the poor financially for their consumption needs

\textsuperscript{53} Ajit Singh, Rural Development and Banking in India - Theory & Practice, p. 57
\textsuperscript{54} Summary of Report of the working Group on RRBs, (1986), p. 9
\textsuperscript{55} Ajit Singh, Rural Development and Banking in India - Theory and Practice, p. 58
4. to reach those far-flung areas, particularly backward and tribal area and to make these areas economically better

5. to provide the benefit of economic development to the weaker sections of the rural people

6. to inculcate banking habits among the rural people and providing many types of banking facilities, all of which have a role to play in rural development

7. to provide minimum infrastructure facilities at most of the unbanked centers in rural areas.

1.4.6.3 SPONSOR BANKS

The sponsor bank will aid and assist the RRB, sponsored by it, in several ways. The sponsor bank shall subscribe to the share capital of RRB, it will assist the RRB in its establishment, recruitment and training of the personnel and in general provide such managerial and financial assistance as may be mutually agreed upon between Sponsor Bank and the RRB.\(^{56}\)

1.4.6.4 ACTIVITIES OF RRBs

1.4.6.4.1 As stated in Chapter IV of RRB Act, 1976 under the head Business of A Regional Rural Bank, 18(1), "Every Regional Rural Bank shall carry on and transact the business of banking as defined in clause (b) of Section 5 of the Banking regulation Act, 1949 and may engage in one or more forms of business specified in sub-section (1) of section 6 of that Act."\(^{57}\)

Every Regional Rural Bank may, in particular, undertake the following types of business, namely (a) granting of loans and advances, particularly to small and marginal farmers and agricultural labourers, whether individually or in groups and to cooperative societies, including agricultural marketing societies, agriculture processing societies, cooperative farming societies, primary agricultural credit societies or farmers' service societies for agricultural purposes or agricultural operation or for other purposes connected therewith\(^{58}\)

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\(^{56}\) RRB Act 1976, Chapter II, Section 3(2)

\(^{57}\) RRB Act 1976, Chapter IV, 18(1)

\(^{58}\) Ibid. (2)
(b) the granting of loans and advances particularly to artisans, small entrepreneurs and persons of small means engaged in trade, commerce or industry\textsuperscript{59} or other productive activities within the notified area in relation to the Regional Rural Bank.\textsuperscript{60}

1.4.6.4.2 The activities of RRBs can thus be summarized as under:

- to receive from the rural areas current deposits, savings bank deposits, recurring deposits, cumulative deposits and term/fixed deposits
- to provide financial assistance to priority sector
- to extend necessary banking facilities to remote areas
- to act as vital instrument in the implementation of government sponsored schemes for rural development, namely, the Integrated Rural Development Programme (IRDP), Twenty Point Economic Programme (TPEP), District Credit Plans (DCP), Differential Rate of Interest Scheme (DRI)
- to adopt villages in the area of operation/service area and bring about over-all economic development of such villages.

1.4.6.5 RRBs & NABARD

National Bank lays down policies for RRBs, oversees their operations, provide refinance facilities and attend to problems faced by them.

1.4.6.6 CONCESSIONS TO RRBs

The sponsor banks provide managerial and financial assistance to RRBs. RRBs enjoy interest on their current deposits. The sponsor banks extend the concessional rate of interest on borrowings by RRBs from the sponsor banks. The cost of staff deputed to RRBs and training expenses are borne by the sponsor banks. The Reserve Bank of India has granted concession to RRBs in respect of cash reserve ratio and statutory liquidity ratio.

\textsuperscript{59} Ibid. 2(a)

\textsuperscript{60} Ibid. 2(b)
1.4.6.7 PROGRESS OF RRBs

As at March, 1998, 196 regional rural banks in 23 States covering 436 districts with 14,654 branches could mobilize deposits of Rs. 20,978 crore. An amount of Rs. 9,686 crore was disbursed by way of short-term crop loans/term loans for agricultural activities, by way of advances to rural artisans, village and cottage industries, retail trade and self-employed persons, consumption loans etc. The share of priority sector advances at Rs. 7005 crore in total advances comes to 72.3%. Nearly 90 per cent of the loans of RRBs were provided to the weaker sections. While 44 RRBs earned a net profit of Rs. 42.38 crore in 1995-96, 152 of them incurred a net loss of Rs. 467.96 crore.

1.4.6.8 EVALUATION OF RRBs

1.4.6.8.1 The RRBs have fared well in achieving the objective of providing access to the weaker sections of the society to institutional credit but the recovery position on the whole is not satisfactory. The Narasimham Committee on the Financial System has evaluated the working of RRBs. RRBs were established to provide a low cost alternative to the operation of commercial bank branches but the functioning of the RRBs gives much cause for concern. The Committee has pointed out three basic problems:

a. On account of the many restrictions placed on the business they can undertake, RRBs have low earning capacity.

(b) the wage and salary scales of RRBs have been rising and, in fact, with the recent award of a tribunal, their scales would approximate those of commercial banks; with the increase in salary scales, an important rationale for the setting up of RRBs has ceased to exist;

(c) the sponsoring banks are also running their own rural branches in the very area of operations of the RRBs; this has given rise to certain anomalies and to avoidable expenditure on controls and administration.

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61 RBI Report on Trend and Progress of Banking in India, 1989-90, p. 66
In the opinion of Narasimham committee, the problem is one of improving the viability of RRBs without sacrificing the basic objectives for which they were set up. The Government should help in evolving a rural banking structure which could combine effectively the advantages of the local character of RRBs with the financial strength and organizational and managerial skills of the commercial banks.

1.4.6.8.2 The Agricultural Credit Review Committee under chairmanship of Dr. A.M.Khusro observed that the weaknesses of RRBs were endemic and non-viability was built into their structure. Accordingly, the RRBs would not be able to serve the interests of the largest groups in the manner expected of them. According to the Khusro Committee, there is no place for RRBs in the rural credit system in the near future and that they should be merged with sponsor banks.

1.4.6.8.3 RRBs have been active participants in programmes designed to provide credit to identified beneficiaries under the new 20 Point programme, IRDP and other special programmes. The RBI conducted a field study in April 1981 on all qualitative aspects of lending by RRBs. The study established that RRBs followed the instructions of RBI and the Government of India regarding loan policies, procedures etc. It also found that RRBs had successfully maintained their image as a small man's bank by confining their credit facilities to the target groups viz. small farmers, marginal farmers, agricultural labourers, artisans and small enterprises for productive activities. The basic aim of setting up RRBs viz. developing the rural economy by providing credit for the development of agriculture, trade, commerce, industry and other productive activities in rural areas was being fulfilled.

1.4.6.8.4 In a bid to impart operational flexibility and ensuring the viability of the RRBs, the RBI permitted them to determine their own lending rates effective August 26, 1996. As part of the revamping of the RRBs, the GOI has been providing in every budget since 1994-95 recapitalisation support to select RRBs for cleaning up of their balance sheet. In line with the Bhandari Committees' recommendations, the branch licensing policy for RRBs was modified in June 1995 and 70 RRBs, freed from the Service Area obligations, were given freedom to
relocate their loss making branches preferably within the same block or convert them with satellite/mobile offices.

1.4.6.9 FUTURE FOR RRBs

The rural credit structure in India is essentially multi-agency credit system for agriculture and rural development. RRBs have now become an integral part of this multi-agency system at the ground level. Further, they are more suitable for adopting individual personal approach in view of the local feel of its staff and its image as small man's institution.

1.4.7 NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)

1.4.7.1 HISTORICAL PERSPECTIVE

The Reserve Bank of India (RBI) constituted a committee in March 1979 known as Committee for Reviewing Arrangement for Financing Institutional Credit for Agriculture and Rural Development (CRAFICARD). The Committee recommended for the establishment of National level bank known as the National Bank for Agriculture and Rural Development (NABARD). Accordingly, the National Bank was set up on 12 July, 1982 under the National Bank for Agriculture and Rural Development Act, 1981 (Act No. 61 of 1981). The preamble to the Act states, "an Act to establish a bank to be known as National Bank for Agriculture and Rural Development for providing credit for the promotion of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas and for matters connected therewith or incidental thereto." Inaugurating the Bank, the Prime Minister declared: "It would be a dynamic service institution for rural development and the people should regard it as a friend and a guide." NABARD has taken over the functions of ARDC and the refinancing function of RBI in relation to cooperative banks and RRBs. It is now an apex bank with respect to all matters relating to policy, planning and operational aspects in the areas of credit for the promotion of agriculture, small scale industries, cottage and village industries and other allied rural economic activities. It extends refinance facilities to various banks...
including co-operative societies for their short-term, medium-term and long-term operations. It may extend direct lending also.

1.4.7.2 RESOURCES OF NABARD

1.4.7.2.1 While the authorized share capital of the NABARD is Rs. 500 crore, the paid up capital is Rs. 120 crore contributed equally by the Central Government and the Reserve Bank. The proposal for amending relevant provision of NABARD Act, 1981 enhancing the capital from Rs. 500 crore to Rs. 2000 crore is under the consideration of the Central Government. In the mean time, the RBI has contributed Rs. 800 crore and Rs. 200 crore have been contributed by the Central Government for raising the capital from Rs. 500 crore to Rs. 1500 crore.

1.4.7.2.2 For loan requirements, it draws funds from the Government of India (GOI), the World Bank and other agencies, raises funds from market and also uses the resources of the National Agricultural (long-term operations and stabilization) funds which stand transferred to it.

1.4.7.2.3 For short-term credit and working capital requirements, NABARD depends upon RBI. World Bank and International Development Association (IDA) have been providing funds to NABARD for implementation of the projects financed by them.

1.4.7.3 FUNCTIONS OF NABARD

The NABARD has a dual role to play - as an apex institution and as a refinance institution. It has inherited its apex role from RBI. It has taken over the functions of Agricultural Refinance Development Corporation (ARDC) and thus provides refinance facilities to all banks and financial institutions lending to agriculture and rural development. The functions of NABARD could be summarized as under:

1. Refinance for all kinds of investment credit to agriculture, small-scale industries, cottage and village industries, handicrafts and rural crafts and real artisans and other allied economic activities by commercial/cooperative/regional rural banks/financial institutions.

Cooperatives Banks and regional rural banks are eligible for refinance for the production credit, given by them, also.
2. Finance (Short term, medium term and/or long term ) to State Cooperative Banks(SCBs), RRBs, LDBs/ARDBs and other financial institutions approved by RBI

3. Long-term loans (up to 20 years) to State Governments to enable them to subscribe to the share capital of co-operative credit societies;

4. Long-term loans to any institution approved by the Central Government or contribution to the share capital or investment in securities of any institution concerned with agriculture and rural development.

