NEW SCENARIO OF RURAL DEVELOPMENT IN HARMONY WITH THE DYNAMICS OF CHANGE

by
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Abstract

In accordance with the dynamics of change, the rural development should be carried out in an integrated manner, encompassing agriculture production, renewable sources of energy, agro processing and rural industries, community development, income generating activities, forestry, financial services etc. Integrated rural development should pay high attention to preservation of environment and use of local skills and materials. Importance of harnessing of renewable sources of energy and use of rural credit for rural development is shown. Perspectives on the strategy to increase the role of financial institutions in the rural development is analysed.

1.0 Introduction

Practically, in the developing countries, majority (60-80%) of the population lives in rural environment. Rural development would immensely contribute to the enhancement of living standards of the population of a country (agriculture - 25-60% of GDP). Integrated rural development should focus on increasing incomes of the population through improvement in production, people's participation, and generation of employment. Any rural/agricultural development should be self-sustaining. Integrated rural development project should involve productive investment with financial returns that would cover the costs and additionally generate surplus for further investments (may be in similar projects). These projects may have to include costs of infrastructure development such as roads, schools, health and communication facilities, housing and transport because lack of these may be a serious constraint for production, employment and income generation. Social services, education health and infrastructure activities can only be undertaken if the project generates surplus.

Rural/agricultural development projects are specifically designed to assist and help rural community / people directly in an identified area / region. Projects should be multi-sector with design encompassing the economic, cultural, historical background of the population of the area. It is compulsory for the project to be designed to have cohesion of the production, marketing and participation of the people.

Integrated rural (agricultural) development projects are intended for communities in isolated (with difficult access)/mountainous areas with limited or lacking basic health, education, social/welfare facilities and inadequate skilled personnel, political/financial support etc.

The project should pay emphasis on the use of renewable sources of energy (hydropower/solar energy etc.) with multi-sector approach aimed at promoting new appropriate technological packages such as food and cash crops, animal husbandary, fishery (village fish ponds), sericulture, forestry (exploitation, afforestation, by products, wood lots), agro industries, handicraft/village/cottage industries etc.

Rural development cannot progress unless proper facilities are created for agricultural development (input supply, marketing, extension and research, credit etc.). The need is ripe to explore a new scenario of rural development in harmony with the dynamics of change in society. The concept should be to develop the village economy to

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improve living standard of the population encompassing integrated agriculture, village industries, income generating activities, rural electrification etc. Rural development is a marathon, not a sprint.

2.0 Project Objectives and Benefits

Integrated rural development is primarily aimed at achieving the economic independence of the village/community. This means to increase the income of the villagers (farmers) by creating the necessary infrastructure and could be broadly summarised as:

(i) Increase productivity (of land and labour)
(ii) Decrease cost of production, and
(iii) Obtain remunerative price for the produce (agriculture / industrial / cottage).

It has been observed that in most of the remote rural communities (with limited access) / communities of ethnic minorities living in mountains, in developing countries, for their survival have well-knit social communities with leadership. This practice has been carried-out for generations the world over.

In general, the community existed as an independent entity while the temple/church/mosque extended counselling and services for educational needs, subtainance of the morale of the community (drunkenness / drug addiction / robbery / bigamy etc.) and the community was responsible for agriculture production/cottage industries, social services (construction of houses, marriages, funerals, care of sick persons etc.), marketing etc. Using the old skeleton, a new approach should be made for IRD.

The integrated rural development based on the social pattern of communities, practised for centuries, could yield the following benefits.

I. Social benefits

a) Better social standing among communities due to better economic conditions.
b) Better cultural life as a result of provision of electricity (house lighting/radio/TV).
c) Equality among peoples/members of society.
d) Occupational mobility due to multiple training.
e) Self confidence, self respect, sense of freedom etc. due to economic independence (from money lenders/middle men for marketing etc.).

II. Welfare benefits

a) State and or International programmes for health, sanitation, nutrition, formal and adult education, vocational training, house construction, recreation/cultural activities etc.
b) Community development/Co-operative action of members.

