Chapter 1

Introduction
Rural development is a driving force of the entire development process and lies at the heart of the national development. Rural development does not mean mere development of rural areas rather it is concerned with the development of rural people to dispel ignorance and poverty and assist the process of creating self-reliant and self-sustaining healthy modern communities. It is associated with three main aspects such as:

- improving the living standards of population;
- ensuring mass participation in developmental activities; and
- making the development process self-sustain.

In a broader sense, rural development is a comprehensive programme of activities which includes agricultural growth, setting up of economic and social
infrastructure, fair wages, housing and house sites for the
landless, village planning, public health and functional literary
communications\(^2\).

The Government of India has formulated and
implemented special areas and specific programmes that could
benefit the weaker sections of the society. To reach the neglected
and weaker sections, programmes were drawn up for small and
marginal farmers and agricultural labourers like Small Farmers
Development Agency (SFDA) and Agency of Marginal Farmers
and Agricultural Labourers (MFAL) in order to identify the
poorest families and help them to improve economically. The
Antyodaya Programme was also taken up on the same line.
Further, as two-thirds of the people live in their district regions,
Integrated Tribal Development Programme (ITDP) was also taken
up. Again, with a view to identifying the requirements of the
families of weaker sections as well as the local potentialities and
the infrastructure, a wide ranging programmes under the banner
Integrated Rural Development Programme (IRDP) has also been
undertaken. Likewise, those areas which are affected either by
less rainfall or by drought have been recognized and a special
programme called—Drought Prone Area Programme (DPAP) has
been implemented. Furthermore, some other such special
programmes viz., Crash Scheme for Rural Employment (CSRE),
Command Area Development Programme (CADP), Pilot Programme, Desert Area Development Programme, the Food for Work Programme, National Rural Employment Programme and Job Guaranteed Schemes have been taken up to improve the welfare of the weaker sections.  

**RURAL DEVELOPMENT - A CONCEPTUAL VIEW**

Rural development has been the slogan of almost all political parties and one of the major objectives of Five-Year-Plans since independence. The political parties, planners and policy-makers have realised that rural development can no more be a vote fetching slogan but it is the key issue for national progress. Therefore, the planning commission, in the Five-Year-Plan documents has defined rural development as “the economic betterment of people as well as greater social transformation.” The document further emphasises that economic betterment is possible through the development of agriculture and allied activities and social transformation through improvements in health, education, drinking water, energy supply, sanitation and housing.

Several opinions were expressed concerning the concept of rural development and different interpretations were given by distinguished scholars. According to Sanders, rural development
provides a large umbrella under which all the rural people can be brought together for channelising their efforts for their own betterment. The Ahsridge Conference on Social Development defines rural development as movement designed to promote better living for all in the whole community with the active participation and an initiative of the community.

In the words of Ensminger, rural development seeks to involve a process of transformation from traditionally oriented cultures towards an acceptance and reliance on science and technology. Lele defines rural development, as an improvement in the living standard of masses of low-income population residing in rural areas and making the process of self-sustaining. According to Giriappa, rural development involves developing rural economy so as to raise the standard of living of those rural people who are poor and require upliftment. In fact, rural development involves a process wherein the rural society as a whole moves from one step ahead and, thereby enhancing its social and economic standards.

To sum up, rural development implies a process to provide an opportunity for decent living to the masses of low income population residing in rural areas on self-sustaining bases. It embraces all those programmes that touch all levels of human
living i.e., agriculture and allied activities, health, communication, supplementary employment through village and small scale industries, housing and social welfare.

OBJECTIVES OF RURAL DEVELOPMENT

The main objectives of rural development are enlisted below:

➢ to secure the fullest development of all the material and human resources of the rural areas;

➢ to maximise production in agriculture and allied activities in rural areas through the use of modern technology and improved scientific knowledge;

➢ to raise the socio-economic status of those families who have adopted agriculture as their profession;

➢ to lead rural people from the chronic under-employment to full employment;

➢ to generate maximum possible employment opportunities in rural areas, especially for the weaker sections of the society through the establishment of rural industries with emphasis on village and cottage industries so as to enable them to improve their standard of living; and

➢ to provide certain basic amenities like drinking water, electricity, especially for productive purposes, roads connecting villages to marketing centers and facilities for health care, education and the like.
In a nutshell, rural development aims at all-round development of rural economy with more emphasis on socio-economic amelioration of rural people.