5. Co-ordination of the activities of Central Government, State Governments, the Planning Commission and other all-India and State level institutions entrusted with the development of small scale industries, village and cottage industries, rural crafts, industries in the tiny and decentralized sectors etc.

6. Inspection of RRBs and co-operative banks, other than primary co-operative banks

7. Maintaining a Research and Development Fund to promote research in agriculture and rural development, formulation and design of projects and programmes to suit the requirements of different areas and to cover special activities.

8. Developmental Policy, planning and operational matters relating to credit for agriculture, allied activities, rural artisans and industries and other rural development activities

9. Coordination and monitoring of all agricultural and rural lending activities with a view of tying them up with extension and planned development activities in the rural sector

10. Training, research and consultancy relating to credit for agriculture and rural development
11. Advice and guidance to State Governments, Federations of Co-operatives, the National Co-operative Development Corporation (NCDC)

1.4.7.4 WORKING OF NABARD

The NABARD is performing the various functions assumed by it smoothly and efficiently. It sanctioned short-term credit limits worth Rs. 3,950 crore during 1993-94 for financing seasonal agricultural operations at the concessional rate of 3 per cent below the Bank Rate and the amount outstanding stood at Rs. 2230 crore in 1993-94. It extended medium-term and long-term credit worth Rs. 90 crore. It has also attempted to ensure the flow of credit to weaker sections of society under the New 20-point programme by making it obligatory for banks to disburse a specified percentage of short-term loans to small and marginal farmers and other economically weaker sections. It sanctioned over 6,810 schemes involving its own commitment of Rs. 2,630 crore. Upto the end of March, 1994, it and the erstwhile ARDC had sanctioned 1,09,470 projects with a total commitment of Rs. 26,680 crore. It is setting up district level offices in all districts in the country in a phased manner. These offices help to improve the quality of credit plans prepared by bank branches and also plan, coordinate and effectively monitor the credit plans. They also prepare a potential linked credit plan for each district which serves as the basis for preparation of credit plans by the branches of banks.

1.4.7.5 Thus NABARD is attempting to tone up the operational efficiency of the rural and semi-urban branches of banks which implement the service area credit plans and particularly the lending to the priority sector categories of borrowers. As a matter of fact, NABARD is a milestone in the history of banking in India as it has accelerated the process of development of agriculture, rural industries and allied activities and more particularly, rural development.

1.4.8 EMERGING STRAINS ON THE RURAL CREDIT SYSTEM

1.4.8.1 The rapid development of agriculture and allied activities following the use of modern science and technology forms the basis of economic growth. This type of agriculture is capital-intensive and farmers, alike industrialists, need capital specially for farm mechanization, for minor irrigation and for raising high-yielding varieties of crops. Modern methods of cultivation call
for a number of inputs, such as fertilizers, improved varieties of seeds, insecticides etc. as also infrastructural facilities such as storage, marketing and transport. The credit needs of the agricultural sector in the next few years are estimated to rise to Rs 35,000 to Rs 40,000 crore. To meet these needs is an enormous task and the responsibility will have to be borne by the cooperatives and the commercial banks. As resources available to the commercial banks in the agricultural sector will naturally be limited, it is imperative that every attempt is made to make optimum utilisation of the limited sources. Formulation of location specific schemes for accelerating the transformation of agriculture and to arrange funding of the schemes and building up necessary backward and forward linkages and supporting services will have to be given the top priority. The banks will have to give up the tendency of relying more on walk-in business or sponsored loan proposals. They will have to explore and exploit the existing as also newer potential in the field of agriculture and rural development more specifically in the area of optimizing productivity of our rural resources, enhancing production, productivity and profitability of farming and non-farm enterprises and creating self-employment opportunities to minimize incidence of rural poverty. High Value Projects will have to be given due attention.

1.4.8.2 The farmers require not only credit but also guidance in the planning of their agricultural operation like the use of seeds, fertilizers, pesticides etc., assistance in raising crops and in general, help for maximizing their production, productivity and income. In all developed countries, credit services and extension services go hand in hand. Agricultural credit and agricultural improvement should go hand in hand and this can be done best by institutions like cooperative societies and commercial banks. They will have to take direct interest in the development of agencies for the supply of inputs and arrange for services to enable the borrowers to absorb the credit. They may encourage and finance viable units of suppliers of inputs, custom services, storage, transportation and marketing in the respective area of operation.
1.4.8.3 Notwithstanding the increasing work load vis-à-vis the acute staff position, the credit delivery system will have to ensure availability of credit in right amounts, at the right time and at the reasonable rates of interest. Credit delayed is credit denied.

1.4.8.4 The major problem faced by the lending institutions is the most unsatisfactory level of overdues. The overdue percentage is about 45. The Planning Commission regretfully admits, "Wilful default and overdues are mounting in a number of States including some cooperatively progressive States like Maharashtra and Gujarat. By writing off agricultural loans and providing subsidies out of the state exchequer, some of the States have set a bad example to the entire country. If this trend is not reversed and if banks are reduced to institutions providing grants rather than recycling scarce resources to get the maximum benefits for the country as a whole, the banking system will be unable to provide more credit to meet the growing needs of the farmers." Without providing for a satisfactory mechanism for the solution of this problem and at the same time ensuring that it does not recur, the rural credit movement cannot proceed along desired lines.

1.4.8.5 The financial viability of the lending agencies in rural areas will have to be maintained in order to improve and enlarge the flow of credit to the rural areas.

1.4.8.6 The problems of small peasants, marginal farmers and landless rural artisans are peculiar. While non-poor section of the society have either their own funds or they are able to raise funds from commercial banks or cooperatives, small and marginal farmers and landless labourers find it difficult to raise credit for their requirements. They do not have proper securities to pledge against loans; they do not have adequate repaying capacity. Lack of skills, unawareness of economic opportunities, markets and what they are capable of producing and their inability to overcome bureaucratic requirements also limit their capacity to borrow. The concern is almost universal regarding the urgent need to remove the constraints on credit availability to the poor. Greater access and sustainable flow of prompt, adequate and timely

credit is critical for the improvement of the poor. "After the nationalization of the commercial banks, the financial activities of these banks have shifted from class-banking to mass-banking and credit is now production-oriented rather than security-oriented." Improvement in bank efficiency with effective reduction in transaction costs of lending combined with the more positive attitude, on the part of the bankers and government officials connected with rural development, towards the poor can provide a significant change to the character of poverty alleviation programmes. People's participation in credit delivery and recovery and the linking of formal credit institutions with the beneficiaries through non-governmental organizations can be an alternative mechanism for meeting the credit needs of the poor. If the weaker section does not get assured and convenient credit, the poor will have to go to the money-lenders either by pledging their meagre land holding or their own person. Rural indebtedness and emergence of bonded labour are the direct result of the absence of cheap and timely credit facilities to the weaker section. "Rural development calls for radical departure from traditional principles, practices and priorities in development planning with a view to harnessing the potential of science and technology for the optimum use of national assets - human, animal and physical - for removing poverty and unemployment in the rural areas." "To redress the poverty and unemployment in rural areas, Integrated Rural Development Programme is launched by employing suitable income generating schemes in sectors like agriculture, animal husbandry, dairy, fisheries, Khadi, Village and Cottage industries, artisans, crafts, small business and services."

1.5. PROGRAMMES FOR RURAL DEVELOPMENT

1.5.1 One of the major objectives of our Five Year Plans has been the alleviation of poverty. Unemployment is a serious economic, social and political problem facing the Indian economy and has close relation with widespread poverty prevailing in the country. In spite of the success

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63 Noorbasha Abdul, 1982, "Commercial Banks Whom do they serve?", The Hindu, January 26, p. 17
64 Bhatia K., Poverty, Agriculture and Economic Growth, Vikas Publishing House, New Delhi, 1977, p. 105
in the field of industrialization, the country failed to reduce the unemployment problem because of the leakages in the percolation effects of growth as also because the percolation effects were inadequate to generate the required employment opportunities. The awareness of this failure generated a new national commitment to make a determined effort to eliminate unemployment.

1.5.2 THE TRICKLE DOWN HYPOTHESIS

The earlier Five Year Plans had generally proceeded on the assumption that the normal programmes of development would raise the living conditions of the poor through the trickle-down process. The trickle down hypothesis assumes that rapid growth of per capita income will trickle-down in improved levels of living for the very poor. In the context of rural India, this has been interpreted to mean that agricultural growth without major institutional reform will reduce poverty. Accordingly, Community Development Programme (1952), Intensive Agricultural District Programme (1960-61), Intensive Agricultural Area Programme (1964) and High Yielding Varieties Programme (1966-67) were started to raise agricultural production. However, no visible impact on the economic condition of the poor was observed even after implementation of these programmes. As such, the trickle-down theory was questioned. It was felt that the growth itself need not be poverty-reducing. Kuznets had presented a contrasting hypothesis. He postulated that in early states of growth, there will be an increase in the inequality of income distribution and presumably in the extent of poverty as well. Growth will be poverty-reducing if it involves large section of the population. When this does not happen, it may be accompanied by an increase in absolute impoverishment and this actually happened in the case of green revolution. It was further argued that the trickle-down hypothesis will work provided the growth in income per capita is not only substantial but also sustained for sufficiently long period for the trickle-down process to operate. Agricultural growth in general seems to be helpful to poverty eradication but big farmers dominated growth dependent on private ownership in the absence of land reforms, need not be so favourable to alleviation of poverty.66

66 T.N. Srinivasan, Agricultural Production, Relative Prices, Entitlements and Poverty, in Mellor and Desai, P. 52
According to Montek Ahluwalia, the rate of agricultural growth must be high enough to permit a trickle-down. He has also distinguished between the trickle-down mechanism and its actual operation. At an all India level, there was simply not enough growth, in terms of per capita NDP in agriculture, to trickle down.

1.5.3 LAND REFORMS

The planners laid stress on the redistribution of land too as one of the major instruments for reduction of rural poverty. In formulating this policy, however, "there was never any discussion in the plans of how much land would have to be redistributed, what the required levels of ceiling on maximum holdings would be and whether the proposed ceiling levels for the states were consistent with plan objectives." The total area so far declared surplus under the Programme of Distribution of Ceiling Surplus Land is 30.34 lakh hectares out of which 26.80 lakh hectares have been taken possession of. A total area of 21.38 lakh hectares has been distributed to 54.64 lakh beneficiaries of whom 34 per cent belong to Scheduled Castes and 14 per cent belong to Scheduled Tribes. Since much of the land distributed under the ceiling laws is of poor quality, while providing financial assistance, the assignees are accorded priority under ongoing programmes like the IRDP and the Jawahar Rozgar Yojana etc., for making their land cultivable.

