COURSE MATERIAL & SAMPLE QUESTIONS
ON
RURAL DEVELOPMENT

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(Part- III: Paper VI Group-B- Rural Development and Entrepreneurial Economics)

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DEPARTMENT OF ECONOMICS
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COURSE MATERIAL & SAMPLE QUESTIONS
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(Paper VI: Group B: Unit 1 & Unit 2)

Unit 1: Rural development versus agricultural development:

a. Introduction to the concept of Rural Development

‘Rural Development’ is composed of two terms: ‘rural’ and ‘development’. Rural areas are the areas which are not urban areas. The demarcation between rural and urban areas is generally made on the basis of two criteria: (i) density of population, and (ii) percentage of workers engaged in non-farm sectors. Rural areas are very large in most of the developing countries and it is usually characterized by low density of population with agriculture-centric economic activities. On the other hand, ‘Development’ is a broader concept that usually includes the following: (i) increase in real per capita income (economic growth), (ii) improvement in the distribution of income (equity), (iii) political and economic freedom, and (iv) equitable access to resources, education, health care, employment opportunities and justice. It is a universally cherished goal of all individuals, families, communities and countries. The term ‘Rural development’ is a subset of this broader term ‘development’. It means overall development of rural areas with a view to improving the quality of life of rural people. Rural development is generally used to denote the actions and initiatives, taken to improve the standard of living in non-urban neighborhoods and village people. However, there is no standard definition of the term ‘rural development’. The term is interpreted differently in different context. It can be viewed as a concept, as a process, as a phenomenon, as a strategy and as a discipline. As a concept, it connotes all round development of rural people. As a process, it implies the engagement of individuals and communities in activities that lead to achievement of their cherished goals over time. Its aim is to improve the standard of living of the people living in the rural areas. It is an integrated process, which includes social, spiritual, political and economic development of the poorer sections of the society. As a phenomenon, it is a measure of quality of life resulting from interactions between various physical, technological, economic, socio-cultural and institutional factors. World Bank (1975) defined rural development as a strategy designed to improve the economic and social well-being of a specific group of people, that is, the rural poor. It involves extending the benefits of development to the poorest among those who seek a livelihood in the rural areas. The group includes small scale farmers, tenants and the landless. As a discipline, it is multi-disciplinary in nature representing an intersection of agricultural, social, behavioural, engineering and management of sciences.

Thus, in brief, we can define rural development as overall development of rural areas with a view to maintaining sustainable improvement in the quality of life of rural people, specially the rural poor. Majority of small and marginal farmers, tenants, landless agricultural labourers, rural artisans, SC/ST people and other socially disadvantaged sections of the society constitutes such specific group of rural poor. In the context of democratic and developing economies rural development means sustained growth of income of the rural people along with the distribution of income and economic assets in favour of the poorer sections of the society in such way as to progressively remove...
poverty and unemployment in rural areas. It also brings about an improvement in social, educational, health, attitude, cultural and other aspects of rural life.

In many developing countries, there exists ‘dualism’ or coexistence of two separate economic subsystems: on one hand, there exists in the economy a small but highly modern and developed urban subsector, which absorbs most of the material, financial, and educated and talented manpower resources. On the other hand, there is a very large but traditional and underdeveloped rural subsector, characterized by widespread poverty, unemployment and low productivity, which forms the majority of the population. The rationale for rural development appears due to ‘urban bias’, non-applicability of percolation theory of economic development and the consequent specter of poverty and unemployment in rural areas. It emerges as a distinctive field of policy and practice, and of research towards equity objectives of various kinds- especially the reduction inequalities in income and provision of employment, access to public goods and services and the alleviation of poverty. What is important is to develop a new approach that explicitly recognizes the inter-linkages and complementarities between the rural and the urban subsectors, and provides for integrating them completely.

In most of the countries rural areas are very large and characterized with low productivity and low density of population. Agricultural activities play a prominent part in rural areas but economic activities may be related to the primary sector (besides agriculture it includes fisheries, forestry, mining and animal husbandry), processing of food grains and production of raw materials, household manufacturing industries, small scale agro-based rural industries and business.

The main stakeholders in rural sector include farmers, agriculture and non-agriculture labourers, artisans, traders, money lenders and those engaged in providing such services as transport, communications, processing, banking, and education and extension. The size of the rural sector could be measured in terms of the size of rural population, livestock population, extent of land resources, water resources, forest resources and fisheries, volume of inputs used and output produced.

Rural development activities include agricultural growth, rural industrialization, putting up of economic social infrastructure, fair wages as also housing and house sites for the landless, village planning, public health, education and functional literacy, communication etc. Rural development recognizes that increase in production and productivities, provision of improved food supplies and nutrition together with basic services would improve not only directly the physical well-being and quality of life of the rural poor, but also indirectly enhance their ability to contribute to the national economy. India’s national economy is predominantly rural character. More than 70 per cent people living in rural areas. It is true that India lives in villages and rural India is the real India. Rural development is, therefore, very important and urgent need for overall development of India.