**ASPECTS OF RURAL CREDIT**

Indian economy is rural economy. Nearly four out of five Indians live in the rural areas and within the rural India itself, five out of every six are dependent on agriculture\(^{10}\). Agriculture with its allied activities contributes as much as 41 per cent to national income and it provides food-grains as well as vital raw-materials to agro-based industries like cotton textiles, jute textiles, sugar, edible oils and the like\(^{11}\). Rural development is a strategy to improve the economic and social life of a specific group of people, the rural poor including small and marginal farmers, tenants, landless and the poorest among those who seek livelihood in the rural areas. The basic aim of rural development in our country is, therefore, to transform the socio-economic life of the country's rural population living below the poverty line in the rural areas\(^{12}\).

An old French proverb says, Credit supports the farmers as 'the hangman's rope supports the hanged'. But, if credit is sometimes fatal, it is often indispensable to the cultivators. Credit is the confidence reposed in a person, enables him to
obtain from another for the temporary use of a thing or value. It is obvious that credit is an ability to get loan from some individual or agency. The persons who obtain finance with the help of this capacity to influence the lender may not have any productive asset. Consequently, credit is the confidence creating power of the borrower. One commonly gets the operational credit by convincing a lender that the amount with some interest will be repaid by the specified time limit. Put in a different way, credit is an arrangement between a borrower, who takes some money for productive investment and a lender who deploys his capital for earning some interest.

In the context of small farmers, credit means short term credit. As the small farmers live below or on the poverty line in India, they are not in a position to avail themselves of long term loans. In the Indian context, it is considerably low and in making any agreement, the borrower is dictated by the lender because the farmer is weak and has very limited alternatives. Small farmers' credit is, therefore, the money lending and borrowing business. Further, it is essentially an operation of securing money from one source or the other by creating the confidence that the amount of loan would be invested in productive operations and that the lender will get back the loan with some
extra as per agreement. Thus, agricultural credit reflects agricultural situation in a different way and is dependent upon agricultural yields and related matters.

**Agencies for Rural Credit**

Credit is considered as an important instrument for agriculture and rural development and is available to the villagers from two types (see Fig 1.1) of broad sources, viz., the institutional and non-institutional.

**Figure 1.1**
The institutional sources include co-operative credit agencies, commercial banks, Central and State Government agencies while the non-institutional sources consist of mainly money lenders, merchants, commission agents, landlords, relatives and the like. Due to the nature and direction of public policy in the first three Five-Year Plans, non-institutional agencies occupied a dominant place in the rural credit structure. According to the All India Rural Credit Survey Report, the share of institutional agencies, comprising of the Government, the co-operatives and the commercial banks in financing the borrowings of the rural households was 7.1 per cent in the year 1951-52, whereas the corresponding share of private money lenders alone was as high as 68.6 per cent\textsuperscript{15}.

Number of enquiries and studies have brought out from time to time regarding the exploitative character of the money-lenders. As regards the money-lenders' rate of interest, it is difficult to state precisely the different rates charged in different parts of India. As pointed out in the report of the Expert Committee on Consumption Credit, the money-lender also exploits the poor borrowers through advance contract for tied sale of output only through him which in turn he gets output at lower price than the borrower could have obtained, if he sells output directly in the market.\textsuperscript{16}.
**Rural Indebtedness**

In India, majority of agriculturists are either owners of small and marginal land holdings or landless agricultural labourers. The poor villagers are being crushed under the burden of heavy indebtedness. This debt burden passes and increases from generation to generation. Thus, the poor villagers are permanently trapped in the net of usurers. The number of those in the grip of this vicious problem is very large. As a matter of fact, the evil facet of India’s rural sector is heavy indebtedness of the rural people. It is by and large the problem of small and marginal farmers, landless labourers and rural artisans. At one time the problem of rural indebtedness has assumed alarming proportion and government had to intervene and take some steps to relieve the borrowers from the burden of past debt, also make some provision to provide loan for their agricultural operation and even to meet their consumption needs. Agricultural borrowers, thus, would not be compelled to go to money-lenders for borrowing funds either for their consumption needs or productive purposes.