1.5.4 DIRECT ATTACK ON POVERTY

In 1962, the Perspective Planning Division of the Planning Commission released an important paper entitled "Perspective of Development 1961-1976, Implication of Planning for a Minimum Level of Living ". This paper had profound impact in shaping the Fourth Plan. It not only drew the attention towards the abject poverty in which the bulk of Indians lived but also made a forceful plea for removal of poverty. To quote, "Such widespread poverty is a challenge which no society in modern times can afford to ignore for long. It must be eradicated both on

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humanitarian grounds and as an essential condition for orderly progress..... The central concern of our planning has to be the removal of poverty as early as possible. The stage has now come when we should sharply focus our efforts on providing an assured minimum income to every citizen of the country within a reasonable period of time. Progressively, this minimum itself should be raised as development goes apace." The usual approach of the five Year Plans had been reduction of relative disparities. The First Plan accepted reduction in inequalities of income as one of its objectives. The Second Plan too mentions reduction in inequalities of income and wealth distribution as one of the four objectives. The perspective of development can be regarded as a forerunner of the Direct Attack on Poverty approach by means of poverty focused policies adopted since the Fourth Five Year Plan. The Fourth Plan highlighted the need for employment creation and a more even distribution of income. According to it, "To some extent, income disparities can be reduced through fiscal measures aiming at reduction of income at the top levels but for us, it is important to lay far greater stresses on positive steps for ameliorating the condition of poorer people through planned economic development." This plan identified that the poor comprised the landless agricultural labourers, small and marginal farmers and village artisans. It was also noted that Scheduled Castes and Scheduled Tribes constitute the principal segment of the poor. This Plan could also note that there are backward areas located mainly in areas with scanty rains, hill areas, some coastal regions, forest areas etc. Hence a policy of creating employment opportunities - wage employment as well as self-employment - was considered a key element for poverty alleviation. Consequently, supplemental programmes for specific target group/areas for employment creation, income generation and poverty alleviation were started. These programmes have taken the form of direct employment programmes for providing seasonal employment to the agricultural labourers on rural capital works and beneficiary/target-group-oriented programmes of asset provision, input deliveries and marketing and credit infrastructure creation. With these factors in back ground, specific poverty eradication

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69 Quoted in Kamta Prasad, Planning for Poverty Alleviation, Agricole Publishing Academy, 1985,p. 32
70 Seventh Five Year Plan, 1985-90, p.112
Programmes for target groups and specific areas were started. Small Farmers Development Agency (SFDA), Programme for Marginal Farmers and Agricultural Labourers (MFAL), and Drought Prone Area Programme (DPAP) are worth-mentioning. These programmes were conceived to help the small farmers, marginal farmers and agricultural labourers, farmers in tribal areas, dry areas and drought-prone areas. The most important programme of the Fifth Five Year Plan was the Minimum Needs Programme (MNP), while Integrated Rural Development Programme (IRDP) is the central pillar of poverty eradication since the Sixth Plan.

1.5.5 Beneficiaries-Oriented Programmes

1.5.5.1 SFDA & MFAL

1.5.5.1.1 The Government launched in 1969-70 SFDA and MFAL for the benefit of the small farmers and agricultural labour on a pilot and experimental basis. The main objective of these programmes was to assist persons in target group of small and marginal farmers and agricultural labourers in raising their income level. This was to be achieved by helping them in the following ways:

(a) to adopt improved agricultural technology;
(b) to acquire means of increasing agricultural production like minor irrigation sources; and
(c) to diversify their farm economy through subsidiary activities like animal husbandry, dairying, horticulture etc.

1.5.5.1.2 Under SFDA Programme in the Fourth Plan, 46 pilot projects were started throughout the country. The intention was to cover 50,000 potentially viable farmers with land holding between 2.5 and 7.5 acres. The important schemes included under this programme were

- State help for irrigation purposes
- Land leveling
- Soil conservation
- Better agricultural implements
- Provision of services on hire
• Warehousing and marketing facilities
• Dairy development
• Poultry breeding
• Piggery development etc.

1.5.5.1.3 This programme also acted as an agent to augment the flow of credit from existing institutions such as cooperative banks, land development banks, commercial banks etc. SFDA provided a subsidy equivalent to 25 per cent of the project cost approved by the above stated financial institutions to the small farmers. Distribution of subsidy was done by the financial institutions advancing loans to these farmers. The Sixth Five Year Plan, 1980-85 reported that out of a total of approximately 5100 blocks in the country, 1818 blocks were covered by these two special programmes, namely, SFDA and MFAL.71

1.5.5.1.4 MFAL was created as a separate agency to serve the needs of marginal farmers, that is non-viable small farmers and agricultural labourers. Marginal farmers are those who possess land below 2.5 acres. Agricultural labourers are landless or those possessing some land but derive more than 50 percent of their income from agriculture. However, person getting a steady off-farm income of Rs. 200 or more per month was not to be included either under SFDA or MFAL. "The rationale for its creation was the same as for the SFDA though in its programmed content, much more effort was to be made to the provision of supplementary occupations and other employment opportunities".72 In the words of the Draft Fourth Plan, "These projects would, as far as possible, be market based (e.g. centered around towns or other areas of demand) so that there is scope for development of employment-oriented activities, such as poultry and dairy farming. Stress will be laid on using the funds for development of various marketing and processing facilities with a view to giving organised support, preferably through cooperatives to the activities of sub-marginal cultivation and agricultural labourers."73

71 Sixth Five Year Plan, 1980-85, p. 167
73 Planning Commission, Draft Fourth Plan, p. 152
1.5.5.1.5 Each of the SFDA projects was to get Rs. 1.5 crore while a MFAL was allotted Rs. 1.0 crore. By and large, the existing developmental machinery and the existing institutional framework were sought to be utilised with a small nucleus staff functioning at the agency headquarters.

1.5.5.1.6 The two schemes, SFDA and MFAL, were merged into a single programme during the Fifth Plan period as recommended by the National Commission on Agriculture in 1973. The coverage was extended to 160 projects. The basic approach of the merged programme was to implement intensive agriculture, multiple cropping, application of the HYV of seeds, fertilizers, minor irrigation etc. for the identified beneficiaries with special emphasis on dry farming practices and better management techniques. The combined agency, called SFDA, was further extended and in 1979, before its merger with IRDP, it covered 168 agencies in 198 districts.

1.5.5.2 MINIMUM NEEDS PROGRAMME (MNP)

Since the beginning of the 1970s, a very influential section of development economists has started asking for the pursuit of Minimum Needs Programme in the developing countries. They assert that the benefits of growth do not automatically percolate downwards and thus less developed countries have virtually no choice except to pay direct attention to the basic needs of the people at the lowest strata of the society. They further argue that it would be wrong to believe that there is necessarily a conflict between the two objectives, viz. the basic needs and growth. Their assertion is that while the ensuring of the fulfillment of the basic needs does not hinder economic growth, the reverse, as the experience in the various developing countries has proved, is not true. This approach seems to have influenced the planners in India also. For the first time in the history of Indian Planning, the concrete objective of providing minimum consumption for the bottom 30 per cent of the population was mentioned in the approach to the Fifth Plan. MNP began in the Fifth Plan (1974-79) as an investment in human resource development. It was envisaged that the increase in monthly per capita consumption of the lowest 30 per cent of

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"The various components of the MNP seek to enhance the impact of both beneficiary-oriented and area development programmes of rural development. While the MNP increases the productive capacity of the community as a whole by indirect impact, the rural development programmes improve the economic condition of the individual with a direct and personalized approach. The two sets of programmes are mutually supportive and, therefore, need to be linked." MNP has been merged with SGSY from April, 1999.

1.5.5.3 INTEGRATED RURAL DEVELOPMENT PROGRAMME

1.5.5.3.1 The Draft Five Year Plan, 1978-83 reviewed the progress made under various special programmes meant for the weaker sections of the society as also for the backward areas such as SFDA, DPAP, and CAD (Command Area Development). On the basis of the past experience of these rural development programmes, this Plan came to the conclusion that a mere project approach or sectoral approach was not adequate to lead to an overall development of the area and distribution of benefit to local population particularly the weaker sections. It recognised the uneven distribution of unemployment and poverty as also the potential for development. "The efforts," in this plan, were directed "to make the programmes area specific and utilise the local endowments for growth for social justice and full employment." It emphasized the need to plan for integration of various programmes. It came to be known as Integrated Rural Development (IRD). The focus of IRD was the target group comprising of small and marginal farmers, agricultural labourers and rural artisans. It aimed at integrating field programmes and proposed to achieve it by developing the primary (agriculture, animal husbandry, fisheries and forestry), secondary (village and cottage industries, small-scale industries, skill formation and supporting services) and the tertiary (marketing, processing and allied activities) sectors. All these activities were to be integrated. It was proposed that out of a total of approximately 5100 blocks in the country, over 2950 blocks were to be covered by one or more of the three special programmes, namely SFDA, DPAP and CAD. Since scheduled caste population is the poorest of

76 The Seventh Five Year Plan, Vol. II, p. 397
77 Draft Five Year Plan, 1978-83, p. 154
the population in rural areas would be of the order of 60 per cent and 50 per cent for the urban poor. Consumption levels of free or subsidised social services are to be improved, particularly for those whose consumption levels are below the poverty line, through public sector expenditure and investment. It was aimed to establish throughout the country a network of certain essential services on a coordinated and integrated basis so that facilities such as elementary education, rural health, nutrition, drinking water, provision of housing sites, slum improvement, rural roads, and rural electrification could be provided in all the states, particularly in those backward states which could not undertake these programmes on a sufficient scale on account of non-availability of resources. The norms of nine items of minimum needs which were determined for the Fifth Plan were redefined in the Draft Five Year Plan, 1978-83. The programme based on upgraded norms is designated as the "Revised Minimum Needs Programme" (RMNP). The Sixth Plan, 1980-85 left the components of the MNP basically the same as for the Fifth Plan, 1974-79. The Sixth Five Year Plan stated, "The programme is essentially an investment in human resources development. The provision of free or subsidised services through public agencies is expected to improve the consumption levels of those living below the poverty line and thereby improve the productive efficiency of both the rural and urban workers. This integration of social consumption programmes with economic development programmes is necessary to accelerate growth and to ensure the achievement of plan objectives." However, targets were fixed after taking into consideration financial and physical constraints to make the programme realistic. The MNP was divided into (a) objectives to be achieved by 1990/2000 and (b) targets to be achieved by 1985. The major thrust of the MNP in the Seventh Plan was to integrate the programme with other rural development and anti-poverty programmes so as to create necessary linkages in the delivery services. MNP has two distinct sets of activities - one comprising human resources development activities covering elementary and adult education, health, drinking water supply, nutrition and rural housing and the other relate to area development like rural roads and village electrification.

