

UNIT 21 EMERGING PATTERNS OF PANCHAYATI RAJ

Structure

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21.0 OBJECTIVES

After reading this unit, you will be able to :

- analyse the different patterns of Panchayati Raj;
- understand the necessity to have different patterns; and
- compare the Panchayati Raj Institutions, existing in different states.

21.1 INTRODUCTION

Panchayati Raj Institutions have been set up in our country as a result of the recommendations of the Balvantray Mehta Study Team. The Team made a number of recommendations regarding the constitution of the new bodies, their internal organisations, the staff to be employed by them, their functions, finance and the arrangements for exercising control over them. Besides, the Team also made several others on various points referred to it for consideration. Consequent to the report of the Team, almost all the States and Union Territories introduced the Panchayati Raj Institutions over a period of time. We now have more than three decades of Panchayati Raj experience. While the need for setting up democratic institutions was accepted by the Government of India, it was realised that in a country of India's size, complexity and diversity, a uniform pattern all over the country should not be introduced rigidly. It was recognised that each state should have the discretion to devise a system, best suited to the local conditions. In fact, it is necessary to recall the resolution of the Central Council of Local Self Government at its fifth meeting at Hyderabad in 1959. The meeting recommended that "while the broad pattern and the fundamentals may be uniform, there should not be any rigidity in the pattern. In fact, the country is so large and Panchayati Raj (democratic decentralisation) is so complex a subject with far reaching consequences that there is the fullest scope of trying out various patterns and alternatives. What is most important is the genuine transfer of power to the people. If this is ensured, form and pattern may necessarily vary according to conditions prevailing in different states." On the basis of this approach, the Panchayati Raj Institutions have been introduced in different states at different points of time. The structures, that have come into existence, do not yet seem to have settled down into some kind of format, for in most of the states, attempts are being made to bring about changes in them. Changes are introduced, at frequent intervals, on the basis of experience of the existing system. However, we have tried to analyse the different patterns as they have evolved and are working at this juncture. After all, there cannot be any finality in any society, particularly in the developing societies where reforms have to be introduced at regular intervals to keep pace with the changing times.

21.2 STRUCTURE OF PANCHAYATI RAJ

The Balvantray Mehta Study Team proposed a three tier (Zilla Parishad, Panchayati Samiti and Village Panchayati) system of Panchayati Raj. There is no uniformity regarding the

number of tiers in all the states. It is true that there is Panchayati Raj of some kind or the other in all the States and Union Territories, but there is variation in respect of the number of units. There is difference of opinion regarding the unit of planning and development. Election procedure, financial resources, personnel policies etc., are a few other aspects on which there is no unanimity. However, we have tried to identify a few patterns which are distinct in their character for analysis. We will study Panchayati Raj as it has evolved in Andhra Pradesh, Maharashtra and Karnataka. It is also necessary to point out that in this short essay, it is not possible to analyse the patterns of Panchayati Raj Institutions in all the States and Union Territories.

Check Your Progress 1

- Note : i) Use the space given below for your answers.
ii) Check your answers with those given at the end of the unit.

1) What was the proposal of the Balvantray Mehta Study Team?

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2) What was the resolution of the Central Council of Local Self Government?

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21.3 ANDHRA PRADESH PATTERN

Andhra Pradesh and Rajasthan adopted Panchayati Raj soon after the submission of the Mehta Report in 1959. In fact, they take pride in the fact that they acted fast in accepting the recommendations of the Mehta Study Team. The legislation, in both the States, was mainly based on the model suggested by the Mehta Team. From 1959 to 1983, the three tier structure was in vogue in Andhra Pradesh. In 1983, a four-tier structure was set up. Thus, there are two phases in the Andhra Pradesh pattern of Panchayati Raj. We would discuss each phase in the following.

A) First Phase from 1959 to 1983

Under this scheme, the Gram Panchayat was the lowest unit. It was constituted either for a single village or a group of villages. There was also provision for a Gram Sabha, the members of which were all the voters of the Gram Panchayat.

The Panchayat Samiti, which is the middle tier, was the most important unit from the point of view of planning and development. Originally, there were 448 blocks in the State which were later reorganised into 321. The Panchayat Samiti was composed of Ex-officio and co-opted members.

The Zilla Parishad for each district was the apex body of the Panchayati Raj in Andhra Pradesh. It also consisted of Ex-officio and Co-opted members. The Panchayat Samiti and the Zilla Parishad had seven standing committees, each of which transacted important business. Till 1983, no major structural change was contemplated in the three tier structure. It is, however, necessary to point out that now and then, a few modifications which were mostly peripheral in nature were introduced in the system consequent to the recommendations of several committees constituted by the State Government.

The functions of these bodies have been enumerated in the Act. They may be broadly divided into two categories; i) Civic and Welfare functions; ii) The developmental functions. It was mainly the Gram Panchayats and Panchayat Samitis which had been entrusted with

civic and welfare functions. The functions of Zilla Parishads in this area were restricted to the establishment, maintenance and expansion of secondary, vocational and industrial schools. In fact, the Zilla Parishads served more as a coordinating agency and as the agency for distribution of funds among the Samitis in the district.

The Panchayat Samiti was the principal agency for performing all developmental functions. They include agriculture, cooperatives, animal husbandry, community development, cottage industries etc. The Zilla Parishads had no executive functions so far as developmental work is concerned. However, at times they had also undertaken activities under certain circumstances. Otherwise the Zilla Parishads were mostly coordinating and supervisory agencies.

The three tier structure continued to be in operation till 1983. The emergence of a new regional political party namely the Telugu Desam Party at the state level has brought in certain changes in the Panchayati Raj set up in Andhra Pradesh.

It would be useful to recall the prevailing situation in the late seventies. It has been observed that during this period, the Panchayati Raj Institutions were in a bad shape. We were witness to a total decadence in the working of these Institutions all over the country. The situation was viewed with serious concern by the Janata government at the centre. Consequently, it had appointed a Committee headed by Ashok Mehta, to review the working of Panchayati Raj Institutions and to suggest suitable remedial measures. Though the committee submitted its report in 1978, it did not evoke any interest in the state governments. In addition, the collapse of the Janata government put the Ashok Mehta report in cold storage.

B) Second Phase : 1983 onwards

The emergence of non-Congress-I government in Andhra Pradesh in 1983 revived the interest in the Ashok Mehta Committee Report. On the basis of the report, a number of changes were introduced in the Panchayati Raj structures in Andhra Pradesh.

The present set up is based on the Andhra Pradesh Mandala Praja Parishad, Zilla Praja Parishad and Zilla Pranalika Abhivrudhi Mandals Act 1986. The Act provided for a four tier structure : **Gram Panchayat** for a village, **Mandala Praja Parishad** for a group of villages, **Zilla Praja Parishad** for every district and **Zilla Abhivrudhi Sameeksha Mandali** for every district. Let us examine each one of these bodies in detail.

i) Gram Panchayat

Gram Panchayat is the lowest unit of the four-tier system. There are about 19,500 village panchayats in the State. Gram Panchayats are constituted either for the entire village or for groups of them. Members of Gram Panchayat are elected by the villagers on the basis of wards. The Sarpanch is directly elected by all the voters of the village. There is a provision for reservations to the extent of 15 per cent for SCs, 6 per cent for STs, 20 per cent for BCs and 9 per cent for women, in all the elective posts at the Village Panchayat level.

ii) Mandala Praja Parishads

The most significant reform made in the structure is the abolition of former 330 Panchayat Samitis and creation of 1,104 Mandala Praja Parishads in their place. The size of the middle unit is reduced by one-third with a population of 35 to 50 thousand with a view to taking administration to the 'doorstep' of the rural population. The new Mandala Praja Parishads are coterminous geographically with the Revenue Mandals. This was designed mainly to merge both the Revenue Mandals and the Mandala Praja Parishads, over a period of time facilitating an integrated unit to emerge at the grassroots level. The revenue bureaucracy had however opposed this proposal. For the time being, the entire issue of merger is kept pending.

Andhra Pradesh adopted the system of direct election to the position of President of Mandala Praja Parishad. Sarpanchs of village panchayats are the ex-officio members of the Mandala Praja Parishad. Members of Legislature and Parliament are also ex-officio members. In the new system, the registered political parties are permitted to field their candidates for elections. Along with this provision, a ban is imposed on the Mandala Praja Parishad presidents from defecting from the parties on whose tickets they were elected. The spirit of Anti-defection law is very much felt at the grassroots level.

No substantial changes and improvements are made in the powers and functions of Mandala Praja Parishads. Almost all the functions of erstwhile Samiti are handed over to the new bodies.

iii) Zilla Praja Parishads (Z.P.Ps)

A few changes have been introduced in the composition of the Z.P.Ps literally meaning district people's councils. The Zilla Praja Parishad is headed by a chairman, directly elected for a term of five years by the entire district electorate. The urban voters are excluded. It may be recalled that under the old Act, the chairman was elected indirectly by the general body of the Zilla Parishad. In the present situation, the Zilla Praja Parishad chairman is elected by the largest electorate in the country; roughly having an electorate twice that of a Lok Sabha Member or ten to fourteen times that of an M.L.A. The government has accorded the status of the Minister of State to the Zilla Praja Parishad chairman. Provision for reservations is also made: one for STs, three for SCs, four for BCs and two for women out of a total 22 Zilla Praja Parishads. The general body consists of the chairman, all the Presidents of the Mandala Praja Parishads, legislators as Ex-officio members and a co-opted member belonging to the linguistic minorities. The district collector is also a member of the Zilla Praja Parishad. The anti-defection law is made applicable to this organisation also. There are six standing committees, all headed by the Chairman, through which the business is carried on. The district collector's power has been diluted by divesting him of the ex-officio status as in the old act. No radical changes have been introduced in respect of functions and sources of finance.

iv) Zilla Abhivrudhi Sameeksha Mandal

Another significant feature introduced in the new set up is the creation of a fourth tier, a nominated body over and above the Zilla Praja Parishad. Each of the districts in the state, excluding the state capital, is provided with a **Zilla Abhivrudhi Sameeksha Mandal** (District Development Review Board). It is headed by a Minister nominated by the Chief Minister. The Chairman of the Zilla Praja Parishad, all the legislators of the district, the district collector and five expert members nominated by the government constitute the body of **Zilla Abhivrudhi Sameeksha Mandal**.