Since rural development as subject is of recent origin, there is no universally valid theory of rural development that can explain the process of development or non-development in rural areas. Rather, there may be a set of theories that can be identified from the contents and strategies of the rural development programmes implemented in developing countries like India. An analysis of the rural development programmes so far
implemented in India reveal that there are at least four sets of theories implicit in them. First, on the basis of the coverage of the rural development programmes, the theories may be designated as balanced and unbalanced theories of rural development. Secondly, on the basis of the content of the programmes, there may be structural/institutional and technological theories of rural development. Thirdly, on the basis of the administrative content, the theories may be described as centralized and decentralized theories of rural development. Finally, on the basis of the spread of effects of development, these theories may be described as percolation and polarization theories of rural development.

b. Decentralised Planning and participatory approach to rural development and role of NGOs

A plan is a blueprint for action to achieve predetermined goals/objectives within a specific time and resources. The process of formulating such a plan is called planning. Development planning is one of the forms of intervention which is needed to speed up the pace of natural or autonomous development. Planning can be viewed at the macro-level (national) planning and micro-level (area or unit) planning. Macro-planning is generally based on highly aggregated data and on considerations that are usually of broad significance. Micro-planning refers to planning at the level of the basic unit of production. It deals with the problems of allocation of the resources to the concerned planning entity to maximize the goals or objectives of the entity. Micro-level planning may play a very crucial role in the context of rural development if it treated as an integral part of development planning. In other word, harmonization between macro-planning and micro-planning is necessary to make development planning an effective one. In the context of formulation and administration/execution of rural development programmes, planning may be further looked upon as centralized and decentralized planning. In centralized planning, decision-making formulation and administration of the programmes of rural development are done by a central board or organization. There is very little scope for the people to participate in the decision-making process, formulation and administration of the development programmes. There is very little assessment of local resources and local needs and aspirations.

The basic philosophy of decentralized planning involves the dispersal of planning both in respect of the formulation of plans and their implementation. This system of planning is sought to combine planning with freedom in a manner that the restrictive and controlled nature of centralized planning is done away with. It is claimed that under this type of planning decision-making process is dispersed and the implementation of plans is carried through prices and incentives. The process of planning gets dispersed over a number of governments: Central government, State governments and the lower level governments of districts, blocks, and villages or the local governments like the Panchayati Raj institutions for the rural areas and municipalities for the urban areas. The motive behind this move is to ensure that the public, through elections, participates in the government, and through its representatives shapes the plan processes. It also seeks involvement of the social groups organized on a voluntary basis which are in constant touch with the people, particularly marginalized and socio-economically deprived sections. Important merits of the decentralized planning are that it: (i) promotes
efficiency in the use of resources, (ii) provides an active participation of the people in planning, (iii) organizes greater flow of information, (iv) increases competition and reduces monopoly, and (v) allows for an ample scope for flexibility.

Decentralized planning is a very realistic, effective and logical step for democracy in general and rural development in particular. This is a movement which permits the wider involvement of the people in the process of plan formulation and plan implementation. It reduces the discrepancies between national (or central) and sub-national plans that arise in differences in regional or area characteristics in respect of agro-climatic, techno-economic and socio-cultural factors. It is true that planning is better than no planning at all and decentralized planning is better than centralized planning so far as rural development is concerned.

**Participatory approach**

We need to realize that planning can make a positive contribution only if it facilitates the achievement of development objectives more rapidly and more efficiently than if development followed natural forces. It is now becoming increasingly apparent that the development effort cannot be left to the government alone. It must be shared by private, cooperative, corporate and other non-government organizations (NGOs) and agencies and, above all, by the people themselves. Planning by the government should complement and supplement the efforts of individuals and NGOs. The main role of planning should be to provide a congenial economic and political environment for people to enable them to achieve their cherished goals and to set the rules of the game and enforce them strictly.

There are quite a number of approaches and strategies to bring about rural development in India. Some of the major approaches are: Gandhian approaches, community development approach, sector approach, target group approach, area approach, minimum needs approach, integrated and convergence approach. Major limitations of these approaches are: a top-down strategy, supply-oriented and non-involvement of people.