75 Planning Commission, Sixth Five Year Plan (New Delhi, 1981), p. 222
the poor, IRD was to be of special relevance to this class of rural population. As such, as a first priority, the blocks in the country where the scheduled caste population was above 20 per cent were to be brought into this programme during the plan period, 1978-83. The concept of an integrated rural development was first proposed in the Central Budget of 1976-77. Presenting this budget on March 15, 1976, the then Finance Minister, C. Subramaniam observed, "...an effective attack on rural poverty and under-development can only be planned in the framework of an integrated programme of rural development based on detailed knowledge of local needs, resource endowments and potentialities. The focus must be on maximum utilisation of locally available resources, including local manpower, rather than on the introduction of large inputs from outside. We have to evolve operational district plans which fully take into account the precise and separate requirements of each area." With a sum of Rs. 15 crore earmarked for integrated rural development, a beginning was made. The programme was intended to assist the rural population to derive economic benefits from the developmental assets of each area. It was introduced on an expanded scale, with some modifications, in 1978-79. In the beginning, 2300 blocks were selected for this purpose of which 2000 were under coterminus coverage with SFDA, DPAP and CAD programmes. Another 300 blocks were added during 1979-80. Till March 31, 1980, a total of 5.3 million families were identified for assistance. Beneficiaries of this programme are not only small and marginal farmers but also agricultural labourers, landless labourers and rural artisans. In the process of identification of beneficiaries, emphasis is laid on family rather than individual approach. The Sixth Plan observed, "Though conceptually this programme was comprehensive in scope and sought to secure, through a process of block level planning, fuller exploitation of the local growth potential with a view to making an optimum impact on the local poverty situation, in point of fact it has also tended to operate on the same lines as

the SFDA. Undoubtedly the programme has only recently begun and has yet to firmly establish itself.\(^7\)

1.5.5.3.2 The Sixth Plan accepted alleviation of poverty as its prime objective. It adopted the strategy of assisting households below the poverty line through an appropriate package of technologies, services and asset transfer programmes. The Plan noted that a number of programmes were in operation, some of them for the last ten years and some introduced recently. All of them aimed at improving the economic conditions of the rural poor. None of these programmes covered the whole country. In some blocks, more than one programme operated simultaneously in the same area for the same target group. This territorial overlap and multiple funding patterns created considerable difficulties in effective monitoring and accounting. "In practice, therefore, these programmes were reduced to mere subsidy giving programmes short of any planned approach to the development of the rural poor as an inbuilt process in the development of the area and its resources. It is proposed that such multiplicity of agencies should be ended and be replaced by one single integrated programme operative throughout the country."\(^8\)

The merged programme was called the Integrated Rural development Programme (IRDP).

1.5.5.3.3 The Sixth Plan stated that of the 350 million people below the poverty line in the country, around 300 million were in the rural areas. The hard core of rural poverty is constituted by marginal farmers, landless agricultural workers, rural artisans, scheduled castes and scheduled tribes. They possess little or no productive assets. Hence "they need to be enabled to acquire productive assets and/or appropriate skills and vocational opportunities and then backed effectively with services to increase production and productivity."\(^9\)

IRDP has been conceived essentially as an anti-poverty programme with the objective of enabling the poorest families to acquire productive assets, technology and skills so that their economic activities

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\(^7\) Report of the Sixth Five Year Plan, 1980-85, p. 168
\(^8\) Report of the Sixth Five Year Plan, 1980-85, p. 170
\(^9\) ibid.
become viable. IRDP was extended to all blocks in the country in October, 1980. Consequently, SFDA was merged with it.

1.5.5.4 INTEGRATED TRIBAL DEVELOPMENT PROJECT

An integrated sub-plan approach for tribal development was adopted during the Fifth Five Year Plan. There were two main objectives of the Tribal Sub-Plan, namely, (a) to narrow the gap between the levels of development of tribal areas and other areas and (b) to improve the quality of life of the tribal communities. For operational purposes, the tribal sub-plan areas were organised into Integrated Tribal Development Projects.

1.5.5.5 TRAINING OF RURAL YOUTH FOR SELF-EMPLOYMENT(TRYSEM)

With the objective of providing technical skills to rural youth to enable them to take up self-employment in the broader fields of agriculture and allied activities, industries, services and business activities, the Scheme of Training Rural Youth for Self-Employment (TRYSEM) was launched on 15th August, 1979. The target was to train about 2 lakh rural youth every year at the rate of 40 youth per block of the country. This scheme is an integrated part of the IRDP with the aim of equipping the rural youth with skills to enable them to become self-employed. A rural youth from a family whose income is less than Rs. 11,000 per year is eligible for selection. A youth showing aptitude for innovation and entrepreneurial activities is given preference in selection. Training is imparted through institutions under master trainers. As the process of skill endowment to members of the target group is considered to be an integral part of the IRDP, the cost of training in the form of stipends etc. are to be met out of the funds set out for infrastructure etc. under the IRDP.

1.5.5.6 PROGRAMME FOR DEVELOPMENT OF WOMEN AND CHILDREN IN RURAL AREAS (DWCRA)

"The benefits under the IRDP were not flowing to women in adequate measure." Therefore, a programme for Development of Women and Children in Rural Areas (DWCRA) was introduced

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82 Seventh Five Year Plan, Government of India, p. 54

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in September 1982 in 50 blocks on a pilot basis with a view to increasing their income and also to provide support services needed to enable them to take up income-generating employment activities. DWCRA is a UNICEF assisted Project and sub-scheme of IRDP.

1.5.5.7 TOOL KITS FOR RURAL ARTISANS

In pursuance of the Prime Minister's announcement in his Independence Day address, 1991, the Programme of Supply of Improved Tool Kits to Rural Artisans was launched in July, 1992 to cover 5 lakh rural artisans during the VIII Plan. This programme is to enable the rural artisans to enhance the quality of the product and increase the production and income with use of modern tools. All traditional rural artisans living below the poverty line (except weavers, tailors and bidi workers) are covered in this programme. The average cost of the tool kit is Rs. 2,000/-.

The beneficiary is to contribute only 10 per cent of the cost and the remaining 90 per cent is subsidy from the Centre. During 1992-93, 61 selected districts were covered under this programme and about one lakh rural artisans were provided modern tool kits. In 1993-94, the programme was extended and it covered 105 districts and about 1.1 lakh rural artisans were provided modern tool kits. The progress since inception is presented in the following table:
**SUPPLY OF TOOL KITS TO RURAL ARTISANS**

<table>
<thead>
<tr>
<th>Period</th>
<th>Allocation (Rs. lakh)</th>
<th>Central Releases (Rs. lakh)</th>
<th>Expenditure (Rs. lakh)</th>
<th>Target (No. in lakh)</th>
<th>Tool Kits (No. in lakh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992-93</td>
<td>16.85</td>
<td>16.85</td>
<td>13.86</td>
<td>0.98</td>
<td>0.83</td>
</tr>
<tr>
<td>1993-94</td>
<td>23.22</td>
<td>23.22</td>
<td>18.60</td>
<td>1.29</td>
<td>1.09</td>
</tr>
<tr>
<td>1994-95</td>
<td>29.00</td>
<td>29.00</td>
<td>22.91</td>
<td>1.61</td>
<td>1.25</td>
</tr>
<tr>
<td>1995-96</td>
<td>35.00</td>
<td>40.00</td>
<td>28.69</td>
<td>2.22</td>
<td>1.53</td>
</tr>
<tr>
<td>1996-97</td>
<td>40.00</td>
<td>40.00</td>
<td>34.19</td>
<td>2.22</td>
<td>1.47</td>
</tr>
<tr>
<td>1997-98*</td>
<td>35.00</td>
<td>30.82</td>
<td>29.70</td>
<td>1.94</td>
<td>1.29</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>179.07</strong></td>
<td><strong>179.89</strong></td>
<td><strong>147.95</strong></td>
<td><strong>10.26</strong></td>
<td><strong>7.46</strong></td>
</tr>
</tbody>
</table>

*Provisional

**Table No. 1.6**

1.5.6 **WAGE EMPLOYMENT PROGRAMMES**

1.5.6.1 **RURAL WORKS PROGRAMME (RWP)**

The Third Plan, for instance, had proposed to organize a rural works programme on a mass scale to provide employment for about 10 million man-days in the first year of the Third Plan rising progressively to about 250 million man-days in the last year. The possibility of considering ways of paying wages in part in the form of food grains was also indicated. It was started in 1970-71 in areas chronically affected by drought. The objective of the scheme was to create permanent works intended to mitigate the effects of drought when it occurs and at the same time provide employment to the rural households. In order to achieve this objective, the scheme was initially concerned with rural works and employment generation. The scope of RWP was subsequently enlarged because it was thought that a mere rural works programme is not going to solve the problems of these areas and mitigating drought conditions.

1.5.6.2 **DROUGHT-PRONE AREA PROGRAMME (DPAP)**

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1.5.6.2.1 After the mid-term appraisal of the Fourth Plan, RWP was redesignated as Drought-Prone Area Programme (DPAP) in this Plan itself. It was reoriented as an integrated area development programme with the objective of developing the land, water, livestock and human resources of these areas. Hence in January, 1973, it was decided that funds under the Programme would not be restricted to the four fields of minor and medium irrigation, afforestation and soil conservation, road and drinking water supply but would also be available for cattle development, animal husbandry, dairying etc. which are highly relevant to the land and water resources situation in most of the drought-prone area.

1.5.6.2.2 The necessity of DPAP was explained in the Draft Fifth Plan in the following three ways:

(1) The drought-prone areas account for a considerable proportion of the area (19 percent of the total area) and population (12 percent of the total population) of the country;

(2) These areas are a major factor contributing to regional imbalances in the country because their overall productivity is very low; and

(3) These areas remain a continuing source of strain on the financial resources of the nation. The Fifth Plan aimed at restoration of ecological balance and stable growth in the drought-prone areas through optimal utilization of land, water and human resources.

1.5.6.2.3 Thus the programme objectives were

(1) restoration of ecological balance

(2) integrated area development

(3) equitable distribution of development benefits and

(4) greater employment.