III. Monetary benefits

a) Medical facilities/marriage (funeral) services/civic advice etc.
b) Risk coverage through mutual insurance.
c) Development of new resources.
d) Government grants and subsidies (credit facilities).
e) Increased productivity
f) Lower input prices through bulk purchases/higher output prices through better marketing.
g) Value added by co-operative processing units.
h) Better utilisation of members existing resources.
i) Lower prices for consumer goods.
j) Better utilisation of management and other staff and of other resources such as ware-houses, transport etc.

Besides agriculture, supplementary activities such as animal husbandary, fisheries, poultry, sericulture, apiculture, forestry, village industries, income generating activities for women etc. should be considered for IRD projects. Migration of villagers to the cities has been rising, seriously straining urban services. Slums have been proliferating and urban crime is on the increase. Employment in the non-farm rural sector needs immediate attention.

A sustainable rise in living standards demands a concerted attack on the various problems facing rural areas. Little is gained by promoting employment, for example, if the labour force keeps expanding as a result of rapid population growth. For example, if a large part of the labour force is prevented from working on account of ill-health caused by the effects of substandard water supplies and sanitation and inadequate medical services, farm output will fall below potential.

Advances in one sector can be nullified by reverse in another, and it is this interplay of factors that makes an integrated approach to rural problems so vital and so complex.

3.0 Concept of Integrated Rural Development

Many hundreds of millions living in rural areas of the developing countries (Africa, Latin America and Asia) the world over inherit malnutrition and disease, illiteracy, poverty and unemployment as common factors. Imprudence in the management of the environment and exploitation of natural resources makes life harder for the living beings in the third world.

Integrated rural development can be achieved only by the people concerned, making best use of their own countries' human and physical resources and development potential.

To cater for the rise in population, tropical rainforests are felled, natural resources are over-exploited resulting in shortages of wood, hydropower etc., agricultural land vanishes as the soil fertility is exhausted fostering a process of desertification etc. Rural development involves much more than just increasing agricultural output. Development is a matter of more than just capital, technical and scientific knowledge.

Innovation, renewal, test for effectiveness on new methods and appropriate technologies (innovation for which there is a possible application in developing countries) should be put to maximum use in rural development. Concern for the environment must be an integral feature of development efforts. According to United Nations Environment Programme (UNEP) the world's deserts are spreading by around six million hectares every year, and it is estimated that around 4.5 billion hectares of land around 35% of the earth's land surface - is affected in some degree by desertification. And every year seventy thousand hectares of tropical rainforest are lost as trees are felled for timber or to clear land for cultivation. This deprives rural peoples of a major source of fuel, income and food as well as having disastrous consequences for the global climate and environment.

Last three decades of rural development in the Third World have shown that only a limited number of developing countries have made a real breakthrough in the struggle against rural poverty.

There is no standard formula or approach for rural development. Considering many and varied rural development practices the world over, taking into account the failures, shortcomings and successes the following concept is furnished.

Integrated rural development could be confined to a region, area, district or a project (with defined boundaries). Basically, the following should be integrated for development.

- Environment (ecology ....)
- Renewable sources of energy (hydro, solar, wind, geothermal etc.).
- Agricultural system (farming, input supply, processing and marketing, extension and research systems)
- Agro processing industries (rice, sugar, coffee, tea, cotton, fruits/vegetables, fish/meat, tobacco, rubber milk etc.)
- Rural industries (fertilizer/animal feed, handloom/handicraft, handtools/turbines (pumps), sawmill (furniture, building materials etc.)
- Community development (infrastructure, institution, training, activities of women etc.)
- Income generating activities (sericulture, apiculture, mineral prospecting, gem mining etc.)
- Forestry (management/exploitation, afforestation (conservation), byproducts (oleoresin) etc.)
- Monetary activities (economics, marketing (commerce), finance (credit).

4.0 Major Problems Encountered

Experience has shown that rural development is a complex process and needless to add that development cannot progress unless considerable investment is made (by the state/lending agencies/ International organisations).