Recently, participatory approach to rural development is the most popular concept in this regard. The basic logic for the success of any intervention in rural development work depends not merely on the number of schemes and projects pumped in, but also on the confidence built and the power given to people to decide and take community initiatives. Consensus is its key and the primary factor for promoting such consensus and instilling confidence is participation. As per World Bank concept, participation is a process through which stakeholders influence and share control over development initiatives, decisions and resources that affect them. It is the people’s involvement in decision-making process of what is to be done and by whom, their involvement in implementing the programme, sharing benefits and monitoring and evaluating the programme. Participation is an indispensable and integrated component of development initiatives at the grass root level. It is proved that the effectiveness, success and sustainability of development initiatives largely depend on wholehearted participation of the stakeholders. Participation in different stages of the development process makes the participants realize that they are a part and parcel of the development, which ultimately
makes them ‘own’ the output and outcome of the development intervention. As an end, participation entails empowerment. As a means, it leads to efficiency in project-management; that is, participation is a factor helping in the implementation of development policies. There is a distinction between participatory development and participation in development. Participatory development is essentially top-down participation which is the more prevalent practice while participation in development is bottom-up participation that is prevalent more with NGOs than with the governments. In this connection it may be pointed out that participation without redistribution of power is an empty and frustrating process for powerless. However, the urge to participate should come from within; it should not be forced from outside. The method of participatory rural appraisal (PRA), now known as participatory learning and action (PLA) provides enough space and environment for people to actively participate at different stages of the development process. PRA is initially practised by the NGOs in selective spheres of activities but now it has spread rapidly. It is now practised not only by NGOs but by research institutions, universities, training organizations, international aid agencies and government departments.

Thus, the core features of participation are: (i) it is a voluntary involvement of people; (ii) the people who participate, influence and share control over development initiatives, decisions and resources; (iii) it is a process of involvement of people at different stages of the project or programme; and (iv) the ultimate aim is to improve the well-being of the people who participate.

Some of the reasons to emphasize participatory approach to rural development are:

I. effective utilization of available resources,
II. increase of self-reliance among the poor and the establishment of a network of self-sustaining and democratic rural organizations,
III. improve communication and cooperation resulting in better decisions, and
IV. increase in rural productivity and efficiency.

Role of NGOs

Non-Government Organization (NGO) is a very broad term which means any organization, functioning in a manner different from that of the government. Its activity ranges from global charity to a local self-help group (SHG). NGOs may be known as voluntary agencies, non-profiteering organizations, social action groups, self-help organizations, non-party process, pressure groups, coordinating agencies, alternative development agencies etc. They have generally exercised their capacity to organize the weaker sections of the people, defend their rights, ensure improved delivery of services to beneficiaries and enlarge local effort through new areas of social service. They used innovative methods and approaches, planning cost effective project implementation and getting effective involvement and participation of the people. NGOs may be categorized broadly into four groups: charity and relief groups, development groups, action groups, and support groups.
The earlier role of NGOs was largely to provide relief measures to the victims of war and natural calamities, to help the poor and the neglected. But, over the years they have assumed a multi-sectoral approach, from relief agents to the agents of social and economic development. Voluntary agencies are considered as catalysts for bringing changes in the society in many spheres such as income, employment, education, health, legal, and environment. They are playing significant role, particularly, in case of rural development. In India NGOs are associated with various tasks of rural development. These agencies are expected to introduce innovations in the preparation and implementation of development programmes. They are also to provide feedback information in respect of the impact of various programmes on the lives of the rural people. More importantly, these are expected to help the development agencies in securing the involvement of the local people in various projects. The role of these agencies is of special importance vis a vis the rural poor. These agencies undertake the tasks of creating awareness among the poor about the various anti-poverty programmes. They also strive to organize the poor so as to increase their bargaining strength, and to enable them to get the benefits from the programmes meant for their uplift.

c. Non-agrarian activities and integrated rural development

In terms of economic activities rural sector can be decomposed into two broad sub-sectors: agriculture or farm sector and non-agriculture or non-farm sector. The farm sector comprising of crop agriculture and allied economic activities, such as animal husbandry and dairying, fisheries, poultry and forestry. The non-farm sector consists of economic activities relating to small scale village industries, rural craft, business and services. Business refers to micro-enterprises, trading of general goods, small shops, petty traders, and so on. And ‘Services’ refers to rural transport, communications, banking, input supply, marketing of farm and on-farm produce, and so on. Though farm sector is dominant in rural areas and agricultural development is a prerequisite for rural development but there is a very close association between farm and non-farm sectors in rural areas. The classical economists, Adam Smith, also recognized the importance of agriculture in overall economic growth and development and he thought that the production of agricultural surplus to support non-farm production was essential for economic development.

As rural development is multidisciplinary in nature and there are different rural development programmes implemented by different agencies/authorities to curb multidimensional problems of rural people, it is absolutely essential that there should be integrated and coordinated approach to rural development for desired results. There are lots of rural development programmes to its various dimensions: agriculture, non-agriculture, infrastructure, unemployment and poverty alleviation, health and education, development for women and children, training and skill development etc. In the absence of requisite integration and coordination among various development programmes, there may be unnecessary overlapping, duplication, and wastage of scarce resources. It is necessary to complete various rural development projects and programmes in time to achieve maximum benefits in cost effective manner. Both backward and forward linkages
should be built and strengthened to derive full benefits from the interrelated projects, such as bridges and roads, irrigation and crop development projects, production, processing, and marketing projects, power and industry, information and communication, and so on. Thus, rural development can be viewed in a holistic and integrated manner to achieve optimum results.