1.5.6.2.4 A Task Force was constituted in 1980 to

• review the on-going special programmes and development schemes taken up under DPAP
• study the existing coverage of the DPAP
• lay down objective criteria for inclusion/exclusion of areas under the programme
• spell out the main components of the broad strategy of development under the programme and
• identify the linkages between DPAP and other on-going rural development programmes.

1.5.6.2.5 The Task Force submitted its report in 1982. It made a number of recommendations for improving the impact and coverage of the DPAP. These recommendations were implemented from 1982-83. Some of the States however, did not agree with the criteria laid down for inclusion/exclusion of areas under the Programme. An Inter-Departmental Group on DPAP was set up in 1984 by the Department of Rural Development to examine the representation of States in this matter. As a result of the deliberations of this Group, 120 blocks were added to DPAP while 16 blocks were deleted from the programme. Hence in 1984, a net addition of 104 blocks was made to the then existing 511 blocks of 70 districts in 13 States.

1.5.6.2.6 The strategy adopted in the Sixth Plan for DPAP was to place increased stress on activities which can contribute directly to the restoration of the ecological balance and to increase the per capita income through the effective development of land and other natural resources including efficient utilization of scarce water, conservation of scanty rainfall and arresting its run-off in drought-prone areas.

1.5.6.2.7 The Seventh Plan continued this strategy and implemented the schemes as an integrated area development programme rather than as a programme merely for creating increased employment opportunities. "Integrated district plans, taking into account resources available under sectoral programmes and other special programmes like NREP, RLEGDP, and IRDP will be prepared to achieve the objective of restoration of ecological balance of the area by
way of soil and moisture conservation, development and management of irrigation, afforestation, restructuring of cropping pattern, and development of livestock resources."\(^{84}\)

1.5.6.2.8 Thus DPAP lays emphasis on the "total approach to development" and long-term strategy of development. It is therefore, a truly comprehensive plan. Further, as a result of emphasis on a total and interlinked development effort simultaneously on a number of fronts, the achievements are more enduring and permanent. *"Thus, the DPAP ensures a continuity in planning efforts. This is in contrast to the schemes of the CSRE type where it is not known what will be the fate of these persons who are provided employment under them once these programmes are withdrawn after the completion period."*\(^{85}\)

1.5.6.3 CRASH PROGRAMME FOR RURAL EMPLOYMENT (CSRE)

1.5.6.3.1 During 1971-72, the Crash Scheme for Rural Employment (CSRE) aiming at providing work to about a thousand persons in every district at Rs. 100 per month was initiated by the Central Government initially for a period of three years. It aimed to ensure a means of livelihood to at least one member in each family with no employed adult. Though it was introduced as a non-plan programme in 1971-72, next year it was adopted as a central plan programme. The basic objectives of CSRE were -

- direct generation of employment in all the districts at the rate of 2.5 lakh man-days per annum in each district
- creation of durable assets in consonance with local development plans.

1.5.6.3.2 Rural works under CSRE were to be located in such areas of each district where SFDA was not in operation. Other criteria for location were the high percentage of landless labourers and high incidence of unemployment.

1.5.6.3.3 The Government of India sanctioned Rs. 12.50 lakh annually or Rs. 37.50 lakh for a period of 3 years beginning from April 1971 to each district of the country. It was expected that

\(^{84}\) Seventh Five Year Plan, 1985-90, p. 55
\(^{85}\) Mahesh Chand and V.K. Puri, Regional Planning in India, Allied Publishers, 1983, p. 317
one thousand persons in each district would get productive works leading to an average of 2.5 lakh man-days of employment.

1.5.6.3.4 CSRE took up mainly three important schemes, namely, road construction, land development and minor irrigation. Nearly three-fourths of the total expenditure under this scheme went to road construction. The more productive channels of expenditure such as minor irrigation, soil conservation, flood protection, school building etc. were given low priority.

1.5.6.3.5 The employment generated by CSRE is presented hereunder:

\[ PROGRESS \text{ UNDER CSRE} \]

<table>
<thead>
<tr>
<th>Year</th>
<th>Allocation of funds released</th>
<th>Amount released</th>
<th>Amount utilised</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971-72</td>
<td>5000</td>
<td>4000</td>
<td>3000</td>
</tr>
<tr>
<td>1972-73</td>
<td>5000</td>
<td>4000</td>
<td>3000</td>
</tr>
<tr>
<td>1973-74</td>
<td>5000</td>
<td>4000</td>
<td>3000</td>
</tr>
</tbody>
</table>

Chart No. 1.12

It may be clear from the Chart No. 1.12 that the expenditure actually incurred under CSRE over-stepped the funds allocation and release in 1972-73 and 1973-74 which suggests that the emphasis was on achieving financial targets. Evaluation studies show that job creation was over-stressed while the creation of appropriate assets was neglected. Block development agencies and Panchayati Raj organizations were the primary implementors.

1.5.6.3.6 The following shortcomings were noted:
i) absence of guidelines regarding labour-intensive works  
ii) uniform allocation of funds to each district  
iii) selection of inappropriate assets  
iv) concentration on a few works  
v) absence of cluster approach  
vi) irregular attendance of labourers  
vii) delayed payment of wages  
viii) absence of coordinated effort

1.5.6.4 DESERT DEVELOPMENT PROGRAMME (DDP)

Desert Development Programme was initiated in 1977-78 with the main objective of checking desertification. But it is combined with projects which facilitate development of productivity and productive resources of the area and its inhabitants. Expenditure under DDP has mainly been on schemes of afforestation, water harvesting, rural electrification and animal husbandry.

1.5.6.5 FOOD FOR WORK (FFW)

1.5.6.5.1 The Food For Work (FFW) was started in 1977 by the Union Government. The purpose was to create additional employment opportunities for the rural poor on works of durable utility to the community with the use of surplus food grains available in the buffer stock for payment as wages. Originally began as a non-plan scheme, it subsequently was modified to include all items of work, plan and non-plan if they created durable community assets. These assets included the following:

i) major, medium and minor irrigation work  
ii) flood protection, drainage and anti-water logging work  
iii) afforestation and social forestry  
iv) construction of field channels  
v) road construction  
vi) construction of school building, drinking water wells etc.
1.5.6.5.2 The FFW was in operation during 1977-80. It began somewhat haltingly but gathered momentum in 1978-79. In that year, more than 12 lakh tonnes of food grains were utilised creating 372.8 million man-days of employment. During 1979-80, utilisation of food grains increased to 23 lakh tonnes, including the special allotments made to states affected by drought in that year. It resulted in the creation of about 600 to 700 million man-days of employment as estimated on incomplete reports.

1.5.6.5.3 The Sixth Five Year Plan noted the following achievements of FFW:

a) Creation of substantial additional employment in the rural areas; particularly in areas affected by the widespread drought of 1979
b) Favourable impact on stabilization of wages in the rural areas
c) Help in checking the rise in prices of food grains.

1.5.6.5.4 Severe limitations in respect of planning and supervision of works have also been noted in the Sixth Plan. The operation of the scheme on a year-to-year basis resulted in uncertainty about its continuance for the full plan period. Hence State Governments showed disinclination in building the needed technical and administrative support to effectively plan, monitor and oversee the programme. No serious attempt was made by State Governments to develop, for each block, where the scheme was being implemented, a series of projects useful from the local needs viewpoint as well as corresponding to overall national priorities. "As a result, works of low priority with dubious utility have been taken up at several places." The above-stated limitations of FFW have also been noted by Dandekar and Sathe. "The scheme, however, is not working without serious problems of supervision and shortage of transport as well as administration...there are also difficulties in choosing the right kinds of projects. The criterion of productiveness of the project is not properly understood, nor is it agreed upon."

86 Sixth Five Year Plan, 1980-85, p. 168
87 Sixth Five Year Plan, 1980-85, p. 168
88 Sixth Five Year Plan, 1980-85, p. 168
89 Sixth Five Year Plan, 1980-85, p. 169
90 Dandekar Kumudini and Sathe Manju, "Employment Guarantee Scheme and Food for Work Programme", EPW, April 12, 1980, p. 710
1.5.6.5 FFW is quite an old scheme. Variants of this programme have been in operation in several less developed countries such as Bangladesh, Tunisia, Morocco, Egypt, Indonesia and Afghanistan. FFW in India in its brief existence produced a blend of political and economic controversies because this scheme, unlike many other unemployment programmes, had a measure of success. These political problems and the decreasing food stocks caused a certain amount of uncertainty about the future of a programme based on wage payment in kind. So, in October, 1980, FFW was renamed as the NREP and made a part of the Five Year Plan.

1.5.6.6 NATIONAL RURAL EMPLOYMENT PROGRAMME (NREP)

1.5.6.6.1 The National Rural Employment Programme (NREP) aims at generating employment opportunities in rural areas particularly during the slack agricultural season. Having come into operation from October, 1980, this programme has three basic objectives:

i. generation of additional gainful employment for the unemployed and under-employed persons, both men and women in rural areas

ii. creation of durable community assets for strengthening rural infrastructure which will lead to rapid growth of rural economy and steady rise in the income levels of the rural poor

iii. improvement of nutritional status and the living standard of the rural poor.

1.5.6.6.2 It covers all the blocks in the country and provides wage employment. It is directed generally to cover those groups of persons who are not likely to benefit from other sectoral programmes. Additional employment of the order of 300-400 million man-days per year for the unemployed and underemployed is envisaged under the NREP. The durable community assets to be created include drinking water wells, community irrigation wells, village tanks, minor irrigation works, rural roads, schools and Balwadi buildings, Panchayat Ghars etc. The Seventh Plan included encouragement to social forestry in earlier objectives of NREP with a view to maintaining an ecological balances. The revised guidelines provide for earmarking 25% outlays for social forestry, 10% for works of direct benefit to Scheduled Castes and Scheduled Tribes.
For ensuring the durability of assets created, the ratio of wage and non-wage expenditure is prescribed to be maintained at 50:50.

1.5.6.6.3 NREP provides supplementary employment opportunities during the lean period of the year through creating durable community assets. Wages are paid in cash as well as kind (food grains). It is a centrally sponsored programme to which the Union and State Governments make equal contributions. Part payment of wages in kind is intended to raise the nutritional standard of the rural poor. Food grains are allotted to States on rational criteria based on the population size of the target group i.e. State population of marginal farmers and agricultural labourers and the percentage of rural population in the State below poverty line. The programme operates in close conjunction with other developmental works.