This fourth unit has become a subject of criticism. The purpose of these bodies is stated to be review of developmental works within the district. However, the real purpose, the critics point out, is to subordinate the Panchayati Raj Institutions to the state and through it to the party in power.

Finally, it is said that the present experiment does not make any significant change in the position of the Panchayati Raj Institutions. However, there are two aspects which deserve appreciation. First, creation of smaller units of administration has led to better access to the rural people. Secondly, the provision of reservations at all levels facilitated the sharing of power and status by a larger number of people from the deprived sections of population.

Check Your Progress 2

Note : i) Use the space given below for your answers.
ii) Check your answers with those given at the end of the unit.

- 1) In what way, Mandala Praja Parishad is different from that of Panchayat Samiti of the past?

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- 2) Write a short note on Zilla Abhivrudhi Sameeksha Mandal.

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21.4 MAHARASHTRA PATTERN

After having explained the emerging pattern of Panchayati Raj in Andhra Pradesh, it is necessary to examine one of the unique systems of Panchayati Raj Institutions in India i.e., Maharashtra pattern. It is unique because the State government did not accept the recommendations of Mehta Team in toto. And therefore it set up a committee in 1960 to go into the question of introducing democratic decentralisation in the light of its own experience in the field of local government under the Chairmanship of V.P. Naik. Consequent to the Naik Committee Report, the state government passed an Act in 1961 which came into force in 1967. We find quite a few differences between the Mehta Report and the Naik Report which deserve mention in our lesson.

The idea of introduction of grassroot democracy as envisaged by Naik Committee is different from that of the Mehta Team. The Mehta Report laid emphasis on developmental mechanism, whereas the Naik Committee integrated the developmental functions and made it clear that the Panchayati Raj Institutions, proposed in Maharashtra state, would be in the form of local governments and not a mere extension agency of the Central Government or State Government.

After a careful examination of the causes for the failure of the existing system, the Naik Committee suggested that all developmental schemes should be divided into three categories namely a) the state sector schemes, b) the local sector schemes and c) community development programmes. The local sector schemes and the community development programmes should be entrusted to the Panchayati Raj bodies for planning and execution. For proper implementation of all the schemes of local sector, the district should be the ideal unit since it has necessary administrative organisation already existing. Thus, the Naik Committee suggested district as a unit of planning and development and the Panchayat Samiti could be a statutory committee of the Zilla Parishad.

Before we proceed to the description of the units, it is necessary to mention that the Naik Committee was not in favour of associating the district collector and the Members of Legislative Assembly and Parliament with the Panchayati Raj Institutions. The Committee felt that by keeping the collector outside the body, the Government would have in him/her an independent officer who could evaluate impartially the functioning of the local body and report the same to the government. The Members of Legislature and Parliament would be too busy with their respective roles and may not find enough time to devote to the local bodies. Hence, the committee did not find their membership useful in the local bodies.

The Committee suggested that all the local sector officers should be placed under the unified administrative control of the Chief Executive (of the rank of district collector) of the Zilla Parishad, working under the supervision and the control of the Zilla Parishad. Similarly the block level staff should be kept at the disposal of the Panchayat Samiti.

At present, the Panchayati Raj system in Maharashtra is organised on the basis of Maharashtra, Zilla Parishads and Panchayat Samitis Act 1961. Let us analyse the main features of the system.

i) The Zilla Parishads (Z.Ps)

The Zilla Parishads have been constituted for every district. The Bombay city and suburban district does not have a Zilla Parishad. Zilla Parishad is the main unit of decentralisation. It has a minimum of forty and a maximum of sixty councillors directly elected from a constituency of roughly 35,000 adults. There is also a provision for co-opting representatives of cooperative societies. Reservation for Scheduled Castes and Scheduled Tribes is also provided. In addition, two women would be co-opted if the directly elected members do not include women. The chairmen of the Panchayat Samitis in the district are ex-officio members of the district council ensuring linkage between the samiti and district body. The direct election of the Zilla Parishad Councillors ensures responsibility to the rural population. Besides it was designed to lend a political status to these bodies.

The Zilla Parishad from amongst its councillors elects a President, a Vice-President and two Chairmen of subject committees. The Zilla Parishad for its day to day working, is divided into eight committees. The President of the Zilla Parishad, apart from functioning as head of the Panchayati Raj bodies, also presides over the meetings of the Standing Committee. The remaining subject committees are presided over by the Vice-President and Chairmen of the Subject Committees. President of the Zilla Parishad, Vice-President and two chairmen of

subject committees receive honoraria and housing facilities. In addition they are also provided with a vehicle. Thus a kind of portfolio system has been introduced.

The 1961 Act lays down a variety of functions for the Zilla Parishad. These include agriculture, animal husbandry, forests, cooperation, education, health, irrigation, cottage industries etc. Planning and execution of development works, thus, is the basic function of the Zilla Parishad. The sources of funds mainly consist of various grants that are paid by the government. The whole of the land revenue, and a cess on it is given over to the Panchayati Raj Institutions. The Zilla Parishads have also inherited most of the revenue sources from the local bodies which include professional tax, building tax, registration fee etc.

So far as the administrative services are concerned, the Zilla Parishad is headed by an officer of district collector's rank called Chief Executive Officer. He is assisted by a Deputy Chief Executive Officer who is also the Secretary of the Zilla Parishad. Besides them, the government has transferred its various other departments in the district including the staff to the Zilla Parishad. Thus, the entire contingent of administrative organisations are placed under the Zilla Parishad.

ii) The Panchayat Samiti

The Panchayat Samiti in Maharashtra is a statutory committee of the Zilla Parishad. The membership of the Samiti consists of Zilla Parishad Councillors elected from the block, co-opted councillors and two members who are the Panchas/Sarpanchs elected by Panchayat members from each electoral division in the block. Thus, there is a downward ex-officio membership for the elected representatives of the Parishad from the constituencies in the block. The system also ensures a working link between the Panchayat Samiti and the Village Panchayats in its area. There is a provision for co-option of Scheduled Castes, Scheduled Tribes and women on the lines similar to that of the Zilla Parishad.

The Chairman and Deputy Chairman of Panchayat Samiti are elected from amongst its members. They are full time functionaries. They are paid honoraria and accommodation facilities. The law does not allow them to be a member of any subject committee of the Zilla Parishad. In Maharashtra, the Panchayat Samiti is not a corporate body. In fact it is a statutory committee of the parishad and therefore, works as a whole. The Block Development Officer is the ex-officio secretary of the Panchayat Samiti.

The 1961 Act has allotted a list of functions to the Panchayat Samiti. These functions overlap the list of functions of Zilla Parishads. However, in practice, different development schemes are executed through the Panchayat Samiti.

iii) Village Panchayats

The basic unit of Panchayati Raj in Maharashtra is the village panchayat constituted independently of the Zilla Parishads. Panchas are elected ward-wise. A few seats are reserved for Scheduled Castes, Scheduled Tribes and women. There is provision for co-option. The Sarpanch is elected by the panchas. For every village there is a Gram Sabha which has to meet twice in a year to review and approve the annual budget and plan of the village.

The functions of the Village Panchayat are mostly civic and developmental in nature. The subjects include agriculture, social education, health, cooperation, social welfare etc. The entire land revenue is given to the village panchayat. Grants for development are received from the Zilla Parishads.

The essence of Panchayati Raj System in Maharashtra is that its Institutions have become institutions of power mechanism. It means that the Panchayati Raj Institutions are not only units of planning and development but also enjoy power to decide which development scheme has to be taken up, where it should be taken up etc. There is a clear identification of functions, finances and devolution of authority to these units. It is also stated that a large measure of success of the Zilla Parishad in Maharashtra is attributed mainly to the integration of administrative services.

Check Your Progress 3

- Note :** i) Use the space given below for your answers.
ii) Check your answers with those given at the end of the unit.

- 1) Write a short note on Zilla Parishad, existing in Maharashtra.

- 2) Write a short note on Village Panchayats of the Maharashtra Pattern.

21.5 KARNATAKA PATTERN

Panchayati Raj was introduced in Karnataka in 1959 with the passage of Mysore Village Panchayats and Local Boards Act 1959. Prior to this Act there was no uniform pattern of rural government in the state. The five different areas which constituted Mysore State, redesigned as Karnataka state, were governed by different Acts. In 1959 these Acts were superseded by the Act of 1959. Based on different experiences of the state the 1959 Act which was strikingly different from other states was adopted. The recommendations of Mehta Team in addition to different recommendations of various committees were, thus synthesised in the Legislation of 1959.

It is appropriate now to talk about the salient features of the system which was introduced in 1959 and to explain the new trends emerging in the recent times. There are two phases in the emerging patterns of Panchayati Raj in Karnataka. The first one is from 1959 to 1985 and the second phase began in 1985.