In India, a review of the experience of Panchayati Raj Institutions (PRIs) prior to the 73rd Constitutional Amendment in 1992 revealed the fact that there was no such integration of political and administrative systems. People’s participation in different stages of development plans and programmes was lacking. The development administration at the district and block levels still faces the twin problems of horizontal and vertical coordination, and integration of the political and administrative systems. Most of the rural poor still do not participate, due to variety of reasons, in decision-making processes that affect them. In order to solve these problems and to bring together all administrative operations under the effective control of a single agency, it would be necessary to evolve a unified administrative structure at the district level, integrating the functions of Zila Parishad and the District Rural Development agency (DRDA). The unified organizational structure may be reinforced through local people’s institutions brought into the administrative process with adequate powers and well-defined functions. Recently, by realizing the fact, government of India adopted convergence approach to rural development programmes.

d. Rural industrialization

Rural development gives importance not only to agriculture but also to others sectors of rural economies such as rural industries, trade, services etc. Recently, there is a growing interest in rural industries and non-farm activities which mainly include manufacturing, processing, servicing and construction in many developing countries for spatial decentralization of industrial activities. Rural industrialization is the key to rural development in respect of generation of employment and income for rapidly growing labour force. However, there is no standard definition of rural industries. Industries that are prevailing in rural areas are generally called rural industries. It includes khadi and village industries, handloom, handicrafts, sericulture, coir, agro-based processing operations, service industries, rural workshops, metal-based traditional industries, small scale cottage-based industries, rural crafts, small factory located in rural areas in which investment is low and it may be capable of yielding reasonably quick returns. The promotion and development of such rural industries is called rural industrialization. There is a difference between rural industries and rural industrialization. Rural industry is an activity involving processing, manufacturing etc., but rural industrialization is a process involving greater participation of rural workers in such activities. Rural industrialization means development of of traditional and non traditional village and small industries in rural areas. There are two indications of rural industrialization in terms of employment: absolute and relative. In absolute term, the increase in the number of rural industrial workers over years, and in relative term, it is indicated by increase in the share of rural industrial workers in total workers.

Rural industrialization is very important for rural transformation and creation of non farm job opportunities. It hastens economic development that significantly improve
quality of life because: (i) rural industries provide employment and industrial output directly affects rural incomes and hence effective demands, (ii) it promotes forward and backward linkages between agriculture and industries, (iii) inter-sectoral interactions facilitate the process of economic development, (iv) it plays both economic and social roles in the for of ensuring participation of different sections, particularly, weaker sections of the society, enhancement of their earnings, promotion of their saving, investment and exports, and (v) it attracts all kinds of social, physical and institutional infrastructure that greatly affect the future of rapid economic development in rural areas. Rural industrialization is considered as a strategy of growth of the rural economies in many developing countries. One of the abiding concerns in successive five year plan in India is rural industrialization.

**Unit 2: Credit and Self-help Groups**

**a) Credit needs for rural non-farm sector**

One of the major problems of growth of rural non-farm sector is the lack of finance and capital. Finance is a scarce resource in rural areas for several reasons. The need is for different types of finance and for an efficient financial system that adequately finances production and enhances rural industrial capacity. Production activities involve various activities as construction of building, connection of power and water, purchase of machines and tools, supply/procurement of raw materials, engagement of labourers etc. All these activities imply the use of physical and financial resources for production. In certain cases a part of the physical resources is supplied by producers themselves. An artisan in rural areas, for instance, may supply his own labour or that of his family. This involves no hiring (or no financing) of labour. But even he will have to purchase other resources for which he will need finance and depend upon outside agencies for that. Self-finances are too few and limited to develop rural enterprises. Thus, credit is needed for development of rural non-farm sector, particularly, to purchase new machines, tools, transport equipments, land & building for manufacturing works, and repair and maintenance expenses of plant and machinery of the rural industry. Capital is also required for creation of non farm jobs through the provision of factories and vast array of supportive infrastructural facilities including training, research and extension. There are mainly four sources of finances in general: internally generated sources, government saving and investment, domestic market-based financial arrangements, and foreign capital. The lack of adequate finance is an important bottleneck inhibiting entrepreneurial supply in rural manufacturing activities. The economic status of rural micro-entrepreneurs is generally low and they have to depend on informal credit sources such as money lenders, traders, shopkeepers, friends and other unorganized financial intermediaries for finance to run the enterprises. The problem of finance is closely related to the growth of agriculture that can generate surplus for investment in non-farm sector. The supply of agro-based inputs is obviously related to the structure and growth rate of agriculture. In some cases bottlenecks in the supply of current inputs may actually reflect the finance constraint making it difficult for the entrepreneur to maintain a reasonable inventory of raw materials. The marketing problem is also interlinked very closely with the finance constraint and the supply of inputs.
b) Constraints of micro enterprises in rural areas

The small scale industry (SSI) comprises a variety of undertakings: micro enterprises, small enterprises and medium enterprises. The definition of SSI varies from one country to another and from one time to another in the same country depending upon the pattern and stage of development, government policy and administrative set up of the particular country. In India, an enterprise is called micro enterprise whose investment in plant and machinery does not exceed Rs. 25 lakh, as and when it engaged in the manufacture or production, processing or preservation of goods (if it engaged in providing or rendering of services then the limit of investment in equipment is not more than 10 lakh). A small enterprise is an enterprise where the investment in plant and machinery is more than Rs. 25 lakh but does not exceed Rs. 5 crore. In case of a medium enterprise investment limit is more than Rs. 5 crore but does not exceed Rs 10 crore.