**Causes of Rural Indebtedness**

Against the aforesaid background, it would be interesting to mention the causes for rural indebtedness. There are several
causes responsible for rural indebtedness. The major causes for indebtedness are 18:

**Vicious Circle of Poverty**

The low level of income with hardly any savings, the poor villagers have no option but to go for loans for consumption as well as for production purposes. It becomes difficult for small and marginal farmers, rural artisans, and landless labourers to repay their loans and thus, the debts go on accumulating.

**Unscrupulous Money Lenders**

The loans contracted by the rural poor not only perpetual but also increase because of the unscrupulous usurers. Their rate of interest is very high. They give loans by getting the thumb impression of the ignorant, illiterate and helpless poor borrowers on blank paper. They do not issue receipt for payment of interest or installments paid. They also manipulate in accounts so that the poor farmers can never get out of the clutches of money lender.

**Social and Religious Requirements**

The social and religious values overrule the economic considerations of conservative and traditional minded rural folk. The villagers incurred heavy unproductive expenditure on religious social customs like birth, marriages and death ceremonies. They often borrow from the unscrupulous money-
lenders and get permanently caught in the clutches of money-lender.

**Litigations**

There are inter-family and intra-family disputes, which often force the villagers to go to the courts. To meet this expenditure credit is required.

**Other Causes**

The small and marginal farmers are forced to pay their rent and land revenue by taking loans. Their other expenses like medical help, purchase of utensils, clothes, ornaments and the like are met from these loans.

**RURAL CREDIT REQUIREMENTS**

Credit is the king-pin of economy's progress. It is the basic need for every sector of the economy and rural sector is no exception to this phenomenon. The major objective of planning in India, has been to improve the quality of life and to raise the standard of living of the rural people. The realisation of this goal depends, to a large extent, on the development of the rural sector as 70 per cent population reside in this sector. Availability of credit is the constraint in the tempo of rural development. Credit is needed in all the sectors such as agriculture, industry, trade, transport and various services for their day-to-day activities and
also for growth and progress. The following are some important requirements of rural credit:

**Production Credit**

Most of the credit requirements are linked to the productive purposes. An agriculturist requires credit to buy seeds, fertilizers, water, pay wages to workers and the like. These farm expenses are of recurring nature and are related to agricultural operations. Since farmers' economy is of subsistence and having no savings, they require credit to carry out productive activities.

**Investment Credit**

The investment on permanent additions and improvement of farm assets as digging wells, fencing the land and clearing marshy can be termed as productive investment. The farmers require credit for making permanent improvements of land which can be termed as investment credit.

**Consumption Credit**

The rural poor have chronically deficit budgets and have no savings. They require credit to meet their consumption such as purchasing of food grains, clothing and utensils, meeting medical expenses, repairing the houses and celebrating social and religious ceremonies like birth, marriages and death.
The rural credit is also needed to pay the premium to their insurance, purchase of gold, silver ornaments, shares/bonds and the like

**FACETS OF PRIORITY SECTOR**

The banking institutions are the custodians of private savings and powerful instruments to provide credit. They mobilise the resources of the country by accepting deposits and channelise them for industrial and national development by granting advances\(^{20}\). Credit is an important instrument required for national development and it should be utilised according to the national priorities\(^ {21}\). Before nationalisation, there were complaints that commercial banks in India were diverting their advances to the large and medium scale industries and big business houses. The sectors demanding priority such as agriculture, small scale industries and exports were not receiving their due share. This was one of the chief reasons for the imposition of social control by amending the Banking Regulation Act with effect from 1st February 1969\(^ {22}\).