A) First Phase : 1959 to 1985

The Act provided a three-tier structure with the Village Panchayats/Town Panchayats at the base, the Taluka Development Boards in the middle and the District Development Council for each district at the top.

i) Village Panchayats/Town Panchayats

The Village Panchayats/Town Panchayats elected their members directly. Seats were reserved for Scheduled Castes, Scheduled Tribes and women. The Chairman and Vice-Chairman of the Village Panchayat/Town Panchayat were elected from amongst its members. The Panchayats were entrusted mainly with civic functions such as sanitation, control of epidemics, street lighting etc. They were supposed to perform that are called agency functions assigned by the Taluka Board and the State Government. Their major sources of income were from Grants given by the State Government and proceeds of the taxes which were very marginal. There was no organic linkage between Village Panchayat/Town Panchayat with the higher body, Taluka Development Board. As in many other states, there was a provision for a Gram Sabha.

ii) Taluka Development Board

The middle level unit was known as Taluka Development Board constituted for each Taluka in the state. The members of the Board were directly elected by the voters. Reservation of seats for the Scheduled Castes, Scheduled Tribes and women was provided. The members of Legislature, and the Council were ex-officio members of the Taluka Development Board. The Chairman and Vice-Chairman were elected from amongst the members of the Taluka Development Board. The formation of the Taluka Development Board is contrary to the suggestion made by Mehta Team. The Taluka replaced the block at the middle tier.

The Taluka Boards were entrusted with certain obligatory functions such as looking after public roads, public wells, primary school buildings, public health etc. They had a highly restricted and narrow tax base. They had to depend heavily on financial assistance by the state government. This had placed them completely at the mercy of the higher authorities.

iii) District Development Council

There were district development councils for each district. The District Development Council consisted of the Presidents of all the Taluka Development Boards, Members of Parliament, Assembly and the Legislative Council from the district. In addition, not more than 15 officials of the government in the district, were nominated by the government. The Government also nominated members from the weaker sections of the society. The Deputy Commissioner of the district was the ex-officio chairperson of the council. It was purely a coordinating and supervisory body, conforming to the recommendations of the Mehta Study Team.

The decline of Panchayati Raj system in all the states, including Karnataka, was a subject matter of discussion during the Janata rule at the centre. The Ashok Mehta Committee's recommendations revived some interest in the system. One of the election plans of the Janata Party in Karnataka was to reinvigorate and revitalise Panchayati Raj to enable it to play a more effective role in the process of rural development. In order to fulfil the election promise, the Janata government introduced a Bill to this effect and after going through different stages, the Act came into existence in July 1985.

B) Second Phase : 1985 onwards

The Act of 1985 contains a number of innovations and makes a radical departure from the earlier system. The new system has rejected the existing structure. Rama Krishna Hegde, the then Chief Minister of the State called it the "second transfer of power", the first being 1947 from the British to the people of the state.

The Karnataka Panchayati Raj system is based on the Zilla Parishads, Taluk Panchayat Samitis, Mandal Panchayats and Nyaya Panchayats Act 1985. A brief description of the new Panchayati Raj structure would be highly useful. The structure which comprises four layers — Zilla Parishad, Taluk Panchayat Samiti, Mandal Panchayat, and Gram Sabha — replaces the pre-existing three tier system consisting of District Development Council, Taluk Development Board and Village Panchayat. Let us analyse each one of them.

i) **The Zilla Parishad**

A Zilla Parishad is constituted for each district. It is a corporate body, composed of elected members. It has a small segment of nominated members of the local MLAs, MLCs and MPs with voting rights. There is one Associate member without voting right i.e., the Chairperson of District Central Cooperative Bank. Persons above 18 years of age are eligible for voting, but no person below 25 years of age can contest the elections. Reservation to the extent of 25 per cent is made for women. Similarly not less than 18 per cent members is reserved for Scheduled Castes/Scheduled Tribes.

The **Adhyaksha** and the **Upadhyaksha**, elected from amongst the members, will receive a monthly salary of a Minister of State and that of Deputy Minister respectively. This and other related provisions would certainly enhance the prestige, status and independence of these offices. There is no reservation to elective key positions of offices for Scheduled Caste, Scheduled Tribe and women. There are 9 standing committees to monitor and implement the activities of the Zilla Parishad. Members of these committees are elected by the members of the Zilla Parishad from amongst themselves in accordance with the system of single transferable vote.

The Zilla Parishad will have an administrative organisation consisting of several officers mostly on deputation, who work under the control of a Chief Executive Officer of the rank of a Deputy Commissioner called the Chief Secretary. A number of functions are allotted to the Zilla Parishad. They include all developmental programmes such as agriculture, animal husbandry, horticulture, industries, welfare of SCs, STs, BCs, supervision, coordination and integration of developmental schemes etc. The most important function of the Zilla Parishad is formulation and execution of district plans. As Nazir Sab, the architect of new Karnataka scheme of democratic decentralisation says, "We will have two planning processes hereafter, one at the district and the other at state level." He further states that the Legislative Assembly will pass two appropriation Bills: one for the state sector and the other for the Zilla Parishad. The most radical structural change was that of dissolution of the existing District Rural Development Society and transfer of its assets, liabilities and functions to the Zilla Parishads.

A number of sources of income such as allocation from consolidated fund of the state, grants, loans, contributions etc. have been provided. Each Zilla Parishad is likely to get

more than 40 crores annually. There is a provision for a Finance Commission to be set up by the State to determine allocation of resources. This would certainly improve the resource base of the Zilla Parishads.

ii) Taluka Panchayat Samiti

The most interesting structural innovation of the Karnataka model is Taluka Panchayat Samiti at Taluka level. It consists of Members of State Legislature representing a part or whole of the taluk, members of the Zilla Parishad representing a part or a whole of taluka, the Pradhans of Mandala Parishads in the Taluka, President of the co-operative Institutions, five members belonging to SCs, STs, BCs and women co-opted by the Taluka Panchayat Samiti and approved by the Zilla Parishad. The Member of the Legislative Assembly representing the major part of the taluka shall be the Chairperson. If the MLA is not available or if the member becomes a Minister, the Taluka Panchayat Samiti shall elect a Chairperson from amongst its members.

The Taluka Panchayat Samiti is not a corporate body. The powers and functions have not been assigned to it the way it has been done in the case of Zilla Parishad. However, the Block Development Officer has been designated as secretary of the Taluka Panchayat Samiti. The Samiti has powers to supervise, review and coordinate the acts of officers and servants of Zilla Parishad working in the Taluka. The Samiti also has the power to review the work of Mandal Panchayat and coordinate the work when it relates to more than one Mandal.

iii) The Mandal Panchayat

The concept of Mandal Panchayat has been taken from Ashok Mehta Committee Report. It is a corporate body constituted for a revenue village or a group of villages having a population of not less than 8,000 and not more than 12,000. Reservation of seats is made for women, SCs and STs. All the members are elected on a ward basis. There is no provision for co-option or nomination. However, where no person belonging to backward classes is elected to a Mandal Panchayat, the Zilla Parishad shall nominate two persons belonging to backward classes. The Mandal Panchayat shall elect two members to be Pradhan and Upapradhan. They are paid honoraria. It has an impressive list of functions which could be broadly divided into three groups; obligatory, discretionary and transferred. The Mandal Panchayat has to formulate the agricultural production plan and undertake promotion of educational, economic, social, cultural and other developmental aspects of SCs, STs and backward classes.

The Mandal Panchayat has a full time secretary appointed by the Zilla Parishad. Its activities are financed by the Government or the Zilla Parishad. Mandal Panchayat fund is constituted. Proceeds from tax on buildings, entertainment, market etc., are some of the other sources of revenue of the Mandal Panchayat. On an average, it appears, each Mandal Panchayat receives not more than rupees 5 to 6 lakhs in a year.

iv) Gram Sabha

In the new Act the Gram Sabha occupies a statutory base. Every meeting of the Gram Sabha will be presided over by the Pradhan of the concerned Mandal Panchayat. It meets twice a year to review developmental programmes of the villages.

The Act also provides the Institution of Nyaya Panchayats at the Mandal level. However, the government did not introduce the same for a period of five years so that the government could work out the details of the scheme.

In conclusion, it is observed that the new Panchayati Raj system in Karnataka has been a unique model. Elected bodies have been given primacy, political parties are allowed to contest the elections, anti-defection law has been enforced, financial support base is strengthened. It is said that the quantum of resources transferred to the Panchayati Raj Institutions has gone up from Rs. 3 crores to 800 crores. Finally, the experiment in institution building has taken a concrete shape and the display of political will has been witnessed in Karnataka.

Check Your Progress 4

Note : i) Use the space given below for your answers.
ii) Check your answers with those given at the end of the unit.

1) Write a short note on Zilla Parishad as existing 1985 onwards in Karnataka.

- 2) Write a short note on Taluka Panchayat Samiti as existing 1985 onwards in Karnataka.

21.6 LET US SUM UP

Thus it was decided appropriately that States would devise the Panchayati Raj Institutions suited to their local conditions. The most important issue being transfer of power to the people, we have to consider whether a particular pattern could achieve that. And we have noted that in States like Karnataka and Andhra Pradesh, a particular pattern was discarded and a new system was evolved. This is what is needed in the process of growth. Flexibility and not rigidity. In Maharashtra, we have noticed that the State had set up a Committee to go into the question of introducing democratic decentralisation. All these measures are very important in the growth of grassroot democracy.

21.7 KEY WORDS

Co-opted member : elected into body by votes of existing members.