A vicious circle is created for developing countries involving rural development and productive investment. Most of the developing countries of the world could not afford to invest large sums of money on rural development, unless the investment is assuredly productive. Also, private lending institutions and or international lending agencies would not lend, if the development is not feasible and sustainable.

4.1 Finance

A major problem faced to tackle rural development would be institutional credit or the role of financial institutions/ rural financial services. No financial institution would get involved in rural financial services at the expense of efficiency and stability of the financial institution. In this context, the perspectives on the strategy to increase the role of financial institutions in rural development should be dealt with. Also, evolution of policy to enhance the role of financial institutions in rural development, plays a major role, taking into account some experience in Asian countries (India, Thailand, Sri Lanka etc.).

4.2 Renewable Sources of Energy

Since agriculture is the dominant village occupation providing the largest scope for employment, supplies of foodgrains etc., in previous attempts of rural development only agriculture development was given priority. The time is ripe to commence agro-processing, as a very high value adding activity in the marketing system. Also, processed products account for a large proportion of internationally traded agricultural commodities such as tea, coffee, cocoa, sugar, rubber, natural fibres, edible oils, cashew, rice etc.

Social benefits like, house lighting, radio, TV etc., to create employment by establishing agro-processing and rural industries, encouraging income generating activities etc., cannot be initiated without energy. Previously, diesel generating sets were utilised incurring heavy expenses for imported fossil fuel, transportation, spare-parts, maintenance etc.

Considering the appropriate technology and know how available, harnessing of renewable sources of energy is a must for rural development. Equipment and accessories required could be manufactured in workshops of the area, using local materials and skills.

Source of energy suitable should be considered for a specific region/area, giving due consideration for concept, stages of development etc. At present, the most appropriate energy for rural development is hydropower. Area with perennial/non- perennial streams could harness hydropower making use of appropriate technology existing and practised in the third world countries. Most of the equipment, machinery etc. could be manufactured locally, using local materials, hydropower and creating employment.

Cheap energy/electricity available could easily provide social facilities like house lighting, radio, TV, refrigeration for vaccines, water pumping for domestic purposes etc. Further, Agro-processing and rural industries could be established for economic independence of the community and to create employment in the area.

Economic evaluation plays an important role for the purpose of obtaining credit for financing by state/lending/or international agencies. Experience has established that the contribution of labour by the community for construction, enhances the viability of the project, indicating the local participation. The following agro-processing industries (rice, sugar, coffee, tea, cocoa, edible oils, fruits/vegetables, fish/meat, milk, tobacco, cashew, national fibres, rubber), rural industries (fertilizer / animal feed, handloom / handicraft, handtools / turbines / pumps, sawmill, coconut, mechanical workshops etc.) and other income generating activities could contribute to prove a project economically feasible, making it possible to qualify for credit facilities.

Social benefits like women and children avoiding fetching potable water from a distance, pounding of paddy for hours a day, better cultural life for the community, are additional guiding criteria to obtain credit facilities for rural development.

Harnessing of geothermal/solar/wind energy for rural development should be analysed in the near future.

Harnessing of hydropower should be using the existing appropriate technology, to cater for local industries, inurring minimum maintenance costs.

4.3 Others

4.3.1 For successful rural development, the following should be integrated and oriented to give the maximum benefits.

- Agricultural system
- agro and rural industries
- community development
- income generating activities
- forestry etc.

How the above should be integrated to achieve maximum results would be outlined in a later article.

4.3.2 Technical information, innovation and adaptation of existing systems, equipment, machinery, accessories etc., for rural development should bring immense benefits. In this respect, harnessing of renewable sources of energy, agro- processing and rural development industries etc., should be given priority. A special article would be devoted briefing information and innovations available for effective adaptation.

5.0 Financial Institutions and re-orienting banking policy and practice for rural development

In developing countries, credit has been identified as a major stumbling block in all areas of economic activity and specially in rural development. Non availability of financial institutions and finance is attributed to slow growth rate and backwardness of rural communities.