Until the mid sixties, the beneficiaries of bank credit were the people having direct or indirect influence over administration of banks. Hence agriculture, small-scale industries and other priority sectors failed to get the required bank credit in spite of
their importance in the country's development planning. Towards the end of 1965, a beginning was made to mould the credit policy of the commercial banks so as to make it consistent with the planning policies. In accordance with this prospective, "Credit Authorisation Scheme" was introduced in November 1965. Later on the scheme of social control over banking was introduced, under which banks were required to allocate bigger amount of credit to priority sectors\(^\text{23}\).

The concept of the priority sector was first formulated in 1972 on the basis of the report submitted by the Informal Study Group on statistics relating to advances to priority sector by RBI in May 1971\(^\text{24}\). A more detailed examination of various categories and sub-categories of borrowers, now being classified as priority sector, was undertaken by the Krishna Swamy Working Group in 1980. The group evolved the concept of weaker sections within the segment of priority sector. In the year 1982, the RBI set up Working Committee under the Chairmanship of Sri. A. Gosh to examine the scope for modifications in the definition of the priority sector and to review the then existing targets and sub-targets with special reference to the needs of the weaker sections\(^\text{25}\). While no change was considered necessary by the group, in the overall composition of the priority sector, modifications were proposed in the definition of some of the
components to ensure that the thrust was towards financing the small borrowers.

Initially, there was no specific target fixed for priority sector lending. The banks were advised to increase the share of priority sector advances to 40 per cent of the total advances by March 1985. Reserve Bank of India prescribed lower rate of interest for the priority sector advances when compared to traditional advances and minimum lending rate ceiling is also not applicable to these advances in specified cases. Inclusion of particular category into the priority sector confers certain specific advantages over other borrowers in all respects26.

Segments of Priority Sector

The priority sector at present includes the following segments:

- Agriculture
- Small Scale Industries (SSIs)
- Road and Water Transport Operations
- Retail Trade
- Small Business
- Professional and Self Employed
- State Sponsored Organization for Scheduled Caste (SCs)/Scheduled Tribes (STs)
- Self Help Groups (SHGs)
Agriculture

Financing for agriculture purpose is of three types, i.e. Short term, medium term and long term loans. Short term loans are given to farmers for raising crops. In addition, advances up to Rs 1 lakh will be provided to farmers against hypothecation of agriculture produce for a period of not exceeding six months. Medium and long-term loans are given to farmers for purchasing of agriculture implements, farm machinery, plough animals, trucks, bullock carts, tractors, trailers and other transport equipment. Loans are also given for constructing, deepening and cleaning of surface wells, bore-wells, purchase and installation of turbine pumps, construction of lift irrigation projects, conversion of dry land into wet irrigated land, development of farm drainage, construction of farm buildings, bullock sheds, farm stores, construction of warehouse, and cold storages.

Small Scale Industries (SSIs)

Small Scale Industrial units are those engaged in the manufacture, processing or preservation of goods and whose investment in plant and machinery (original cost) does not exceed Rs.3 crore to be classified under small-scale industry. Advances to industry related to Small Scale Service / Business Enterprises having investment in fixed assets excluding land
and building upto Rs.25 lakh and registered as such are also to be treated as advances to SSIs.

*Road and Water Transport Operations*

Advance to small road and water transport operators owning a fleet of vehicles not exceeding six vehicles, including the one proposed to be financed is considered as priority sector advance. The main object of this scheme is to enable the borrowers to have a gainful occupation.

*Retail Traders*

Advances granted to (i) private retail traders dealing in essential commodities (fair price shop) and consumer co-operative stores and (ii) other private retail traders with credit limit not exceeding Rs.2 lakh are considered under priority sector. Advance to retail traders are extended both for fixed capital needs and working capital needs.