Ex-officio : by virtue of one's office.

Standing Committee : A committee which is established to deal with a particular matter.

Statutory Committee : A committee which derives its authority from the statute enacted.

21.8 SOME USEFUL BOOKS

Inamdar, N.R., 1970. *Functioning of Village Panchayats*; Popular Prakashan : Bombay.

Jain, R.B. (ed.) 1981. *Panchayati Raj*; Indian Institute of Public Administration : New Delhi.

Mishra, S.N., 1977. *Pattern of Emerging Leadership in Rural India*; Associated Book Agency : Patna.

21.9 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

- 1) See Section 21.2
- 2) See Section 21.1

Check Your Progress 2

- 1) See Section 21.3
- 2) See Section 21.3

Check Your Progress 3

- 1) See Section 21.4 (i)
- 2) See Section 21.4 (iii)

Check Your Progress 4

- 1) See Section 21.5 (i)
- 2) See Section 21.5 (ii)

UNIT 22 PROBLEMS AND PROSPECTS OF PANCHAYATI RAJ

Structure

- 22.0 Objectives
- 22.1 Introduction
- 22.2 Problems faced by Panchayati Raj
- 22.3 Prospects of Panchayati Raj Institutions
- 22.4 Let Us Sum Up
- 22.5 Key Words
- 22.6 Some Useful Books
- 22.7 Answers to Check Your Progress Exercises

22.0 OBJECTIVES

After reading this unit, you will be able to :

- discuss the various problems faced by the Panchayati Raj;
- analyse the problems; and
- discuss the prospects of Panchayati Raj and suggest condition for its success.

22.1 INTRODUCTION

The working of Panchayati Raj Institutions since 1959 has been viewed as a success in a few states and a failure in most of the states. It means that the system has been experiencing ups and downs. The history of Panchayati Raj Institutions since 1959 could be conveniently divided into four phases : the phase of ascendancy (1959-64), the phase of stagnation (1965-69), the phase of decline (1969-83) and the phase of revival (1983-onwards). The overall attempts to revive the Panchayati Raj Institutions could be witnessed to the last phase when the Ashok Mehta Committee Report (1978) has evoked interest among the politicians and people alike in the year 1983.

Panchayati Raj is a state subject. Hence, each state is free to evolve its own system depending on local conditions, administrative convenience etc. As a result, we have a variety of Panchayati Raj Institutions throughout the country with all kinds of permutations and combinations. Their success or failure mostly depends on their structures, powers, functions, leadership, finances, control etc. A general review of the working of Panchayati Raj Institutions would provide valuable insight into the different aspects of these institutions. It may not be out of place to mention that in a country like India with its size and diversity, certain unevenness in performance is inevitable. Changes in different aspects of these bodies have been taking place as per the changing circumstances. But by and large, it would indicate that the activities of Panchayati Raj Institutions were meagre, their resource base weak, and overall attention given to them was halting. Thus, the functioning of these bodies presents a discouraging picture.

However, it would be wrong to conclude from the existing situation that Panchayati Raj Institutions have failed and their future is bleak. These institutions have certain achievements to their credit. Let us try to identify the problem areas and find out the remedial measures so that the institutions at the grassroot level would be able to fulfil the promises for which they have been created.

22.2 PROBLEMS FACED BY PANCHAYATI RAJ

There are a number of problems faced by the Panchayati Raj Institutions. We will discuss the causes in the following :

i) Conceptual Confusion

It is said, that basically, there is lack of clarity regarding the concept of Panchayati Raj and about the objectives for which the Institutions have been established. Over the years, the

concept has undergone some changes. Let us analyse the problem in detail. In the first instance, the concept of Panchayati Raj is very narrow as it was not viewed as an institutional framework which could play an important role in the overall development of rural masses. The present concept does not envisage even a single unit of Panchayati Raj Institutions as an instrument of planning as well as implementation agency of different rural development programmes. There is also lack of clarity about Panchayati Raj Institutions as agencies that can manage routine administration, infrastructure and bring about socio-economic welfare of the rural population. There are a multiplicity of agencies in the rural scene charged with the responsibility of undertaking a plethora of developmental activities.

Secondly, there is no clarity about the relationship between Panchayati Raj Institutions and the administrative organisation of the government. It is also clear that the administration has a dual responsibility i.e., towards state departments and towards Panchayati Raj Institutions. This has resulted in a lot of confusion and complications. Thirdly, there are a few who call the Panchayati Raj Institutions the "tools of democratic seed drilling in the Indian soil." In the process, the Panchayati Raj Institutions are dominated by socially and economically privileged sections in rural India who continue to dominate the poor people. For instance, people belonging to so-called higher castes, continue to dominate the people belonging to so-called lower castes. And benefits do not reach the people who are in real need. As a result, the Government has to intervene to provide the benefits to the poor through some other means. But many times, government officials pay attention to increase their own bank balance only. Further, the state control of Panchayati Raj Institutions in the rural development activities is increasing continuously. There is thus widespread confusion about the role of Panchayati Raj Institutions in rural development programmes.

Finally, there is no clear trend emerging in regard to the concept of power. There is a strong feeling that decentralisation of power and authority exists at the district level and down the lines. But at the same time, a number of central schemes and agencies, both in number and size have been emerging, independent of these bodies. It is paradoxical that all these concepts co-exist side by side leading to increasing confusion and conflicts in their working. We are not able to make out what kind of decentralisation we intend to introduce, develop and follow. This has led to a crisis of expectations all along the line.

ii) Structures

While establishing Panchayati Raj bodies, no uniform pattern is adopted for creating units and identifying the units of planning and development. This may not be a cause for failure but the structures that have been adopted by various state governments are just not capable of performing the role that is expected of them. The distribution of functions and powers a) among the Panchayati Raj Institutions, b) between the Panchayati Raj Institutions and State government and c) between the Panchayati Raj Institutions and the Central Government have not been made on the basis of any sound principle. There is a great deal of confusion, overlapping and sometimes duplication in the function. To some extent, Maharashtra, Karnataka and Gujarat have made some effort to demarcate the functions between Panchayati Raj Institutions and the state government. Rest of the states did not make any serious attempt in this direction.

Further, the expertise available to the Panchayati Raj Institutions is very limited particularly in the field of planning, implementation or monitoring of various developmental schemes. Thus the planning process suffered to a large extent. In fact planning at the grassroot level remains in paper while there is a strong tendency towards centralisation in the country. This is not a healthy sign. We can cite a number of programmes and agencies initiated by the state governments and the central government for rapid development. In these programmes, the Panchayati Raj Institutions have very limited role to play.

iii) Financial Resources

The most important problem faced by the Panchayati Raj Institutions is regarding finances. It is needless to mention that the quality and variety of activities which the Panchayati Raj Institutions are expected to perform will depend mostly on the resources at their command. The resource base would depend on the local economy and partly upon the allocations made by the state and central governments. As things stand today, the local economy is very weak. It means, the Panchayati Raj Institutions have a very limited scope to impose taxes in their jurisdiction. In India, there is centralisation of revenue resources which is a bone of contention between the centre and the states. Similarly, the financial system in the state is also of the same nature. The Panchayati Raj Institutions have to look towards the higher authorities for necessary grant. There is thus a real danger of imbalance between resources

and responsibilities since in the name of decentralisation, more and more functions are transferred to the Panchayati Raj Institutions. The centre or the states are not coming forward with the same vigour to transferring resources proportionately. Thus most of these bodies have to function in an atmosphere of lack of resources.

The states have an agency through which they get their statutory share in tax revenues which they get as a matter of right. The Panchayati Raj Institutions, on the other hand, do not get any share from the state shares. Whatever amounts they receive from the state are largely discretionary in nature. It is in this context that the demand for some statutory arrangements should be viewed to strengthen the resource base of these bodies.

iv) Socio-Economic and Political Conditions

The existing socio-economic structure of the Indian society is a major factor which is responsible for the limited success of Panchayati Raj Institutions. It is proved beyond doubt that the elected members at all the levels of Panchayati Raj Institutions and the Office bearers are normally from the rich and dominant sections of the rural society. They have vested interests in preserving the existing system and would not do anything that would strengthen the position of the downtrodden in their areas. In fact, it is said that the leadership of the Panchayati Raj Institutions acts as a "gate-keeper" to prevent the flow of benefits to the weaker sections of the rural community.

Although, reservation of seats at the different levels have been made in some states but the reservation concept has not been effectively adopted. For example, in our earlier lesson on patterns of Panchayati Raj, we have seen that in Karnataka, there is no provision of reservation to the key elective posts such as Chairperson, Vice-Chairperson or **Adhyaksha** and **Upadhyaksha** etc. It means, there is no possibility of mass participation of the poor in the developmental process in our hierarchically stratified society where the weaker sections are almost completely unorganised. The concept of participation of people in the process of democratic decentralisation is highly difficult under such conditions. It is necessary to point out that there may be stray instances of poor and downtrodden taking part in the developmental activities. Thanks to reservation of certain elective posts in states like Andhra Pradesh. But they are so very few. And so much has to be achieved in that direction.

v) Position of Civil Service

An efficient, adequate, responsive and committed administration is the essential condition of success of Panchayati Raj. The functions of these bodies are too many and too complex. There is a need for technical personnel, proper orientation and above all commitment in the civil service. The aspirations of the citizens in the rural areas are getting stirred. There is a demand for improvement in the services. We find a different and a difficult situation as far as civil services in India is concerned. The bureaucracy is getting alienated and has begun to by-pass these institutions. Several programmes have been introduced without involving Panchayati Raj Institutions in them. These programmes have become close preserves of bureaucracy, under-mining and frustrating the Panchayati Raj Institutions as units of representative bodies and local self-government.