1.5.6.6.4 Progress of NREP during the Sixth and Seventh Plan*

<table>
<thead>
<tr>
<th></th>
<th>Expenditure (Rs.Crore)</th>
<th>Employment (Million Man-days)</th>
<th>Man-day Generation Cost (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sixth Plan</td>
<td>1,834</td>
<td>1,775</td>
<td>10.3</td>
</tr>
<tr>
<td>(1980-85)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seventh Plan</td>
<td>2,940</td>
<td>1,477</td>
<td>19.9</td>
</tr>
<tr>
<td>(1985-86 to 1988-89)@</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table No. 1.7


@ For four years only

1.5.6.6.5 Progress of NREP under the Sixth Plan reveals that as against an allocation of Rs. 1,620 crore, actual expenditure both by the Central and State Governments was of the order of
Rs. 1,834 crore. However, there was a decline in food grains utilisation, though the Government decided to distribute food grains at subsidized rates from January 16, 1984. The employment generation was 1,775 million man-days as against the target of 1500-2000 million man-days.

The Sixth Plan Mid-term Appraisal made a critical assessment of the projects undertaken and pointed out, "Works implemented through NREP are, often, not coordinated or integrated with the requirements of families identified for assistance under IRDP. Potentiality of NREP works to assist newly liberated bonded labourers or to support the attempts of agricultural workers to secure minimum wages fixed under the law is also not always appreciated. Stereotyped earth excavation works mainly relating to Kachcha village roads, reminiscent of the old famine relief works, are undertaken ignoring the fact that this programme has a crucially supportive role to play for the beneficiary oriented development programme of IRDP and other area development programmes."

1.5.6.6.6 The Seventh Plan proposed a total outlay of Rs. 2,487 crore - Rs. 1,251 crore by the Centre and Rs. 1,236 crore by the States. Review of the progress of NREP during the first four years of the Seventh Plan reveals that though an amount of Rs. 2,940 crore was spent during these four years, the employment generated was of the order of 1,477 million man-days. In other words, while more funds have been pumped into the programme, commensurate increase in employment generation has not come about. The Seventh Plan Mid-term Appraisal pointed out, "It is revealed that employment being provided under the programme is for a very short duration and cannot make an impact on the levels of living of the rural people. The wages paid under NREP are often lower than the market wage rates. The selection of the beneficiaries is not proper, in as much as the poorest of the poor for whom the programme is meant are sometimes left out altogether."

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91 Planning Commission, Sixth Five Year Plan - Mid-term Appraisal, 1983, p. 57
1.5.6.7 RURAL LANDLESS EMPLOYMENT GUARANTEE PROGRAMME (RLEGPC)

1.5.6.7.1 The Rural Landless Employment Guarantee Programme (RLEGPC) was launched on the 15th August, 1983. The basic objectives of the Programme are:

(i) to improve and expand employment opportunities for rural landless with a view to providing guarantee of employment to at least one member of every landless labour household up to 100 days in a year
(ii) creation of durable assets for strengthening the rural infrastructure which will lead to rapid growth of the rural economy.

1.5.6.7.2 Assistance under the programme was provided to the State/UT Governments on 100 per cent grant basis. Resources were allocated on the basis of the prescribed criteria giving 50% weightage to number of agricultural labourers, marginal farmers and marginal workers and 50% weightage to the incidence of poverty. Wages were paid to the workers under the Schedule of employment in the Minimum Wages Act. Part of the wages are required to be paid in the form of subsidized food grains. It is also stipulated that the wage component on a project should not be less than 50% of the total expenditure on the project. Contractors are not permitted to be engaged in execution of works under the Programme. Minimum of 10 per cent of the allocations are to be earmarked exclusively for Scheduled Castes/Scheduled Tribes. The Programme included projects of social forestry, Indira Awas Yojana and Million Wells Scheme. The guarantee part of the Programme has not been operationalized so far due to paucity of resources.

1.5.6.7.3 An outlay of Rs. 1,744 crore was provided in the Central Sector for the Seventh Plan. The target was to generate 1013 million man-days of employment during the Plan period. The progress of RLEGPC during the Seventh Plan reveals that during the first four years, a sum of Rs. 2412 crore was utilized and this helped to generate employment to the tune of 1154 million man-days. The average cost of employment generation per man day for the period comes to Rs. 21.00 which is not very high. The ratio of wage to non-wage cost has been 58:42 which is well within the prescribed limits. As a result of the RLEGPC, 5.2 lakh hectares of land was
covered and 533 millions plants were planted during the 3-year period. Besides this, 4.27 lakh houses at a cost of Rs. 425.5 crore were constructed up to Dec., 1988. The average cost per dwelling unit worked out to Rs. 9,954.

1.5.6.8 JAWAHAR ROZGAR YOJANA (JRY)

1.5.6.8.1 The Prime Minister, the late Rajeev Gandhi announced on 28th April, 1989 the launching of the Jawahar Rozgar Yojana. All the existing rural wage employment programmes were merged into JRY. This implies that National Rural Employment Programme (NREP) and Rural Landless Employment Guarantee Programme (RLEGP) have been merged into JRY. In the earlier rural employment programmes, Central and State assistance was provided on 50:50 basis. Under JRY, the Central assistance is made 80 per cent and the States' share is 20%. 22.5 per cent funds are earmarked for SCs/STs at all levels of Panchayati Raj Institutions. Rural Employment Programmes had reached only 55 per cent of the village panchayats in the country as a result of operation of NREP and RLEGEP during 1980-81 to 1988-89. JRY is to reach every village panchayat and is likely to cover 44 million families living below the Poverty line.

1.5.6.8.2 OBJECTIVES OF JRY

1.5.6.8.2.1 Primary Objectives:

The primary objective of JRY has been generation of gainful employment for the unemployed and under-employed, men and women in rural area.

1.5.6.8.2.2 Secondary Objectives

The secondary objectives can be summarized as under:

- creation of sustained employment by strengthening the rural infrastructure
- creating community and social assets
- creating assets in favour of the poor for their direct and continuing benefits
- to produce positive impact on wage levels
- to bring about over-all improvement in quality of life in rural areas
1.5.6.8.3 TARGET GROUP

JRY is to help people below the poverty line. Preference is given to the Scheduled Castes, Scheduled Tribes and freed bonded labourers. At least 30% employment is to be provided to women beneficiaries.

1.5.6.8.4 WAGES

The wages are to be paid at the rates prescribed under the Minimum Wages Act for the relevant works and may be paid partly in kind (food grains) and partly in cash. The rate of distribution of food grains has been prescribed at 2 Kgs. per man-day. The payment of wages in kind has been made optional from September, 1993.

1.5.6.8.5 MODIFICATION UNDER JRY

1.5.6.8.5.1 JRY is modified from 1993-94 and is now being implemented in the three streams:

- FIRST STREAM
  On the existing pattern with two sub-schemes, namely Indira Awas Yojana (IAY) and Million Wells scheme (MWS)

- SECOND STREAM
  An intensified JRY in 120 identified backward districts with additional allocations

- THIRD STREAM
  Special and innovative projects

1.5.6.8.5.2 First stream of JRY

1.5.6.8.5.2.1 The allocation of resources by the Centre to the States/UT under this stream is based on the proportion of the rural poor in State/UT to the total rural poor in the country, as per the estimates of 43rd round of NSS. Under this stream of JRY, two sub-schemes viz. Indira Awas Yojana (IAY) and Million Wells Scheme (MWS) are being implemented. 10% of the total resources are to be earmarked for IAY and 30% are to be earmarked for MWS. The funds for the IAY and MWS are operated by the District Rural Development Agencies (DRDA)/Zilla Parishads. After providing for the earmarked sectors of the IAY and the MWS, at least 80
percent of the remaining funds are distributed amongst different village panchayats in the district.

1.5.6.8.5.2.2 The DRDA/Zilla Parishads utilise the funds for different programmes on the following guidelines:

a. Economically productive assets 35%

b. Social Forestry 25%

c. Individual beneficiary schemes for SC/STs 22.5%

d. Other works including roads and buildings 17.5%

It is stipulated that 22.5 per cent of allocation meant for the direct benefit of SC/STs should be spent specifically for them. No diversion is permitted. However, there is flexibility permitted in other sectoral allocations.

1.5.6.8.5.2.3 WORKS TO BE UNDERTAKEN UNDER FIRST STREAM OF JRY

i. Social forestry works on Government and community lands belonging to panchayats etc., road side plantations, plantations along canal banks or on wastelands or on sides of railway lines etc.

ii. Soil and water conservation works

iii. Minor irrigation works, such as construction of community irrigation wells, drains and field channels

iv. Construction/renovation of village tanks for providing irrigation as well as drinking water

v. Construction of community sanitary latrines

vi. Construction of houses for Scheduled Castes, Scheduled Tribes and freed bonded labourers.

vii. Construction of rural roads

viii. Land development and reclamation of waste lands or degraded lands

ix. Construction of Community Centre, Panchayat Ghars, Mahila Mandals, Market Yards, Dispensaries, Anganwadis, Balwadis etc.

x. Construction of school buildings etc.
1.5.6.8.5.2.4 Million Wells Scheme

1.5.6.8.5.2.4.1 The Million Wells Scheme was launched as a sub-scheme of NREP/RLEG during 1988-89 to provide open irrigation wells, free of cost, to poor small and marginal farmers belonging to SCs/STs and free bonded labourers. From 1st April, 1989 to 31st December, 1995, the scheme continued under JRY by earmarking 30 percent of the funds for the purpose. From 1st January, 1996, MWS is an independent scheme. From 1993-94, the scheme has been extended to include poor small and marginal farmers belonging to non-SC/ST categories. The Panchayati Raj Institutions (PRI) are actively associated with the planning and the selection of MWS beneficiaries.

1.5.6.8.5.2.4.2 Since the beginning of the Programme in 1988-89 till November, 1994, 7.85 lakh wells have been constructed with an expenditure of Rs. 2,489 crore.