*Small Business*

Small business would include individuals and firms managing a business enterprise established mainly for the purpose of providing any service other than professional services whose original cost price of the equipment used for the purpose of business does not exceed Rs.10 lakh with working capital limit of Rs.5 lakh or less.
Professional and Self-Employed Persons

Loans to professional persons include loans for the purpose of purchasing equipment, repairing, or renovating existing equipment. Acquiring and preparing business premises, purchase of tools, working capital requirement to medical practitioners, lawyers and solicitors, engineers, architects, surveyors, construction contractors, management consultants or to a person trained in any other art. Self-employed include, persons who holds either a degree or diploma from any institution established, aided or recognized by Government, or a person who is considered by the bank technically qualified or skilled in the field in which he is employed.

State Sponsored Organizations for STs/STs

Advances sanctioned to state sponsored organizations for scheduled castes / Scheduled Tribes for the specific purpose of purchase and supply of inputs to and / or the marketing of the output of the beneficiaries of these organizations.

Self-Help Groups

To begin with Training of Rural Youth for Self Employment (TRYSEM), a number of allied programmes were added over the years such as Development of Women and Children in Rural Areas (DWCRA), Supply of Improved Tool Kits to Rural Artisans
(SITRA), and Ganga Kalyan Yojana (GKY). As there are problems in the implementation of these programmes like achieving the individual targets and maintaining the link among these programmes, Government decided to restructure the self-employment programmes. A new programme known as "Swarnjayanti Gram Swarojgar Yojana" (SGSY) has been launched from April 1999. This is a holistic programme covering all aspects of self-employment such as organization of the poor into Self-Help Groups (SHGs). The SGSY programme is funded by Centre and the States in the ratio of 75:25 respectively.

By launching SGSY, the earlier programmes IRDP, TRYSEM, DWCRA, SITRA, GKY are no longer in operation. The unspent balances, as on 1st April 1999, under these erstwhile programmes, were pooled under the head SGSY and utilised as per the new guidelines.

The objective of SGSY is to uplift the poor families (swarozgaris) by ensuring appreciable increase in incomes over a period of time. This objective is to be achieved by inter-alia organizing the rural poor into Self-Help Groups (SHGs) through a process of social mobilization.

Under Swarnjayanti Gram Swarojgar Yojana (SGSY), the beneficiaries are known as Swarozgaris. The swarozgaris can be
either individuals or groups. SGSY lay emphasis on the group approach, under which the rural poor are organized into Self-Help Groups. In either case; the list of Below Poverty Line (BPL) households is identified through BPLCensus, duly approved by the Gram Sabha will form the basis for identification of families for assistance under the SGSY.

SGSY's approach is to organize the poor stems from the conviction that there is a tremendous potential within the poor to help themselves and that the potential can be harnessed by organizing them. Social mobilization enables the poor to build their own organizations (Self-Help Groups) in which they participate fully and directly and take decisions on all issues concerning poverty eradication. Simultaneously, SHGs have the advantage of the assistance in terms of credit or technology or market guidance.

Social mobilisation is not a spontaneous process; it has to be induced. District Rural Development Agencies (DRDAs) are expected to initiate and sustain the process of social mobilisation for poverty eradication by formation, development and strengthening of the (SHGs). Issues that are key to poverty eradication should become entry points for DRDAs to organize the poor into SHGs. There could be different entry points for
different SHGs depending on the local situation. The groups that are formed with thrift and credit as an entry point have demonstrated that the poor can secure greater access to credit and other support services for enhancing their income levels 30.

**Stages of SHGs**

The following are the steps involved in the formation of SHGs 31:

**Group Formation**

The facilitators identify the like-minded natural groups which are commonly called 'Affinity Groups'. Identification of such Affinity Group is critical for the progress and success of the Self Help Group. This would require staying with the people for some period to facilitate proper understanding and establish rapport with them. Therefore, while forming groups, facilitators must recognise the natural bonds and affiliations existing within the society.

**Group Stabilization**

The group takes up internal loaning to the members from their Group Corpus. The groups should save regularly and begin to lend to members. This provides the members with opportunities to acquire the skills to prioritize scarce resources, to assess the strength of each member.
Micro Finance

The Group Corpus is supplemented with Revolving Fund sanctioned as cash credit limit by the Banks or the group could also have access to credit under the Self Help Group-Bank Linkage Programme of NABARD.