We have pointed out earlier that the head of the district council is an officer from the All India Service i.e., IAS, who is assisted by other officers belonging to the states cadre. A number of studies have pointed out the strained relationship between the bureaucracy and the elected members of the Panchayati Raj Institutions. It is seen that there is mutual suspicion instead of mutual faith. The bureaucracy feels that the grassroot political executives try to strengthen their vested interests by flouting rules and regulations, while the members of the Panchayati Raj Institutions dislike the superior status of the civil servants. It is also pointed out that the officials are always loyal to their respective state departments and do not cooperate with elected members. There is some truth in both these arguments.

In the first instance, the ambiguity about the place of administration makes the officials and staff feel that they are primarily responsible (for results) to the state government and not to the local elected members. Secondly, the plans and programmes implemented by the administration come from above, state or central, or by the civil servants at the district level. The intervention of Panchayati Raj Institutions is not taken very kindly by the civil servants. This has led to dualism of civil service and lack of clear demarcation of the roles of civil servants has led to confusion and misunderstanding.

In this context it is necessary to point out that in Maharashtra and Karnataka, attempts are being made to demarcate the responsibilities of the administration between the state and the

Panchayati Raj Institutions. However, the hold of the state on the civil service is still intact since all the important positions are held by bureaucrats, belonging to All India Services of the state service.

vi) Lack of Political Support from the Top

The elite and the so-called higher levels generally do not provide political support to strengthen the democratic process at the grassroot levels. The Members of Parliament, State Legislatures always felt that the Panchayati Raj leadership would emerge as a threat to their position in their respective constituencies. The man on the spot with some power, however limited it might be, is always treated as a rival power centre. Therefore, every effort is made by the state and central leadership to weaken the powers and functions of the grassroot functionaries. And they always exhibit a negative attitude. The best example is the way in which the 64th Constitutional Amendment Bill on Panchayati Raj was introduced and defeated and finally shelved for the reasons extraneous to the development of local self-government institutions in the country. The 64th Constitutional Amendment Bill on Panchayati Raj is discussed in Section 22.3 (vi).

Thus, the potential of Panchayati Raj Institutions as centres of peoples' power aroused doubts among a few and jealousy among many. Elected representatives in the Parliament and State Legislatures saw with dismay their inevitable dependence on the Panchayati Raj functionaries with whom they are not willing to share power.

vii) State Control and Supervision

Since the Panchayati Raj Institutions fall under the state subject and are created by the state, there exists a superior-inferior relationship between the state and the Panchayati Raj Institutions. The state governments always tend to exhibit a high degree of paternalism. There is on the one hand a commitment for decentralisation of power and, on the other, its suspicion and fear that such power would be misused by the local bodies. As a result, a number of checks have been envisaged by the states in the statutes themselves.

The control exercised by the state over Panchayati Raj Institutions is of a comprehensive character. There is practically no subject relating to the Panchayati Raj Institutions, over which the state cannot exercise powers of control. With the result, in several states the rulers at the state level discovered a number of problems, real or imaginary, like structural weaknesses, organisational short-comings, functional deficiencies, inept performances, lack of adequate resources etc. As an ad hoc measure, the Panchayati Raj Institutions have been either suspended or superseded and quite often elections were deferred after the expiry of the term. On a number of occasions, an inconvenient office bearer is either suspended or dismissed by the state government under some pretext or the other. Thus, several short-comings have been highlighted and listed out by the states. It has become a regular feature in all the states and it needs corrective measures.

viii) Absence of Statutory Provision

The success or failure of an institution depends mostly on the status, on the basis of which an organisation is established. According to Article 40 of the Constitution, "The state shall take steps to organise village panchayats..." Since it is included in the Directive Principles of State Policy, (Chapter-IV) it is not mandatory. It means that the states may or may not constitute the Panchayati Raj Institutions. Similarly, in a number of states, elections have not been held regularly. The superseded bodies have not been revived and they were kept under the charge of special officers drawn from the civil service. Thus, the Panchayati Raj Institutions have been undermined with several constraints, particularly, the constitutional constraint which is a very serious matter.

Check Your Progress 1

Note : i) Use the space given below for your answers.
ii) Check your answers with those given at the end of the unit.

1) Why do the Panchayati Raj Institutions face problems regarding finances?

- 2) How does the socio-economic structures of India hamper the growth of Panchayati Raj Institutions?
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- 3) What type of relationship exists between the state government and the Panchayati Raj Institutions?
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22.3 PROSPECTS OF PANCHAYATI RAJ INSTITUTIONS

It would, in fact, be wrong to conclude from the above discussion that the Panchayati Raj Institutions have failed completely and that they have no future. Such a pessimistic view is not shared by many. As stated repeatedly, there is no substitute for democratic decentralisation in a developing country such as India. Panchayati Raj has come to stay as a part of democratisation of Indian polity in the wake of independence. The fact of the matter is that the Panchayati Raj Institutions have not been given a chance to serve as a vanguard of development in the rural areas of India. With necessary correctives, the basic objectives could be achieved without much of a difficulty. Let us try to list out some of the preconditions which appear to be necessary for the success of Panchayati Raj Institutions.

i) Conceptual Clarity

The first and foremost important aspect that needs immediate attention is that of evolving a comprehensive concept of Panchayati Raj. Its goal, role etc., have to be clearly defined and there should not be any ambiguity, so that the people would have a clear perception of Panchayati Raj Institutions. The following important roles may be taken a serious note of, for this purpose. Firstly, the Panchayati Raj Institutions should be treated as the basic units of self-government. It implies that there is a need for decentralisation of administrative and political power. This would encourage self-governance and mass participation in its working. Secondly, the Panchayati Raj Institutions have to contribute towards strengthening of the planning process at the micro-level as well as overall development. Finally, the Panchayati Raj Institutions have to improve the condition so that the down trodden can reach the highest level of decision-making bodies.

ii) Protection of the Poor

In addition to conceptual clarity, it is necessary to strengthen the condition of the poor to protect them from the rural rich and their dominance. It is clear that the existing power structure in the rural areas is mostly in favour of rich who would exploit the poor. After all, the efforts made by all in the rural areas were directed mainly to improve the conditions of the weaker sections. If the benefits of the Panchayati Raj Institutions have to reach the poor and if the poor are to be associated with the Panchayati Raj Institutions, it is necessary to strengthen their position by adopting certain measures. It is necessary to identify the areas of dependence of the poor and find measures to stop exploitation. Streamlining the public distribution system, social security measures, employment guarantee schemes, organisation of the rural poor are some of the measures which could be mentioned in this context. In addition, redistribution of assets in favour of the poor by implementing land reform laws and creation of assets to the poor could be another set of measures which would go a long way in preventing dependency of the poor on the rural rich.

iii) Awareness among Panchayati Raj Functionaries

It is generally realised that the Panchayati Raj functionaries do not have sufficient knowledge about their new role. They are ignorant of several aspects of Panchayati Raj system. It is, therefore, necessary to provide an opportunity to them to know about the Panchayati Raj Acts, the objectives and role of Panchayati Raj Institutions, the rural situation, possible areas of growth and minimum skills of planning for overall development of their respective areas. It is necessary to train them so that they could perform their functions effectively. This would also help them to minimise the citizen's apathy towards the Panchayati Raj activities.

iv) Financial Support

There is a need for sound financial base for the Panchayati Raj Institutions. The establishment of a Panchayati Raj Finance Corporation could be the first step. This would enable the Panchayati Raj Institutions to establish remunerative enterprises. Enlarged tax jurisdiction, sharing of revenue from selected state taxes and grants are the other possible alternatives to achieve the long-term objective.

However, there is a growing demand for an institutional arrangement through which the distribution of the finances among the Panchayati Raj Institutions have to be made without further delay. A rational redistribution is necessary. It is in this context that we have to draw lessons from Karnataka model. As per the 1985 Act, the State Governments in Karnataka has to organise a State Finance Commission to workout the distribution of finances between the state and the Panchayati Raj Institutions. This step would go a long way in solving the financial problems of the Panchayati Raj Institutions.

It does not, however, mean that the Panchayati Raj Institutions need not bother about their own resource base. The thesis that "no taxation, only representation" is not a wise policy. The Panchayati Raj Institutions have to make serious attempts to tap the local resources.

v) Integrated Administrative Structures

There is a need for remodelling the administrative organisation of Panchayati Raj Institutions. It is necessary that all the officials whose functions have been shifted to Panchayati Raj Institutions have to be placed under the respective institutions. It calls for a separate service called Panchayati Raj service. It is also necessary to see to it that the bureaucracy is committed to Panchayati Raj. In fact the Panchayati Raj Institutions should be provided with necessary administrative help which has a primary loyalty towards them. The dual responsibility of the present day system should end. The concept of specialisation should be introduced so that the technical needs of the Panchayati Raj Institutions could be met without any problem.

It will not be out of place to mention that appropriate measures should be taken to protect the civil servants from undesirable political pulls and pressures. The power to transfer, promote, etc., are the vulnerable areas in the rural scene. Therefore, adequate safeguards have to be provided in this direction.