PROGRESS UNDER MILLION WELLS SCHEME

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of wells constructed</th>
<th>Expenditure incurred (Rs. Crore)</th>
<th>Average Expenditure per well (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988-89</td>
<td>50,345</td>
<td>123.0</td>
<td>26,416</td>
</tr>
<tr>
<td>1989-90</td>
<td>87,634</td>
<td>108.2</td>
<td>12,342</td>
</tr>
<tr>
<td>1990-91</td>
<td>56,433</td>
<td>279.7</td>
<td>49,570</td>
</tr>
<tr>
<td>1991-92</td>
<td>1,72,328</td>
<td>495.2</td>
<td>28,734</td>
</tr>
<tr>
<td>1992-93</td>
<td>1,80,995</td>
<td>534.0</td>
<td>29,506</td>
</tr>
<tr>
<td>1993-94</td>
<td>1,49,335</td>
<td>638.8</td>
<td>42,776</td>
</tr>
<tr>
<td>* 1994-95</td>
<td>87,810</td>
<td>309.4</td>
<td>35,240</td>
</tr>
<tr>
<td>Total</td>
<td>784,880</td>
<td>2,498.3</td>
<td>31,831</td>
</tr>
</tbody>
</table>

Table No. 1.8

* Up to November, 1994

Source: Compiled and computed from Ministry of Rural Development, Annual Report (1994-95)
It was thereafter being implemented as an independent scheme with effect from 1st Jan., 1996. During 1997-98, an amount of Rs. 374 crore was released to States/UTs under MWS. So far, a total of 91,481 wells have been constructed and 1,33,356 are under construction with an expenditure of Rs. 445.82 crore.93 It has now been merged with SGSY with effect from April, 1999.

1.5.6.8.5.2.5 Indira Awas Yojana (IAY)

1.5.6.8.5.2.5.1 Indira Awas Yojana is aimed at providing houses, free of cost, to the members of the SC/ST, freed bonded labourers. The scheme was implemented since 1985-86 under RLEGP. From 1989-90, the scheme has been continued under JRY. From 1993-94, the scheme has been extended to other poor categories as well subject to the condition that the benefits to non-SC/ST should not exceed 40% of the total allocation. From 1995-96, the benefits of the scheme have also been extended to families of servicemen of the armed and paramilitary forces killed in action. Three per cent of the houses are reserved for the below-poverty line disabled persons living in rural areas. The permissible expenditure for each house under IAY was originally as under:

- Construction of house Rs. 9,000
- Construction of sanitary latrine and smokeless Chulha Rs. 1,500
- Cost of providing infrastructure and common facilities Rs 3,500

The present permissible construction assistance per house is Rs. 20,000 in plain areas and Rs. 22,000 in hilly or difficult areas. It has since been increased to Rs. 30,000 - Rs. 1,500 from the beneficiary and Rs. 28,500 from the Government. The responsibility for the construction of the house is on the beneficiary and there is complete freedom as to the manner of construction of house. As far as possible, the houses are constructed in clusters so as to facilitate provision of common facilities. The allotment of the house under the scheme is done in the name of the

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female member of the beneficiary household. Alternatively, they are allotted in the joint names of both - the husband and the wife.

1.5.6.8.5.2.5.2 Under RLGEP, a total of 5.2 lakh houses, involving an expenditure of Rs. 592 crore, were constructed during the 4-year period. Under JRY, 13.23 lakh houses, involving an expenditure of Rs. 1,605 crore were constructed between 1989-90 to November, 1994.

**HOUSES UNDER INDIRA AWAS YOJANA**

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of houses constructed</th>
<th>Expenditure incurred (Rs. Crore)</th>
<th>Average Expenditure per house (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. RLEGEP</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1985-86 to 1988-89</td>
<td>5,19,943</td>
<td>592.1</td>
<td>11,387</td>
</tr>
<tr>
<td>2. JRY</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989-90</td>
<td>1,86,023</td>
<td>188.5</td>
<td>10,133</td>
</tr>
<tr>
<td>1990-91</td>
<td>1,81,800</td>
<td>213.1</td>
<td>11,710</td>
</tr>
<tr>
<td>1991-92</td>
<td>2,07,299</td>
<td>263.1</td>
<td>12,687</td>
</tr>
<tr>
<td>1992-93</td>
<td>1,92,585</td>
<td>238.8</td>
<td>12,402</td>
</tr>
<tr>
<td>1993-94</td>
<td>3,59,933</td>
<td>464.4</td>
<td>12,904</td>
</tr>
<tr>
<td>1994-95</td>
<td>1,95,607</td>
<td>237.5</td>
<td>12,142</td>
</tr>
<tr>
<td>Sub-Total</td>
<td>13,23,247</td>
<td>1,605.4</td>
<td>12,132</td>
</tr>
<tr>
<td>Total(1+2)</td>
<td>18,43,190</td>
<td>2,197.5</td>
<td>11,922</td>
</tr>
</tbody>
</table>

Table No. 1.9

The Central allocation for 1998-99 was Rs. 1,484 crore. So far, in all 44 lakh houses have been constructed since the inception of IAY with an estimated cost of Rs. 6,627.24 crore.94

1.5.6.8.5.3 SECOND STREAM OF JRY : EMPLOYMENT ASSURANCE SCHEME

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1.5.6.8.5.3.1 The Government of Maharashtra had introduced the Employment Guarantee Scheme (EGS) in 1972-73. The Scheme was the first of its kind to give recognition to the right to work enshrined in the Constitution. It embodied a commitment by the State to provide work to a person who comes forward to offer labour. On the model of the EGS of Maharashtra, the Government introduced employment Assurance Scheme (EAS) with effect from 2nd October, 1993 in rural areas in 1,778 blocks of 261 districts. The Scheme aimed at providing assured employment of 100 days of unskilled manual work to the rural poor who are in need of employment and seeking it. The assurance of 100 days extends to all men and women over 18 years and below 60 years of age. A maximum of two adults per family, normally residing in the villages of the blocks covered under the scheme, are to be provided employment under the Scheme. It is a demand-driven scheme and has no fixed allocation for the State/District. The scheme is now being implemented in all the 5,448 rural blocks of the country.

1.5.6.8.5.3.2 During 1993-94, an amount of Rs. 183.75 crore was spent on EAS and an employment of 49.47 million days was generated. For the country as a whole, an average of 4.5 man-days of employment was generated for 11.1 million registered workers under EAS.

1.5.6.8.5.3.3 Over 4.14 crore persons have been registered under this scheme by July, 1998. The funds are released block-wise. Funds allocation under the scheme during 1997-98 was Rs. 1970 crore and budget allocation for 1998-99 is Rs. 1990 crore. During 1997-98, 4,486.75 lakh man-days of employment have been generated with an expenditure of Rs. 2,891.07 crore. Employment generated since inception is 15,416.34 lakh man-days with a cumulative expenditure of Rs. 8,191.30 crore. 95

1.5.6.8.5.3.4 Judged by this achievement, the target of providing 90-100 days of employment for every registered person is a distant goal. Larger devolution of funds and greater intensification of implementation are required for achieving the targets.

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1.5.6.8.5.4 THIRD STREAM OF JRY: INNOVATIVE AND SPECIAL EMPLOYMENT PROJECTS

1.5.6.8.5.4.1 Special and innovative projects aiming at prevention of migration of labour from rural area to urban area, enhancing women's employment, special programmes through voluntary organizations aiming at drought proofing as well as watershed development/wasteland development resulting in sustained employment were undertaken under the third stream of JRY. Besides this, *Operation Black Board* was undertaken to provide assistance for construction of class rooms and school buildings.

1.5.6.8.5.4.2 During 1989-90 to 1993-94, the States generated employment of the order of 4,283 million man-days against the target of 4,332 million days. The share of employment of SCs was 1,605 million man-days (37.5%) and that of STs was 776 million man-days (18.1%). The women employment was 1,036 million days (24.2%). The total expenditure incurred was Rs. 14,010 crore, meaning that Rs. 32.7 per man-day were spent.

1.5.6.8.6 PATTERN OF EXPENDITURE UNDER JRY

An amount of Rs. 11,072 crore was spent under the various heads in JRY during the 5-year period (1989-90 to 1993-94).
PATTERN of EXPENDITURE UNDER JRY

Chart No. 1.13
1.5.6.8.7 PHYSICAL ACHIEVEMENTS UNDER JRY

As a result of the expenditure incurred in JRY, the following principal physical achievements can be claimed for the period 1989-90 to 1993-94:

**PHYSICAL ACHIEVEMENTS UNDER JRY**

<table>
<thead>
<tr>
<th>Item</th>
<th>Units</th>
<th>Achievements</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Construction of wells under MWS</td>
<td>lakh</td>
<td>4.47</td>
</tr>
<tr>
<td>2. Development of house sites</td>
<td>Nos.</td>
<td>49,478</td>
</tr>
<tr>
<td>3. Construction of houses</td>
<td>lakh</td>
<td>14.80</td>
</tr>
<tr>
<td>4. School Buildings</td>
<td>Nos.</td>
<td>1,68,993</td>
</tr>
<tr>
<td>5. Rural Roads</td>
<td>000 Kms</td>
<td>674</td>
</tr>
<tr>
<td>6. Drinking water wells</td>
<td>Thousands</td>
<td>489</td>
</tr>
<tr>
<td>7. Construction of Village Tanks</td>
<td>Thousands</td>
<td>329</td>
</tr>
<tr>
<td>8. Area covered under Social Forestry</td>
<td>000 Hectares</td>
<td>655</td>
</tr>
</tbody>
</table>

Table No. 1.10

The financial performance under JRY during 1989-90 to 1997-98 and the man days targeted and achieved are presented in the following table:

<table>
<thead>
<tr>
<th>Year</th>
<th>Central Release</th>
<th>State Release</th>
<th>Total Release</th>
<th>Expenditure (Million Man Days)</th>
<th>Target (Million Man Days)</th>
<th>Achievement (Million Man Days)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989-90</td>
<td>2139.12</td>
<td>545.45</td>
<td>2684.57</td>
<td>2458.08</td>
<td>875.72</td>
<td>864.39</td>
</tr>
<tr>
<td>1990-91</td>
<td>2000.95</td>
<td>537.69</td>
<td>2538.64</td>
<td>2588.23</td>
<td>929.10</td>
<td>874.56</td>
</tr>
<tr>
<td>1991-92</td>
<td>1815.57</td>
<td>531.38</td>
<td>2346.95</td>
<td>2659.23</td>
<td>735.44</td>
<td>809.20</td>
</tr>
<tr>
<td>1992-93</td>
<td>2524.88</td>
<td>657.45</td>
<td>3182.34</td>
<td>2709.59</td>
<td>753.80</td>
<td>782.10</td>
</tr>
<tr>
<td>1993-94</td>
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<td>636.76</td>
<td>3178.12</td>
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<tr>
<td>1st Stream</td>
<td>688.30</td>
<td>172.07</td>
<td>860.37</td>
<td>288.50</td>
<td>Not fixed</td>
<td>73.50</td>
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<td>719.94</td>
<td>3604.66</td>
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<td>766.02</td>
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<td>882.74</td>
<td>4418.38</td>
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<tr>
<td>2nd Stream</td>
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<td>150.95</td>
<td>2499.33</td>
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<td>1639.10</td>
<td>409.26</td>
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<td>2425.79</td>
<td>1787.13</td>
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<td>545.45</td>
<td>2684.57</td>
<td>2458.08</td>
<td>875.72</td>
<td>864.39</td>
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* Up to February, 1998