Micro Enterprise Development

Group takes up economic activity, of their choice for income generation. This phase would include Entrepreneurship Development as well as Skill Development training of the members of the Group to enable them to successfully implement the chosen activity.

ROLE OF CREDIT IN RURAL DEVELOPMENT

Rural development intends the development of the weaker sections of the society constituted by small farmers, marginal farmers, agriculture labourers, rural artisans, scheduled castes and scheduled tribes. Small and marginal farmers who constitute over 70 per cent of the farming population have little input mobilising capacity and risk taking power. Therefore, the main aim of rural development is to bring about a positive change in the life of the weaker sections in rural areas, and it requires, among other things, some supplementary services like credit extension, marketing and the like, in a coordinated way.
Credit requirements of rural community particularly of farm producers are on the increase. The rising 'economic consequences, growing conspicuous expenditure even by low income groups, emergence of new land owning class, the advent of new form technology, like poultry, dairying account for the higher demand for credit.

The pattern of indebtedness shows that consumption loans form a larger part of the debt of the rural poor. Loans for medical and educational expenses and ceremonial demands account for a substantial portion of the debt. Production loans are often a small fraction of indebtedness. It has to be remembered that these classes depend for their credit substantially on the moneylender and the rich farmer. Consumption credit is usually taken by the small and marginal farmers to meet the cost of food grain for personal consumption and for payment of wages, till the harvest comes in.²

The lack of assets coupled with lending policies based on assets, leads to reduced opportunities for the rural poor to avail of credit facilities for improving their incomes. The farmer requires transfer of capital resources to give them a better base for production and the latter requires a more realistic credit policy and comprehensive institutional infrastructure. Thus, a
landless labour household has only labour as its resources but it can be used productively only if complementary resources are available. Similarly, the small farmers have assets in the form of their land-holdings but these can generate increased incomes with the application of new farm technology provided there is access to other resources; so also is the case with rural artisans who have the skill but not the capital or other resources. The capital base and the productive capacity of the rural poor will have to be improved and strengthened with the aid of institutional support.

The neglected and the weaker sections of the society need mainly short and medium-term credit provided by the Commercial Banks, Co-operative Banks and RRBs. They are generally not in the need of the long-term credit granted by the Land Development Banks. Short-term credit fulfils the pressing needs of the farmers. Medium-term loans enables the farmers to bring about an improvement in the productive potentialities of lands. Short-term loan is needed to fulfill the pressing needs of the farmers. Medium-term loan enables the farmers to bring about an improvement in the productive potentialities of lands. Short-term loan is needed to fulfill the urgent requirement of agriculture like minor irrigation, land development, purchase of buffaloes and bullocks, agricultural implements, dairy farming,
poultry farming, sheep and goat rearing. The farmers also need some non-agricultural credit for supplementing their activities particularly for village and cottage industries, small transport operation, weaving, basket making, and pot making.

The expansion of agricultural credit does not help all categories of farmers to produce more. In the case of the substance farmer, in the early stages of the development, the demand for the consumption credit is also more pressing. This phenomenon arises from the various factors such as poverty reflected in lack of food reserves and the traditional customs of rural life, which often involves heavy expenditure on social and religious emergencies. Further, they also need credit to clear a part of the outstanding debt.

In a country like India, the improvement of farming and other activities at higher productivity and better living conditions of rural people, the poor section of the rural population needs supervised credit for agriculture and other activities. This is an important part of the rural development programmes. H. Belshaw says “Supervised credit is a technical term to describe a particular system of credit aiming at improving both production and family living which co-ordinates credit provision with extension services and aims at effective supervision, but usually
goes further in making improved provision for marketing and other ancillary services."³³

Thus, the weaker sections heavily require the credit for productive and consumption purposes. It is very difficult to draw a clear line between the two because the capital starved section of the population may utilise it in either way depending upon the urgency of the requirements.

References


14. Ibid., p. 66


25. Ibid., p.3.


29. Ibid., p.4

30. Ibid, p.11