An integrated administrative structure, thus, becomes very essential. The Karnataka, Maharashtra and to some extent Gujarat have made provision for such an arrangement. Almost all the committees which studied the problem have unanimously recommended that an administrative structure for planning and development and the same should be integrated with the Institutions of local self-government.

vi) Provision for Constitutional Status

Finally, let us look at the attempts made in recent times to provide Constitutional status to the Panchayati Raj Institutions. It is observed that the states are not very keen to organise Panchayati Raj Institutions as they are not prepared to share power with so-called lower local bodies. In fact, some critics pointed out that some state governments have grabbed the power back from the Panchayati Raj Institutions gradually. Several committees and commissions, appointed by the state governments from time to time highlighted the deficiencies in the functioning of Panchayati Raj Institutions. It is also felt that the Panchayati Raj Institutions in the coming years should be well-quipped to manage democratic development under the changing conditions in all spheres of rural life. Realising the need to restructure and revitalise these bodies, the Government of India came forward with a proposal to amend the Constitution.

- a) All states will have three tier Panchayati Raj system;
- b) Elections will be held regularly, every five years, under the control and supervision of the Chief Election Commissioner. Elections to the dissolved or superseded bodies will have to be held within six months.
- c) All the seats will be filled through direct election and office bearers will be members directly elected.
- d) Reservation of seats to the extent of 30 per cent to women and seats for scheduled castes and scheduled tribes in proportion to their population will be made.
- e) The State governments will provide adequate finances. State Finance Commissions will review the finances of the Panchayati Raj bodies every five years.
- f) Panchayati Raj bodies will prepare plans for economic development, social justice and social welfare of their population as per the guidelines. These plans will be incorporated later on in the state plans.
- g) Strict accounting procedures would be laid down to control corruption and misuse of funds by the Panchayati Raj Institutions. Comptroller and Auditor General will supervise the accounts.

The Bill generated a lot of heat and light. There were arguments in its favour and counter arguments against it. However, after getting the approval in the Lok Sabha, the bill failed to become an act as it failed to get the required support in the Rajya Sabha.

Nevertheless, the amendment is a welcome measure since there are several provisions which are desirable and contain positive points. However, critics have identified a few hidden provisions which would ultimately result in more centralisation rather than promote decentralisation. Let us examine them briefly.

It seems the proposed amendment would increase the powers of the centre at the cost of state governments. First of all, the amendment proposed to take away the Panchayati Raj out of the state list and put it in the concurrent list so as to allow the centre to pass legislation in this area. Secondly, holding election under the supervision and guidance of the Chief Election Commissioner would give more powers to the Central Government. Giving funds for centrally sponsored schemes directly to the Panchayati Raj Institutions is another aspect which would not only ignore the states but also provide a link between the centre and the Panchayati Raj Institutions. Finally, the governor will be the authority to exercise the power to dissolve, supersede or suspend Panchayati Raj Institutions. This will also increase central control over local bodies.

It is seen that the Amendment goes much more beyond the required level of central intervention. The amendment touches upon a few aspects of the preconditions necessary for the success of Panchayati Raj Institutions. However, in the bargain the centre tried to reduce the power of the states and enhance the powers of the centre. It is not a healthy sign. It not only strengthens the present trend of over-centralisation of power but also endangers the federal character of the nation. Finally, there is no guarantee that centralisation leads towards more decentralisation at the grassroots level.

Nevertheless the need for appropriate steps to strengthen the Panchayati Raj Institutions has been well appreciated by one and all. It needs to be seen as to how the centre and states would take up the matter in future and revitalise the Panchayati Raj Institutions as real centres of decentralised democratic institutions.

Check Your Progress 2

Note : i) Use the space given below for your answers.
ii) Check your answers with those given at the end of the unit.

- 1) What measures are to be taken to protect the poor?

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- 2) What steps are to be taken to create awareness among the Panchayati Raj functionaries about their new role?

3) How can the financial problem of the Panchayati Raj Institutions be resolved?

22.4 LET US SUM UP

We have discussed various problems faced by the Panchayati Raj Institutions. The basic purpose of Panchayati Raj Institutions has not yet been achieved. The problem would not end by making the Panchayati Raj Institution economically self-sufficient and structurally sound. The most important aspect is change at the attitudinal pattern. Otherwise, decentralisation would remain only in paper. And in actual practice, there would be concentration of power in the hands of those people who have money and who want to use the institution for making more money. It would take many more decades to reach a stage when people are at least aware of their own rights. And when they would not let others to exploit them. There would be a healthy atmosphere where each would grow but not at the cost of others. Panchayati Raj Institutions have come to stay in India but to achieve success, we have a long way to go.

22.5 KEY WORDS

Alienated : Here, it is used in the sense of being uninvolved.

Hierarchically stratified society : Society classified into various gradations on the basis of caste, economic power.

Mandatory : Compulsory.

22.6 SOME USEFUL BOOKS

Abraham M. Francis, 1974. *Dynamics of Leadership in Village India*; India International Publications : Allahabad.

Cheema, Shabir, G & Rondinelli A. Dennis (ed.), 1983. *Decentralisation and Development*; Sage Publications : New Delhi.

Chaudhuri Ranji, 1972. *Problem of Village Leadership*; Institute of Political & Social Studies : Calcutta.

Reddy, Ram G. (ed.), 1977. *Patterns of Panchayati Raj in India*; Macmillan : Delhi.

Samiuddin, Abida, 1976. *A Critique of Panchayati Raj (with special reference to Uttar Pradesh)*; Sahitya Bhavan : Agra.

22.7 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

- 1) See Section 22.2 (iii)
- 2) See Section 22.2 (iv)

Check Your Progress 2

- 1) See Section 22.3 (ii)
- 2) See Section 22.3 (iii)

UNIT 23 ROLE OF VOLUNTARY AGENCIES

Structure

- 23.0 Objectives
- 23.1 Introduction
- 23.2 The Concept
- 23.3 Evolution
- 23.4 Methods of Voluntary Action
- 23.5 Role of Voluntary Agencies
- 23.6 State and Voluntary Agencies
- 23.7 Identification of Voluntary Agencies
- 23.8 Identification of Programmes
- 23.9 Profile of Voluntary Agencies
- 23.10 Let Us Sum Up
- 23.11 Key Words
- 23.12 Some Useful Books
- 23.13 Answers to Check Your Progress Exercises

23.0 OBJECTIVES

After reading this unit, you will be able to :

- discuss the meaning and evolution of voluntary agencies;
- explain their role and methods; and
- identify voluntary agencies and their programmes.

23.1 INTRODUCTION

Voluntary agencies have been playing an important and significant role in the rural areas of India. The voluntary action covers a wide range of activities such as charity, welfare, relief and rehabilitation, provision of services, socio-economic development of rural poor, human resource development etc.

Rural societies, such as in India, need a steady and continuous help and support from different sources in order to transform the rural communities from a state of abject poverty to a reasonable level of development. Panchayati Raj Institution is an institutional expression of participation through formal involvement of people in the developmental process. There would be many who would be outside this formal structures and yet would participate in or activate a developmental project. Thus the efforts of the formal agencies and voluntary organisations, which are outside the formal structure, should be judiciously merged so that the ultimate goal of rapid rural development would become a reality. The intensity, motivation, and direction of the efforts of the voluntary agencies, however, need further analysis. We have already explained the role of Panchayati Raj Institutions in transforming the rural areas. In this lesson, the concept of voluntary organisations, the motivation, methods adopted, the role, relations with government etc. will be discussed.

23.2 THE CONCEPT

The term "voluntarism" is derived from the Latin word 'Voluntas' which means will. The will assumes various forms of impulses, passions, appetites or desires. It is the will that may produce some of the social evils, of which the unfortunate sections of the society are the victims. That has to be eradicated.

Inequality among individuals is a perennial source of motivation for voluntary action in every society. Social services are initiated to help eradicate the inequality and to uplift the under privileged. The term volunteer is normally used to denote some one who offers unpaid service to a good cause. Every voluntary effort is the product of the blood, sweat and

of focus in all types of such associations. Philanthropy appears to be an essential motivating factor in the voluntary action. When a sense of social responsibility is being inculcated in the individuals, they take up various steps to improve the condition of the people all around. Life and Writings of persons like Marx and Gandhi have always been the motivating factors.

The term voluntary association is variously defined. Michael Banton defined it as a group organised for the pursuit of one interest or of several interests in common. David L. Sills identified it as a group of persons, organised on the basis of voluntary membership without state control, for the furtherance of some common interest of its members. Lord Bevridge has defined a voluntary organisation as "one which, whether its workers are paid or unpaid, is initiated and governed by its own members without external control".

There are four essential elements in any voluntary association: a) method of formation, which is voluntary on the part of a group of people, b) method of government, with self-governing organisation to decide on its constitution, its servicing, its policy and its clients, c) method of financing, with at least some of its revenues drawn from voluntary sources and d) motives of profitexcluded. Organisations having all the four elements are rare and perhaps are only the ideal forms.

It is necessary to point out that voluntary organisations and non-official organisations are not one and the same. There are several differences between the two. Voluntary agencies are spontaneous in their origin and sometimes oriented towards a specific situation. This is their strength. They bring in high motivation, better management skills, and greater sensitivity to field problems. On the other hand, the non-official agencies may be state sponsored and last as long they receive support, finances etc., from the state. This is initiated by the state. Therefore, all non-official organisations need not necessarily be included in the category of voluntary organisations. But in both these organisations, there is a scope for involvement of enlightened individuals who are involved to serve the cause.

Further, voluntary agencies are supposed to be potentially superior to official agencies in the following respects;

- i) their workers can be more sincerely devoted to the task of reducing the suffering of the poor than government staff;
- ii) they can have a better rapport with the rural poor;
- iii) since they are not bound by rigid bureaucratic rules and procedures, they can operate with greater flexibility;
- iv) their efforts are more economical; and
- v) they can motivate more public participation in developmental efforts than the government departments.