Rural industries are generally associated with agriculture. According to the Khadi and Village Industries Commission (KVIC), “village industry or rural industry means any industry located in rural area, population of which does not exceed 10,000 or such other figure which produces any goods or renders any services with or without use of power and in which the fixed capital investment per head of an artisan or a worker does not exceed a thousand rupees.” The definition of village industry has been recently modified by the government so as to enlarge its scope. Accordingly, any industry located in rural area, village or town with a population of 20,000 and below and in investment of Rs. 3 crores in plant and machinery is classified as a village industry.

Establishing micro-enterprises in rural areas is important for rural development. But it is not an easy task. It is constrained with several problems. The general bottlenecks in the development of village industries are financial constraints, lack of technical know-how, lack of training and extension services, management problems, lack of quality control, high cost of production due to high input cost, lack of communication and market information, poor quality of raw materials, lack of storage and warehousing facilities, obsolete and primitive technology, and lack of promotional strategy. Let us discuss some of the major constraints of micro enterprises in rural areas.

An important problem faced by rural enterprises is that of finance. This financial constraint is mainly due to four reasons: (i) scarcity of capital in rural areas, (ii) weak creditworthiness of micro enterprises, (iii) lack of adequate financial institutions in rural areas, and (iv) surplus generating capacity is very low among rural households. Due to their low economic base and lack of government support they are bound to obtain credit from money lenders and other non-institutional financial sources on a very high rate of interest.

The procurement of requisite raw material is another major problem faced by rural enterprises. Raw materials are not only scarce in rural areas but these are costly and poor quality and irregular supply. Enterprises which depend on local resources for raw material requirements face other type of problems. For example, handloom industry that depends for its requirement of cotton on local traders; traders often supply their cotton (at high price) to the weavers on the conditions that they would sell their ready clothes (at
relatively low price) to these traders only. As a result poor weavers are subjected to double exploitation at the hands of traders.

The problem in the field of marketing facing by micro enterprises in rural areas is another major challenge to them. These units do not possess any marketing organization. With the emergence of modern small scale manufacturing industries producing lots of sophisticated items, rural enterprises facing competitive disadvantage in marketing their products. Delayed payment system in rural areas, due to several reasons, is another problem of micro enterprises in this regard.

Constraint of infrastructure facilities including power, water, and communication etc and deficient managerial and technical skills, research and extension, lack of organized market channels, imperfect knowledge of market conditions, lack of co-ordination among the various support organizations, advertising etc. are also inhibiting the promotion and development of rural micro enterprises.

Establishing industrial units in the rural areas refers to rural entrepreneurship and rural entrepreneurship implies rural industrialization. According to the Ninth Plan, the major problems faced in developing entrepreneurship in rural areas are (i) inadequate flow of credit, ii) use of obsolete technology, machinery, and equipment, iii) poor quality standards, and iv) inadequate infrastructural facilities.

One of the major problems faced in developing entrepreneurship in rural areas is lack of awareness and knowledge about the importance of developing industries in rural areas. Added to this is disinterest shown by rural people towards assuming the career as an entrepreneur for one reason or other. Rural / village people generally want to take up salaried employment because of assured income, lesser hours of work, lesser degree of responsibility etc. This is supported by the society’s higher degree of status accorded to the salaried people than to self-employed ones, or say, entrepreneurs. Further, the rural people are generally not aware about the entrepreneurial opportunities available and also about support organizations and other information required to take the first step in their entrepreneurial career. Even those who are aware about the facilities and support system for starting entrepreneurial career find organizational climate to be not so helpful. Thus, the environment in the family, society and the support system is generally not conducive to encourage the rural people to consider self-employment and entrepreneurial career as an option to salaried employment.