Some of the suggestions are put forward, after critically analysing the financial institutions and banking policy of countries such as Myanmar, Laos, Thailand, India, Sri Lanka etc.

5.1 Objectives

Financial institutions are required to meet increasing demand for credit, basically for the following :

- increase food production;
- create employment (productive self employments and/ or private entrepreneurial ventures);
- harness renewable sources of energy for rural industries and social services.

The inability of credit institutions to accommodate prospective borrowers has now been identified as a major obstacle to effective implementation of development.

Presently, most of the rural communities turn to village money lenders for rural credit (an exhorbitant rate of interest should be paid), whereby development is greatly hampered.

5.2 Institutions and Practices

In most developing countries commercial and expatriate banks are situated in urban areas catering for prospective borrowers (people worthy of credit) and for industrial purposes. The commercial banks and financial institutions are not geared to provide credit to the poor. Due to urban bias and mercantile character of commercial banks, rural credit appears to be the weakest link in financial institutions.

Banks were primarily concerned with and interested in lending against collateral. Banks were concerned with what they were lending against rather than what they were lending for.

During the last few years, governments with the help of central banks have stepped in to meet the ever increasing demand for credit, for rural development by establishing various financial institution such as Reserve Bank, National Bank for Agriculture and Rural Development, Agricultural Refinance and Development Corporation, Regional Rural Banks, Bank for Agriculture and Agricultural Cooperatives etc., Commercial banks were directed to ensure a certain percentage of lending for rural development and to establish rural branches and mobile services.

The credit for the rural sector has been evolving, therefore the peasantry subjected to extreme exploitation by landlords and money lenders should be relieved. Frequent failures of crops left the farmers landless labourers in the cycle of poverty and indebtedness. This problem should be properly tackled.

5.3 Perspectives on the Strategy to Increase the Role of Financial Institutions in Rural Development

Distribution of both development and financial services in the rural areas are essential ingredients of the economic development process, and both must go hand in hand.

Apart from government resources earmarked for development, encourage private and international participation to transform the traditional farming into modern agriculture and to realize the potentials of rural industries and services so that they will become additional sources of rural income.

Spread of rural financial services should not be attempted at the expense of efficiency and stability of financial institutions involved. At the initial stage, a narrow range of financial services should be provided to meet the needs of each stage of rural development. To maintain efficiency and dynamism of both financial and non financial development processes, a mix of various incentives and regulations should be deployed. Central bank should provide some funds as well as guide financial institutions to maintain economic stability and to support growth of the rural sector. The objectives regarding rural financial services should conform with the country's rural development goals. Some interesting facts about the evolution of financial institutions are given in Table 1.

Table 1

Evolution of the Role of Financial Institutions in Rural Development

Country	1968	74	75	79	86	87	90
Thailand							
Commercial banks in suburban districts.	-	204	217	-	-	710	-
Rural credit (credit allocation percent of their prior year-end total deposit)	-	5	5.7	11	20	-	-
India							
Rural Banks	8200 (6500 per branch)	-	-	-	40000	-	-
Sri Lanka							
Rural Banks (agricultural service centres, cooperative rural banks etc.)	-	-	-	-	-	-	758 (15000 per branch)

5.3.1 Credit Facilities and Supporting Services

1. Institutional credit facilities must be geared to generate a commercially oriented farming community.

2. Initially finance greater part for farming operations and play the part of catalyst in helping to combine in a productive manner the physical facilities and training made available.

3. Ensure a favourable distribution of income, by protecting the farmer from the grip of the village money lender.

4. Subsistence credit in the early years to tide over the period between harvests, as supplementary employment opportunities are scarce in the area.

5. At a later stage, with the full development, farmers should be suppliers of funds to other areas.

6. Implement and administer functions of settlement, agriculture development and construction activities.

7. Unit Manager / Block Manager / Resident Project Manager.

Consumption loans - Initial years, savings are limited and credit for consumption purposes to tide them over period in between harvests. Enable farmers to attend to fields and weed them and look-after the crops rather than go out looking for employment.