23.3 EVOLUTION

The evolution of voluntary organisations in India could be traced to the last decades of 19th century when a deliberate, systematic and an organised attempt was made in the field of rural transformation. Initially, it was the religious missionaries who took the lead to spread their religious preachings in the inaccessible parts of the country. However, a series of experiments in the field of rural development were initiated only during the early decades of the present century : the prominent among them being Sriniketan by the poet Rabindranath Tagore. Rabindranath Tagore had set up SRINIKETAN, an extension of his university Shantiniketan. SRINIKETAN was specially meant for the purpose of rural reconstruction, where rural women were trained in the craft of making quilts. The father of the nation, Mahatma Gandhi, initiated the process of transformation of socio-economic life at Sevagram around 1931. Thus, several voluntary organisations, small and large, have contributed significantly to the principles of rural development through voluntary action prior to independence. The Constitution of voluntary agencies has been well appreciated by policy makers and administrators after Independence. The plan documents made a reference to the positive aspects of the functioning of these organisations. According to the First Five Year Plan "A major responsibility for organising activities in different fields of social welfare like the welfare of women and children, social education, community organisation

working in their own humble way and without adequate aid for the achievement of their objectives with their own leadership, organisation and resources." Since, then, the successive Five Year Plans have noted the role of the voluntary agencies. In fact, there has been an increase in grant-in-aid from a mere Rs. 4 crores during the First Plan to Rs. 150 crores during the Seventh Plan. The Seventh Plan envisaged a crucial role for the voluntary agency, as an alternative monitoring machinery of the bureaucracy in reaching the poor as early as possible. Thus, the plan documents recognised a much wider role of the Non-governmental organisations (NGOs), particularly poverty amelioration 20 point programme which is the major thrust of the Government of India.

23.4 METHODS OF VOLUNTARY ACTION

Voluntary organisations in India have adopted diversified methods for development. The method largely depends on the mode of approach and also on the aim of the organisation. It includes community organisations, social action, extension education, training. In fact, in all these activities, some of the voluntary agencies have adopted appropriate latest techniques of preparing projects of their programmes with definite goals, based on the needs of the target group. Some of them even serve as consultancy bodies.

Community organisation is one of the methods of working with the people and is based on the principle of scientific social work. It concentrates on development of certain aspects, such as development of local leadership from among the community, development of institutions in the rural areas, capable of handling their affairs, and development of internal resources. In this way, through social action, people are not merely made aware of the problem but are enabled to organise themselves for collective action to change the situation. A few voluntary agencies have taken up the responsibility of educating the rural poor so that they would refuse to accept a system that perpetuates injustice and would struggle together for the establishment of a just society.

In recent times, a new set of voluntary agencies have come into existence the main objective of which has been to organise the peasants and workers. Some of these organisations have taken an aggressive confrontational stand, seeking to bring about radical changes in social relations of production. Some of the voluntary organisations have been adopting the technique of conscientisation, as part of the non-formal education process in working with the rural poor. The concept of conscientisation is advocated by Paulo Freire. It is a human and non-manipulative process of consciousness-raising education that will enable the poor to become aware of their socio-economic and political environment. This would help the poor to become aware of causes of their exploitation and poverty. It will also provide them an opportunity to know their strength and weaknesses of their own inherited culture and traditions and of their own capacity and inherent power to change this environment and their position in it.

There are other methods like extension approach in which results of science and technology are disseminated to the rural population for its appropriate application. The method is identified mostly with agriculture. In recent years, it has been adopted in other areas like health, sanitation, nutrition, rural industries etc. Some voluntary bodies have utilised education as a method of improving the capacity of rural people for self-reliance and developing their motivations, opportunities and capacities to learn.

Training, as an essential input in rural development, has been made use of by some voluntary organisations. It is adopted mainly to develop the technical skills, and knowledge of the client groups for self-employment. Some voluntary agencies have technical infrastructure facilities to provide necessary scientific training particularly in the field of self-employment schemes. The analysis is not exhaustive since there are a variety of methods adopted by different groups depending on their aims and objectives. What we have explained so far relates to certain socio-economic activities of the voluntary agencies in the context of rural development.

In the light of the above description, it is possible to classify the work of the voluntary agencies in the following broad categories :

- i) "The Techno-Managerial Agencies" the main concern of which is rural development

- ii) "Reformist Voluntary Agencies" which try to bring about changes in the social and economic relationship within the existing political framework
- iii) "The Radical Voluntary Agencies" which seek to challenge the existing production relations. Their attempt is to organise the exploited against the exploiters.

Check Your Progress 1

Note : i) Use the space given below for your answers.
ii) Check your answers with those given at the end of the unit.

- 1) Write a short note on the evolution of voluntary agencies in India.

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- 2) What are the various methods of voluntary action?

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23.5 ROLE OF VOLUNTARY AGENCIES

There is no doubt that voluntary agencies have been playing a pioneering role in rural development activities. They have also exhibited the qualities of flexibility of service, personal touch and proximity to the clientele. In addition, they have demonstrated the capacity to initiate and experiment with new programmes and showed sensitivity to meet difficult problems in ways that cannot be adopted by the state. However, it is necessary to envisage the following role for these bodies in the context of village base organisations.

- a) The voluntary agencies have to supplement and not to compete with government efforts. The government should not consider their activities as duplication.
- b) They act as eyes and ears of the people at the rural level and act as a source of reliable feedback to government so that it can design the policies and programmes accordingly.
- c) It is possible for the voluntary agencies to reach a large number of people and set an example for others.
- d) Voluntary bodies, quite often, take initiative in the implementation of certain acts such as Minimum Wages Act, Abolition of Bonded Labour Act etc., in letter and in spirit. Through public interest litigation and administrative measures, these bodies could activise the system and make it respond.
- e) Dissemination of information is another potential area in which the voluntary agencies is of immense use. It is quite often seen that information regarding various schemes, programmes projects etc., do not reach the rural poor. Information is power and the role of the voluntary body is to distribute such power and make it accessible to the rural poor.
- f) Voluntary sector has been in the forefront in utilising rural skills and talent. Further, it is possible to minimise the dependency syndrome through various methods and a sense of self-reliance has to be instilled among the villagers.

23.6 STATES AND VOLUNTARY AGENCIES

The relationship between the state and voluntary agencies is an essential aspect which deserves our attention for a detailed analysis. The task of rural upliftment is so gigantic that

it has generally been accepted that government alone cannot tackle the problem of poverty, unemployment and provisions of basic minimum needs to people living below poverty line. The strategies adopted by the voluntary agencies necessarily have to be different from those followed by the government. The goals of both are identical but the approaches are different. Thus, we find a basic difference in the approaches and models. The development of infrastructure is a pre-requisite as per government is concerned. It is secondary to the voluntary agencies. Voluntary agencies believe in the development of human beings, make them aware of their rights and duties, of schemes and programmes, of rules and regulations.

In any case, the mode of relationship between the voluntary agencies and government may be categorised under the following heads :

- 1) there is considerable scope to associate voluntary agencies with the formulation of development plans and entrusting them with the implementation of some of the developmental programmes;
- 2) providing administrative support and encouragement to voluntary agencies in the implementation of their programmes;
- 3) regulation of flow of funds from the international, national and state level agencies and their proper accountability is another factor of considerable importance.

Check Your Progress 2

Note : i) Use the space given below for your answers.
ii) Check your answers with those given at the end of the unit.

- 1) Cite two instances where voluntary agencies can play an effective role in the context of rural development.
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- 2) What is the relationship between voluntary agencies and the state?
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23.7 IDENTIFICATION OF VOLUNTARY AGENCIES

It is very difficult to gather data of voluntary agencies. Their number, location, nature of activities and functioning, strategies adopted are difficult to locate. In addition, a few other factors such as their limited span, inadequate communications and sometimes un-ostentatious disposition of some organisations could be cited as impediments in the collection of data. More than the above mentioned difficulty the apathy of the government, both central and the states, till Sixth Plan period have also come in the way of maintaining sufficient information base of the voluntary organisations. However, during the Sixth Five Year Plan period, the government of India made serious attempts for the first time to draw up a set of terms of reference on how to identify rural voluntary agencies. It is estimated that at present there are more than 10,000 voluntary agencies, engaged in various welfare and developmental work compared to 1,739 in 1953, showing a phenomenal five-fold increase in the number.

In view of their increased participation in the rural development programmes, the Seventh Five Year Plan has recognised the important role played by the voluntary agencies and

However, the plan document laid down the following criteria for identifying voluntary agencies for enlisting their help.

- 1) The organisation should have a legal entity;
- 2) It should be based in a rural area, and should be working there for a minimum period of three years;
- 3) It should have broad based objectives serving the social and economic needs of the community as a whole, and mainly the weaker sections. It must not work for profits but on a no-profit-no-less basis;
- 4) Its activities should be open to all citizens of India irrespective of religion caste, creed, gender or race;
- 5) It should have the necessary flexibility, professional competence and organisational skills to implement programmes;
- 6) Its office bearers should not be members of any political party;
- 7) It must declare that it will adopt constitutional and non-violent means for rural development process;
- 8) It must be committed to secular and democratic concepts and methods of functioning.

The above mentioned criteria has been prescribed since some of the voluntary bodies have not been able to divorce it from party considerations, profit motive, for office of power and other sectarian considerations. Where the voluntary agencies have not been able to keep their identity, the spirit of volunteerism suffered.