c) Need for SHG formation

An SHG is a small group of individual members who voluntarily come together and form an association for achieving a common objective. In most cases, SHGs are constituted by persons known to one another and coming from the same village, community or neighborhood, that is, SHGs are small in size with membership ranging from 10 to 20, are homogeneous and have certain pre-group social binding factors. In the context of micro finance and micro credit, SHGs are formed around the theme of savings and credit. National Bank for Agriculture and Rural Development (NABARD) launched a project in 1992 on ‘Linking SHGs with Banks’ with the main objective to develop innovative participatory and self-sustaining credit delivery systems for improving the
access of the rural poor to institutional credit. The systems are intended to complement and supplement the role of the formal rural credit system. Under the SHG- Bank linkage programme, three linkage models have broadly emerged: (i) SHGs formed and financed by banks; (ii) SHGs formed by other agencies, including NGOs, but directly financed by banks; and (iii) SHGs financed by banks using financial intermediaries. In developing countries, govt. and NGOs have introduced micro finance program like formation of SHG by offering financial services to low income households specifically targeting women. Activities of SHGs are not confined to micro finance only but also they engaged in other activities like health, education, small business, protection of environment, creation of awareness, and training etc. Women SHGs are dominant in number in India. They generally address their common problems within the groups. The SHGs are not just groups that promote savings and provide credit; they are designed to become institutions that promote human development and empowerment of the members. Thus, SHGs are known as the development tools for improving not only the economic conditions of the members but also social aspects and empowerment status, particularly among women members.

d) Concept of micro credit

Micro credit has been defined in the Micro Credit Summit, held in Feb., 1997, as programmes that provide credit for self-employment and other financial and business services to very poor persons. Micro finance is a wider term and refers to small scale financial services provided to weaker sections of people particularly in the rural areas who work in agriculture, animal husbandry, fishing, household industries, crafts and small business.

Financial institutions, whether public or private, have almost excluded poor – men and women, landless, small farmers, artisans, labourers from their financial services for various reasons such as opportunity cost and low financial credibility. Providing micro finance (small deposits, loans and micro-credits) to the poor have been increasingly acclaimed as effective means reducing poverty and powerlessness, whether in an absolute sense or in relation to others. The poor themselves have a better appreciation of their socio-economic situation, the micro-enterprises that can come forth and the necessary support required for the same. The voluntary sector has made successful attempts in reaching out to the poorest through innovative micro financial services like savings and credits through self-help groups. Self-help groups have been encouraged to practise thrifts and the small savings collected are lent to individual members to meet consumption needs. Such group formation does not only help impart credit management skills to individuals but also lead to better use of credit and prompt repayment due to group pressure.
e) Self-help groups in India

The concept of Self-help groups (SHGs) is not a new in development. The traditional Indian society functioned mainly on the basis of self-help and mutual aid. However, since late 1980’s they have been emerging as a major strategy for the promotion of informal credit to the poor. Savings through thrift and credit has been one of the activities of such groups and are becoming very popular among women in rural areas. The money saved is used not only for meeting their urgent consumption needs but also for income generation activities. Encouraged by the success of Bangladesh Gramin Bank, several NGOs in India decided to form SHGs to promote micro-financial services for improving socio-economic conditions of rural poor as well as the real plight they, particularly the rural women, are facing.

Villages are faced with problems related to poverty illiteracy, lack of skills health care etc. These are problems that cannot be tackled individually but can be better solved through group efforts. Today these groups known as Self help groups have become the vehicle of change for the poor and marginalized. Self-help group is a method of organizing the poor people and the marginalized to come together to solve their individual problem. The SHG method is used by the government, NGOs and others worldwide. The poor collect their savings and save it in banks. In return they receive easy access to loans with a small rate of interest to start their micro unit enterprise. Thousands of the poor and the marginalized population in India are building their lives, their families and their society through Self help groups. The 9th five year plan of the government of India had given due recognition on the importance and the relevance of the Self-help group method to implement developmental schemes at the grassroots level.

Government of India introduced an effective Self-Employment programme ‘Swarnajayanti Gram Swarozgar’, or SGSY in 1999 to alleviate rural poverty at faster pace. This is a holistic programme covering all aspects of self employment such as organisation of the poor into self help groups, training, credit, technology, infrastructure and marketing. This programme is funded by the centre and the states in the ratio of 75:25.

What are SHGs?
• SHG is a development group for the poor and marginalized.
• It is recognized by the government and does not require any formal registration.
• The purpose of the SHG is to build the functional capacity of the poor and the marginalized in the field of employment and income generating activities.
• People are responsible for their own future by organizing themselves into SHGs.

Guiding Principles for formation of SHGs
• The strong belief by the individual to bring about change through collective efforts.
• Effort is built on mutual trust and mutual support.
• Every individual is equal and responsible.
• Every individual is committed to the cause of the group.
• Decision is based on the principles of consensus.
• The belief and commitment by an individual that through the group their standard of living will improve.
• Savings is the foundation on which to build the group for collective action.
Features of SHGs
A variety of group-based approaches that rely on social collateral and its many enabling and cost-reducing effects are a feature of modern microfinance (MF). It is possible to distinguish between:

1. Groups that are primarily geared to deliver financial services provided by microfinance institutions (MFIs) to individual borrowers; and
2. Groups that manage and lend their accumulated savings and externally leveraged funds to their members.