8. Conditions favourable for repayment of cultivation credit (a) Delivery of sufficient inputs in a timely manner (b) Arrangements for marketing (c) Operation of mobile banks (d) Employment of field assistants for recouping of loans (e) Educational programmes regarding prompt repayments of loans.

9. Conditions necessary

(a) For small / medium scale categories to raise capital through stock - exchange not possible as investors need high dividend records and need substantial income from the first year. So lines of credit should be sought from banks.

Collateral free banking

A fair number of big clients are able to get clean advances purely on their standing and track record of the firm or individual.

A small collateral free loan to the borrower and the initial sum in the region of U.S. $ 100 (Rs. 4000/-), where a sum of this size is not very much of a risk. These loans could be within the purview of guarantee schemes operated by Central Bank or other agencies, which tends to minimise the risk to the lending bank. Further the bank can initially open a savings account in the borrower's name and he could be called upon to deposit whatever savings and receipts he has received from the business into this account. Savings will earn interest and constitute the security for further loans.

Regional Rural Development Banks of Sri Lanka have shown that small businessmen can build up their savings accounts substantially by following advice given by banks, keeping down expenditure in the early years and proper management. Also, Regional Rural Development Banks confirmed that it is possible to develop a system of bank lending which is not entirely dependent on collateral. Banks have carefully made an on the spot assessment of the projects which have been presented by the loan applicants and of their initiative and capabilities.

Contingent Fund

(a) To support both farmers and banks during unfavourable seasons (b) Benefits meagre from Agriculture Insurance Scheme both to banks and farmers.

During unfavourable seasons funds would be disbursed to the banks.

5.3.2 Institutional Sources of Credit and Problems

Short-term cultivation loans could be arranged with a particular area demarcated for a given bank. Different areas for different banks for funding would ensure dialogue between farmers and banks.

Medium-term loans could be provided for farm power, land development, construction, self employment, commerce / industrial purposes etc.

Establish credit information bureau (under the auspices of the Central Bank), to reduce burden on the banks to service hundreds of prospective credit worthy borrowers, reduce frustration and disappointment. Bureau would collect information on the track record and past performance of borrowers and minimise incidence of overdues and assist banks in making quick decisions.

Problems of Collateral

1. Every financial institution (bank, lending institution etc.) expects substantial collateral for the loans that they dispense. Land is the most readily acceptable (and quality of the title, all privately owned titles etc. are acceptable).

2. Require guarantees, where bankable collateral is not available.

3. Loans to be guaranteed by government officers or income tax payers (government officers are hard to be found in rural areas, except for few teachers, field officers

and clerks. Guarantors are reluctant to sign as they become liable in the event of default).

5.3.3 New Attitudes and Approaches

1. Provide credit to the poor and others who are approaching the banks for the first time. Ensure a balanced and rational distribution of credit to the rural areas.

2. Improve the image of the banks among the population and win the people's confidence by opening branches in villages / (communities without banking facilities). (Overcome the accusation that the banks serve affluent people and big business interests).

3. Adopt new strategies (by bearing the risk) for lending money to rural ventures, although the inconvenience associated with lending in the rural sector to new borrowers and the higher cost of administering small loans are known.

4. Banks should initiate close cooperation with their customers to enable recovery of loans, encourage deposits etc. To understand the clients well, officers from banks should pay regular visits, encourage systematic payments, explain advantages in making use of financial institution etc. Lenders should win the borrower's confidence.

5. Banks should organise regular frequent mobile banks to visit villages, to approve loans in the field while discussing and motivating small entrepreneurs. The officials become familiar with the kind of work and activities undertaken by borrowers, follow progress in economic activities and are aware of the capacity of the borrower to repay. The friendly and cordial relationship established during frequent visits, makes the borrower under obligation to repay the loan. This makes the bank to be in touch with the people to take banking to their doorstep.