The Central Budget under Scheme was at Rs. 2,075 crore for the current financial year and about 415 million man-days were likely to be generated during 1998-99. The foodgrains may, at the option of the State, be given as part of wages under JRY at the rate of one Kg per person per day at the same price fixed for the people below the poverty-line under the targeted Public Distribution System (PDS). In order to financially strengthen all the three tiers of Panchayati Raj Institutions (PRIs), JRY funds are allocated in the ratio of 70:15:15 between the village, intermediate and district-level panchayats.
1.5.6.8.8 EVALUATION OF JAWAHAR ROZGAR YOJANA

1.5.6.8.8.1 Various studies of JRY have been made during the last few years.

1.5.6.8.8.2 QUICK STUDY OF JRY (1991-92)

Programme Evaluation Organization (PEO) of the Planning Commission conducted a study of JRY in 10 major States during 1991-92. The main findings of the study are:

i. While the share of SC/ST in employment was more than 50 per cent, the share of women in the employment generation was only 22 to 25 per cent at the district level and 15 to 18 per cent at the village panchayat level.

ii. JRY did not provide employment to the extent expected as the average number of days for which a person got employment was 11.44 days during 1989-90, 15.68 days during 1990-91 and 12.81 days during 1991-92.

iii. 89 per cent of the selected beneficiaries described the assets created as useful.

iv. Contractors were employed by some Gram Panchayats for execution of some works.

v. Adequate attention was not paid to maintenance of assets.

1.5.6.8.8.3 QUICK STUDY OF INDIRA AWAS YOJANA (IAY)

PEO undertook a quick study of IAY in 14 States. The main findings of the study were as under:

1. The average cost of construction of house was Rs. 9,000.

2. The criteria of selection of households for allotment of houses among SCs/STs, below the poverty line, was followed in almost all the selected villages.

3. The quality of construction in respect of 50 per cent of houses was good.

4. About 84 per cent of the households expressed their satisfaction fully/partially with the houses allotted to them.
5. Involvement of contractors was reported in some villages.

6. There was no involvement of voluntary organizations in the construction of houses particularly for motivation in the use of sanitary latrines and smokeless chulhas.

1.5.6.8.8.4 CONCURRENT EVALUATION OF JRY

1.5.6.8.8.4.1 During 1992, the government of India undertook concurrent evaluation of JRY through reputed research institutions covering all districts in the country. Main findings of the concurrent evaluation were:

1. Nearly 73 percent of the available funds were spent by the Village Panchayats.

2. In almost all the States, the average wages paid per man-day to the unskilled workers were more or less equal to the minimum wages prescribed under the Minimum Wages Act.

3. The wage and non-wage component of the expenditure of JRY works undertaken by the Village Panchayats at the All India level was 53 : 47.

4. In about 84 per cent of the cases, the Muster Rolls were maintained.

5. Of the total assets created, roughly 74 per cent were found to be good/satisfactory, 8 per cent of poor quality and the remaining 18 per cent were either incomplete or not according to laid down norms.

6. At the All-India level, during the last 30 days preceding the date of the survey, a JRY worker got roughly 4 days of employment and another one man-day of employment was received by the other member of the family.

7. In 17.5 per cent cases, assets created were not maintained by any agency.

1.5.6.8.8.4.2 The report pointed out the following areas of concern:

a. In majority of cases, Panchayat heads were not given any training for undertaking JRY works.

b. In some States, the Annual Action Plans were not discussed at all in the Gram Sabha meetings.
c. In some States viz. Andhra Pradesh, Kerala, Maharashtra, Tamilnadu and Pondicherry, there was disparity in the average wages paid per day to male and female unskilled workers.

d. The workers who belonged to the category of *ineligibles* also took the advantage of the programme.

1.5.6.8.5 JRY has helped the weaker sections to acquire a house or provided access to drinking water or improved sanitation. However, much remains to be done to make a perceptible improvement in the quality of life. Involvement of Voluntary Agencies, ensuring maintenance of the assets created, larger devolution of resources - both human and financial are considered necessary for further improvements in achievements.

1.5.6.9 EMPLOYMENT ASSURANCE SCHEME

1.5.6.9.1 To provide assured employment to assetless poor during the lean "Agriculture" season, the Employment Assurance Scheme (EAS) was launched on 2nd October, 1993 in selected blocks of the country. The scheme aims at providing assured employment of 100 days of unskilled manual work to the rural poor who are in need of employment and seek it. The assurance of 100 days of employment extends to two adult members of the family, normally residing in the villages of the blocks covered under the scheme. It is a demand-driven scheme and has no fixed allocation for the state/district.

1.5.6.9.2 Over 4.14 crore persons have been registered under this scheme by July, 1998. The funds are released block-wise. Funds allocation under the scheme during 1997-98 was Rs. 1,970 crore and budget allocation for 1998-99 is Rs. 1,990 crore. During 1997-98, 4,486.75 lakh mandays of employment have been generated with an expenditure of Rs. 2,891.07 crore. Employment generated since inception is 15,416.34 lakh mandays with a cumulative expenditure of Rs. 8,191.30 crore.
1.5.7 BALANCE BETWEEN SELF-EMPLOYMENT & WAGE EMPLOYMENT PROGRAMMES

1.5.7.1 The two major instruments of direct intervention for poverty alleviation are the self-employment programmes and the wage employment programmes. They have generated a controversy regarding their relative merits.

1.5.7.2 In his widely quoted article, Nilakantha Rath\(^7\) delves on the causes of the meagre outcome of IRDP. He is not inclined to accept the view that the poor performance of IRDP is mainly due to the failure of agencies administering the programme. It is also not mainly due to the inadequate provision of infrastructure. Hence "more careful administration with larger number and more motivated personnel" cannot "convert the bulk of failures into success."\(^8\) According to him, "the strategy of helping the poor in rural society to get over poverty with the help of assets given to them is largely misconceived."\(^9\) In a multi-pronged attack on rural poverty, IRDP cannot, therefore, be the mainstay of the strategy. That place should be occupied by a programme emphasizing the creation of greater opportunity of wage employment. "A large-scale programme of assured wage employment for the rural poor will make the relevant part of what is IRDP today productive and worthwhile."\(^10\) This view is based on the argument that the poorest of the poor in rural areas may have neither the skills, nor the capacity to bear the risks necessary for undertaking asset-oriented activities under IRDP in the generally adverse market situation. Leakages from such investments and the rate of default in the repayment of loans would naturally be high for the poorest of the poor. So what the poor need is wage employment which should be easily available. Thus according to Rath, the "poorest of the poor" approach in IRDP is not a realistic one because these households are the least capable of self-employment. Further, the economy does not have adequate productive assets for the distribution to the poor. In this context, Rath cites the very convincing example of milch cattle. Moreover, in his view,

\(^7\) Nilakantha Rath, "Garibi Hatao : Can IRDP Do It ?", EPW, February 9, 1985
\(^8\) Nilakantha Rath, "Garibi Hatao : Can IRDP Do It ?", EPW, February 9, 1985, p.244
\(^9\) Nilakantha Rath, "Garibi Hatao : Can IRDP Do It ?", EPW, February 9, 1985, p.245
\(^10\) Nilakantha Rath, "Garibi Hatao : Can IRDP Do It ?", EPW, February 9, 1985, p.245
the subsidy element not only gives scope for corruption but has also increased the indebtedness of the poor.

1.5.7.3 Dantwala does not accept Rath's reasoning. "The point is that if the test of coverage and quality, deflections and distortions is adopted for judging the appropriateness of a programme for Garibi Hatao, there is no firm basis for giving preference either to the beneficiary programmes or wage employment programmes. Both are tarred with the same brush." Dantwala, therefore, does not favour a development strategy aimed at improving the lot of the poor through the creation of massive wage employment opportunities in rural areas. Such a strategy "would pin down the poor as hewers of wood and drawers of water." If IRDP is misconceived, it is only in the sense that its programming is narrow, unimaginative and faulty. What is needed is to unearth the root cause of failure and redesign and reorient it. Indira Hiraway too feels that Rath lays too much emphasis on the role of wage employment in the strategy of poverty alleviation. According to her, Rath ignores the fact that self-employment is a major form of employment in the rural economy. Like Dantwala, Hiraway too points to the malpractices that occur in rural employment programmes. Further, such programmes accentuate the gap between the rich and the poor by strengthening the asset base of those who are relatively better off.

1.5.7.4 Bandyopadhyay is of the opinion that the controversy pertaining to the relative merits of IRDP and wage employment programme "appears to be rather sterile. Both these programmes have a significant role to play for the limited objective of reducing distress and miseries arising out of poverty." Those who have no productive assets because they are incapable of owning them or are unable to utilise them, there has to be a programme for wage employment to prevent them from further sliding down. There are also such poor beneficiaries of IRDP who have received the productive assets but are unable to get adequate incremental

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103 Indira Hiraway, "Garibi Hatao : Can IRDP Do It?", EPW, March 30, 1985
income; for them supplementary employment is a must. For those poor who have got the assets and have earned some incremental income, supplemental wage employment will be needed whenever they are faced with adverse market conditions. "Thus, there is no one versus the other option. What is required is an optimal mix which can be obtained through a process of planning at the lowest level to ensure that the families below the poverty line who have been beneficiaries of productive assets and skills can climb up and those who are in waiting list are prevented from sliding down through wage employment programmes."  

1.5.7.5 In the opinion of Bagchee, there is no basic difference in the two approaches of poverty alleviation; in fact, both these kinds of programmes should form components of the poverty alleviation strategy. Which strategy is more appropriate will depend on the circumstances prevailing in an area or region. Bagchee emphasizes the lack of integration between these two programmes as they are planned and implemented in isolation of one another though the field agency as well as the administrative machinery are the same.

1.5.7.6 The Seventh Plan too emphasizes the complementary nature of the two programmes. "IRDP and employment programmes are not mutually exclusive. As it is, most of the IRDP beneficiaries supplement their incomes through wage earnings in agriculture as well as from Projects under National Rural Employment Programme (NREP) and Rural Landless Employment Guarantee Programme (RLEG). These activities supplement one another and together ensure a more stable flow of incomes to the poor throughout the year." However, we will have to keep in mind that the marginal cost of providing any service to the poor should not be less than its social cost.

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107 Seventh Five Year Plan, p. 51