While the term ‘self-help group’ or SHG can be used to describe a wide range of financial and non-financial associations, in India it has come to refer to a form of Accumulating Saving and Credit Association (ASCA) promoted by government agencies, NGOs or banks. Thus, SHGs fall within the second category of the above groups. A distinction can be made between different types of SHGs according to their origin and sources of funds. Several SHGs have been carved out of larger groups, formed under preexisting NGO programmes for thrift and credit or more broad-based activities. Some have been promoted by NGOs within the parameters of the bank linkage scheme but as part of an integrated development programme. Others have been promoted by banks and the district rural development agencies (DRDAs). Still others have been formed as a component of various physical and social infrastructure projects. Some of the characteristic features of SHGs are given below:

1) An SHG is generally an economically homogeneous group formed through a process of self-selection based upon the affinity of its members.
2) Most SHGs are women’s groups with membership ranging between 10 and 20.
3) SHGs have well-defined rules and by-laws, hold regular meetings and maintain records and savings and credit discipline.
4) SHGs are self-managed institutions characterized by participatory and collective decision making.

NGO-promoted SHGs were often nested in sanghas or village development groups undertaking integrated development activities. As they have developed, SHGs or sanghas have been grouped into larger clusters and multi-village federations for financial and non-financial activities. The basic concept remaining precisely the same, some additional features and working resilience have been incorporated in the SGSY-SHG for making the concept still more user-friendly and for achieving the avowed objectives of SGSY in their true spirit. The notable features are:

A. Strategy: Conceived as a holistic programme of self-employment. It covers all the aspects of self-employment of the rural poor, viz. organizing them in SHGs, their capacity building selection of key activities, planning of activity clusters, infrastructure build-up, technology and marketing support.

B. SHG Formation: (i) Specifically SHG members from BPL families with some exception for a few marginal APL families if acceptable to the BPL members of the group. (ii) Group size of 10-20 persons, with the exception of deserts, hills and disabled
persons where the number of members may vary from 5 to 20, (iii) Special focus on the formation of exclusive women Self-Help Groups. 50% of the groups formed in each block should be exclusively for women, (iv) SHGs are normally formed by NGOs, CBOs, Animators, Network of Community-based Coordinators, or team of dedicated functionaries of the government.

C. Income: SGSY Committee identifies about 8-10 farm and non-farm key activities per block for the individual/SHG Swarozgaris of the block to choose some of them as the sustainable income- generating activity for themselves. Primarily, single income-generating activity by the group is given preference under group loan. Group, however, may go for multiple activities also under group loaning. The focus is on the development of activity cluster to facilitate forward and backward linkages to income generating assets.

D. Promotional Support: Revolving Fund Assistance (RFA) is provided to groups equal to their group corpus within the prescribed limit.

(i) Financial Support

Back-ended subsidy to the extent of 30% to 50% of the project cost is provided to individual beneficiary, and 50% of the project cost for group level activity is provided within the prescribed limits.

(ii) Group Formation and Nurturing Support

Financial Assistance is provided to NGOs/CBOs/SHPI, etc., for formation and development of SHGs. Rs10,000 per SHG is paid for the formation and development of SHGs in four installments:

* 1st – 20% at the beginning of the group formation.
* 2nd – 30% when group qualifies for Revolving Fund.
* 3rd – 40% when group takes up economic activity.
* 4th – 10% after the start of economic activity and on adherence of group to repayment of bank loan.

(iii) Capacity Building Support

Fund support is made available to organize training of beneficiaries in group processes and skill development.

(iv) Infrastructure Building Support

There is planned focus on infrastructure build-up, technology and marketing support to make self-employment activity economically sustainable.

The success of the concept of SHG in India has gained wide currency. Significant growth of SHGs as well as SHG-bank linkage, bankers’ recognition of SHGs as a medium of rural business expansion as well as their acceptance of the peer pressure within the SHGs as a substitute for collateral securities, and the interest as well as confidence exhibited by the rural poor in the concept of SHGs for their economic well being together with their far better loan repayment behaviour made the development planners believe that there is a tremendous potential within the poor to help themselves. Microfinance through SHGs together with an element of additional financial support including technology, infrastructure and marketing from the government may be a better alternative to the existing methods of addressing rural poverty in India.
Appendix: Select Rural Development Programmes in India

More than 70 per cent of population in India lives in villages and about 60 per cent of rural population depend upon agriculture for their livelihoods. Thus, the development of rural India is an imperative for inclusive and equitable growth and to unlock the huge potential of the population that is presently trapped in poverty with its associated deprivations. It is true that poverty is very closely linked to the absence of physical and social infrastructure. Government of India has been taken up various programmes under (i) Bharat Nirman Programme (2005), and (ii) other flagship programmes to create physical and social infrastructure and to provide opportunities for improved living conditions as well as livelihoods. The components included under the Bharat Nirman programme (2005) are: irrigation, drinking water, electrification, roads, housing, and rural telephony. Besides SGSY, the following flagship programmes either launched or revamped and strengthened during Tenth Plan to provide education, health care, nutrition, sanitation, and social security in India.