6. Rural credit surveys in many developing countries have shown that the bulk of the credit has been provided by indigenous money lenders / boutique keepers, friends / relations etc. The private lenders who normally lend to very risky and uncredit worthy individuals and enterprises at exhorbitant high interest rates, with hardly any collateral are able to recover loans. The financial institutions should innovate methods to successfully extend rural credit.

7. Banks should undertake training courses emphasising the vital role of credit disbursement, specifically for rural development. Training schools located under rural environment should pay attention and awareness to train officers with a fresh approach to handle rural sector and new category of borrowers (particularly the poor).

8. Principle of using of the savings received from an area in the same area (especially if the area happens to be relatively less developed) should be adopted (the normal practice is to divert deposits mobilised in the rural area for large projects in metropolitan area).

9. Major restructuring of the administration of financial institutions and their operations, to minimise delays for disbursement of loans (loan applications) should be initiated (reduce frustration and disappointment).

A clear cut policy of requiring simple documentation with minimum number of days required for processing the loan, giving the impression that the borrower is the most important person (not to demand for different documents and requirements at various times) should be established; grass root level decision is an essential ingredient in effective rural credit for development. Possibility for the public to have access to financial institution and make complaints and air their grievances is necessary for proper management.

10. Following matters should be redressed for effective rural development :

- effective methods of recovery (instead of registered letter / demand notice requesting pay instalment on loan) and follow up procedures to be done seriously to stop default;

- due to non follow up of recoveries, the interest on loan starts accumulating with penalty rates coming into operation, as a result the original amount lent will double in few years;
- ineffective procedures have resulted in the accumulation of very large sums as overdues;
- after past dues have doubled/trebled the bank files action in court. Large expenditure in making recoveries such as legal and lawyers fees tend to increase the cost of funds to the bank;
- the bank loses income in the form of interest which would be used to make further credit available;
- the reduced cash flow resulting from the accumulation of capital and interest means that the bank is much less profitable than it should be and that the profits and surpluses are not available to build up reserves against bad debts or to finance small lines of credit;
- overdues also mean that the bank must progressively increase its capital resources in order to ensure a satisfactory capital debt ratio and provide amounts for bad debts. Furthermore the bank has to spend more on deposit mobilisation and administration in order to get additional funds from the public for lending and these may have to be raised at higher cost;
- the passivity of the banks and the ineffective and costly procedures which have been adopted in the past to effect recovery have been responsible for the very high rates of default that banks have had to face particularly in lending to small entrepreneurs. (On some agricultural loans, Central Bank assured a certain

percentage of money would come back, the banks did not use effective methods of recovery and took shelter under the guarantee);

- non recovery of debts has very serious implications for economic management and banking business. The money that is lost in the form of unrecovered loans, constitute the savings that the banks have mobilised from the people. It means that these savings have not been applied to productive purposes or such funds have not been available to be recycled as further loans to increase productivity. Defaulters who are producers of goods and services are denied.

Social / Economic Indicators
(Source - Asia Week - February 1991)

No.	Country	Pop. (m)	G.N.P. per Cap U.S. $	Pop: growth rate %	Literacy %	People per Doctor
1	Burma	41.7	278	2.1	78.5	3,797
2	Cambodia	7.9	110	2.2	48.0	36,000
3	India	836.3	320	1.8	40.8	2,522
4	Laos	4.2	180	2.9	83.9	6,495
5	Sri Lanka	17.1	407	1.1	86.1	7,253
6	Thailand	56.7	1194	1.3	88.8	5,664
7	Vietnam	67.2	175	2.0	94.0	3,140

6.0 Conclusion

Rural development should be tackled in a complex fashion to gain economic independence of the community.

Development should be planned taking into consideration the social and cultural patterns of the area, making maximum use of local skills and resources.

Harnessing of renewable sources of energy is vital and appropriate technology should be utilised for sustenance. Also, this would keep the cost of production at minimum in all activities of rural development.

It is evident that the role of financial institutions in granting rural credit would be very important for rural development.

A separate article would be published outlining the harnessing of renewable sources of energy for rural development. An attempt would be made to furnish latest development, achievements, problems etc.

7.0 References

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