The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) has been implemented since 2006 (the concerned Act (NREGA) was published on 7th September, 2005) with the objective to enhance the livelihood security of the people in the rural areas by guaranteeing 100 days of wage employment in a financial year to a rural household whose members volunteer to do unskilled manual work. This programme is marked as a paradigm shift from the previous wage employment programmes by providing a statutory guarantee (right-based framework) for wage employment and not being just a scheme. Further, it aims at creating durable assets and strengthening the livelihood resource base of the rural poor.

National Rural Health Mission (NRHM) (2005): The main aim of NRHM is to provide accessible, affordable, accountable, effective, and reliable primary health care, especially to poor and vulnerable sections of the population. It also aims at bridging the gap in rural health care through creation of a cadre of accredited social health activists (ASHA) and improves hospital care, decentralization of programme to district level to improve intra- and inter-sectoral convergence, and effective utilization of resources.

Integrated Child Development Services (ICDS) (1975) is a nation-wide programme, which aims at promoting health and nutritional requirements of children up to six years and expectant and nursing mothers. The ultimate objective of the scheme is to reduce incidence of mortality, morbidity, malnutrition, and school dropouts and enhance the capability of the mother and family to look after the health, nutritional, and development needs of the child.

Sarva Shiksha Abhiyan (SSA) (2001) is the principal programme for universalization of elementary education. It aims to provide useful and relevant elementary education for all children in the age group of 6–14 years. The other significant objective is to bridge social, regional, and gender gaps with the active participation of the community in the
management of schools, besides focusing on elementary education of satisfactory quality with emphasis on education for life.

**Mid-Day Meal (MDM)** Scheme launched in 1995 aims to give a boost to universalization of primary education by increasing enrolment, retention, and attendance and simultaneously impacting upon nutritional status of students in primary classes.

**National Social Assistance Programme (NSAP)** aims to provide human security to the poor and the destitute. The programme was launched on 15 August 1995 as a wholly central govt. funded program to give financial assistance to families with little or no regular means of subsistence, living below the poverty line.

**Total Sanitation Campaign (TSC) (1999)** aims at attaining 100% sanitation coverage in terms of household, schools, and anganwadi (ICDS) toilets and also providing hygiene education to the people. It is a demand-responsive, community-oriented, low-subsidy programme in a project mode provision of sanitation facilities in rural areas.

**Backward Regions Grant Fund (BRGF) (2006)** aims to help converge and add value to other programmes such as the Bharat Nirman Programme, the NREGP, and other flagship programmes that are explicitly designed to meet rural infrastructural needs but that need supplementation to address critical gaps. It aims at catalysing development in backward areas by: (i) filling infrastructure gaps; (ii) promoting good governance and agrarian reforms; (iii) converging, through supplementary infrastructure and capacity building, the substantial existing development inflows into these districts. The BRGF has replaced the existing Rashtriya Sam Vikas Yojana (RSVY) in order to provide a more participative approach through the involvement of PRIs.

**Provision of Urban Amenities in Rural areas (PURA) (2004)** – The primary objectives of the scheme are the provision of livelihood opportunities and urban amenities in rural areas to bridge the rural-urban divide. The original idea of PURA was conceived by Dr. APJ Abdul Kalam.

**Indira Awas Yojana (IAY)** – It is launched in May 1985 as a sub-theme of Jawahar Rozgar Yojana (JRY) to provide housing for the poor. It has been implemented as an independent scheme since 1 January, 1996.

**Pradhan Mantri Gram Sadak Yojana (PMGSY)** – It is a 100% centrally sponsored scheme launched in Dec., 2000 to provide all-weather access to unconnected habitations.
Sample questions:

Questions with 1 mark:
1. What are the rural economic activities?
2. What is the full form of DRDA?
3. Give few examples of rural industries.
4. What is planning?
5. What is PRIs?
6. What is NGO?
7. What is SHG?
8. What is SGSY?
9. Write any two rural development programmes in India.
10. What is NABARD?

Questions with 2 marks:
1. What do you mean by Rural Development?
2. Who are the rural stakeholders?
3. What do you mean by non-farm activities?
4. What is PRA?
5. Define rural industry.
6. What do you mean by micro enterprises?
7. What do you mean by Micro finance?
8. What do you mean by decentralized planning?

Questions with 6 marks:
1. What are the different approaches to rural development?
2. What do you mean by rural industrialization?
3. Distinguish between centralized and decentralized planning.
4. What are the important merits of decentralized planning?
5. Distinguish between micro finance and micro credit.
6. What are the features of SHGs?
7. What is the difference between rural industry and rural industrialization?
8. Discuss role of credit for rural non-farm sector.

Questions with 10 marks:
1. Discuss rationale for rural development.
2. Discuss the role of agriculture in rural development.
3. Discuss the rationale behind rural industrialization.
4. Discuss the importance of decentralized planning in rural development.
5. Discuss the major constraints of rural industrialization.
6. Write short note on participatory approach to rural development.
7. Discuss the role of SHGs in micro credit and women empowerment.
8. Discuss the role of NGOs in rural development in India.
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