23.8 IDENTIFICATION OF PROGRAMMES

The Seventh Plan document provided a separate section on involvement of voluntary agencies and included it in the chapter on Rural Development. It was done deliberately for the first time because the government wanted to shift the focus of the traditional image of these bodies to the non-traditional, professional managerial and technological image of rural development where voluntary agencies also have a substantial contribution to make. Identification of programmes becomes essential since a substantial amount has been earmarked to be allotted to these bodies. This way, the government recognised the need to mobilise small village groups. The programmes, in which these voluntary village groups were involved in the Seventh Five Year Plan period, were :

- 1) Integrated Rural Development/Rural Landless Employment Guarantee Programmes;
- 2) Implementation of land ceilings and distribution of surplus land;
- 3) Enforcement of minimum wages to agricultural labourers;
- 4) Identification and rehabilitation of bonded labourers;
- 5) Supply of safe drinking water; repair and maintenance of water supply system with community support;
- 6) Afforestation, social forestry, development of bio-gas and alternative energy sources (Solar, Wind, Energy, Smokeless Chulas, etc.);
- 7) Promotion of family planning;
- 8) Primary health care; control of leprosy, T.B., Blindness; and preventive health programme using village resources;
- 9) Programmes for women and children in rural area;
- 10) Innovative methods and low cost alternatives in elementary primary and middle school education for children, adult education and non-formal and informal education;
- 11) Consumer protection, promotion of cooperatives;
- 12) Promotion of handicrafts and village and cottage industries;
- 13) Promotion of science and technology;
- 14) Legal education;

- 15) Rural Housing—improvement of rural slums;
- 16) Environmental ecological improvement; and
- 17) Promotion and encouragement of traditional media for dissemination of information.

The Seventh Plan document also envisaged that there is a need for voluntary agencies to decide on a code of conduct to be applicable to those agencies seeking government funds. The plan document, thus, for the first time made a serious attempt to regulate the role, areas, financial assistance to these agencies.

23.9 PROFILE OF VOLUNTARY AGENCIES

As functions of the state increase, voluntary agencies also come up in large numbers according to the exigencies of the situation. The number of people living in poverty has increased and landlessness has become more widespread, while popular participation in the process of development remains minimal. It is hoped that voluntary agencies would be able to achieve certain objectives like greater social equity, eradicating various kinds of exploitation. It is rather difficult to prepare an exhaustive profile of voluntary agencies in India. Their number being around 10,000 the problem becomes enormous. Yet a brief description of a few would not be out of place by way of illustration.

Voluntary agencies, with or without government support, such as Bharat Krishak Samaj, Young Farmer's Association of India, Action for Food Production, Appropriate Technology Development Association, Social Work and Research Centre etc., have been mostly engaged in the area of agriculture and allied fields. The Arya Samaj, Rama Krishna Mission, Sai Service Society, the Servants of India Society have been undertaking several educational and social service activities. Baba Amte, Manibhai Desai, Sunder Lal Bahuguna fall under the category of idealistic organisations whose main objective is to protect the environment from the reckless deforestation and denudation. There are many women's organisations all over India which are creating awareness among people regarding various oppressions which are being faced by women. For instance, unequal treatment of women, dowry, dowry deaths. These evils are being paid attention due to the effort of these women's organisations. They not only create awareness but also attempt to get the culprits punished. Several Christian Missions, Andhra Mahila Sabha, concentrate their activities in educational and medical work. Voluntary agencies such as Pandu Mevas Development Agency, Society for Education Welfare and Action Rural, Bharat Sevak Samaj, Association of Voluntary agencies for Rural Development, Gandhi Peace Foundation, Bhagavatula Charitable Trust mainly concentrate on integrated rural development programmes. There are a few agencies specially focusing on Tribal and Harijan Welfare. They are Harijan Sevak Sangh, the Comprehensive Rural Operations Service Societies (CROSS), Bharatiya Adimajati Seva Sangh, Banavasi Seva Mandal etc.

It is pointed out by many that the real awakening for the present large-scale voluntary action has come from the world wide relief efforts which have been initiated in India in 1965-66. There are, today, many voluntary organisations at the international level working for the rural cause. The prominent among them are OXFAM, Christian Aid, Catholic Relief Services, War on Want, Save the Children Fund, Bread for the World etc. The foreign donations have come to occupy an important place in the working of voluntary agencies. It is pointed out that in 1986 about Rs. 350 crores have been received from foreign donors. The four southern states, Tamil Nadu, Kerala, Andhra Pradesh and Karnataka, receive the largest amount as there are a large number of Christian Missions doing charitable work in these states.

Check Your Progress 3

Note : i) Use the space given below for your answers.
ii) Check your answers with those given at the end of the unit.

- 1) What are the various criteria, laid down by the Seventh Five Year Plan, for identifying voluntary agencies?

- 2) Write a short note on the type of work the voluntary agencies do in the task of rural development.

23.10 LET US SUM UP

In this lesson, various issues have been analysed. A number of issues and problems indicate the wide ranging scope of the subject. Voluntary action is looked upon by many as an instrument of mass mobilisation or involvement of large number of people and, thus, help to reduce the chasm between the 'governed' and the 'governors'. Voluntary action in partnership with the government is an important issue. The presence of healthy atmosphere and goodwill between government and voluntary agencies is a basic prerequisite to strengthen good relations between the two. At present, there appears to be mutual suspicion and lack of trust in each other. On several occasions, voluntary agencies have been valued so long as they function within the existing "order" and follow directives of government. Any agency that questions the existing order is normally treated as a subject of law and order problem, demanding repressive action. A proper measuring norm has to be developed to assess the working of voluntary organisations in this country.

Apart from this, distribution of funds remain a controversial and sensitive subject. It became acute when funds came from international bodies. Some critics point out that the foreign donors use these voluntary bodies, to whom they donate money, as clever ploy to weaken the power of the state as a part of the large game of global power politics. Further, selflessness and selfishness cannot always be distinguished easily. Organisations, functioning at different levels in different areas, suffer from lack of coordination. In spite of these and other problems, with their uniqueness of the operational abilities, the voluntary agencies have a crucial role to play in rural transformation.

23.11 KEY WORDS

Just Society : A society where there is no exploitation, where people are all being treated equally.

Land Ceiling : Limit is put to one's possession of land.

Surplus Land : Land which is in excess of what is needed or used.

23.12 SOME USEFUL BOOKS

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Kramer, Ralph M, 1989. *Voluntary Agencies in the Welfare State*; University of California Press; London.

Shah Kalpana, 1984. *Women's Liberation and Voluntary Action*; Ajanta; New Delhi.

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Bhattacharya, Mohit., 1987. "Voluntary Associations Development and the State"—*Indian Journal of Public Administration*; Vol. 33, July-Dec., page 383-94 : IIPA

Chaturvedi, H.R, "Role of Voluntary Organisations in Rural Development", *Indian Journal of Public Administration*; Vol-33, July-Dec., page 533-46 : IIPA

Maheshwari Shriram,1987. "Voluntary Action in Rural Development", *Indian Journal of Public Administration*; Vol 33, July-Dec., page 559-68 : IIPA

Muttalib, M.A. 1987. "Voluntarism and Development—Theoretical Perspective", *Indian Journal of Public Administration*; Vol-33 July-Dec., page 399-419 : IIPA

23.13 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

- 1) See Section 23.3
- 2) See Section 23.4

Check Your Progress 2

- 1) See Section 23.5
- 2) See Section 23.6

Check Your Progress 3

- 1) See Section 23.7
- 2) See Section 23.9

UNIT 24 CO-OPERATIVES AND DEVELOPMENT

Structure

- 24.0 Objectives**
- 24.1 Introduction**
- 24.2 Concept of Co-operation**
- 24.3 Definition**
- 24.4 Objectives of Co-operative Movement**
- 24.5 Models of Co-operatives**
- 24.6 Kinds of Co-operatives**
- 24.7 Co-operatives and Panchayati Raj Institutions**
- 24.8 Let Us Sum Up**
- 24.9 Key Words**
- 24.10 Some Useful Books**
- 24.11 Answers to Check Your Progress Exercises**

24.0 OBJECTIVES

After reading this Unit, you will be able to :

- understand the objectives of co-operative movement;
- discuss the models and kinds of co-operatives societies; and
- explain the importance of co-operatives in the context of development.

24.1 INTRODUCTION

In all the countries of the world, several methods have been initiated, organised and directed towards realising socio-economic and political development. The co-operative movement has been recognised as one of the important means for development not only in the developing societies but in the socialist and also in the western industrial societies. Through co-operative movement, the different requirements of the individual and the society are sought to be met. Therefore, co-operative movement has emerged as a very powerful system throughout the world. The history of co-operative movement in India began in 1904 with the enactment of Co-operative Credit Societies Act. The main purpose was to make provision for granting credit to the farmers for agricultural activities. Though the main emphasis of the co-operatives is still on rural credit, there has been a massive diversifications of credit to different sectors of the society. Today, there are co-operatives in the field of housing, dairy, labour, fisheries, industries, transport, consumer, etc. In fact, we have co-operatives almost in every walk of life.

With the launching of the Five Year Plans after Independence, co-operatives came to occupy an important place in the national economic policy and a major form of organisation in almost all sectors of economic activity, specially in the rural areas. In all the Five Year Plans, the co-operatives have been assigned a key role in development. It is in this context that we would like to recall the statement on the co-operatives in the Third Five Year Plan document. It says "In a planned economy pledged to the values of socialism and democracy, co-operation should become progressively the principal basis of organisation in many branches of economic life, notably in agriculture and minor irrigation small industries and processing, marketing, distribution, supplies, rural electrification, housing and construction and provision of essential amenities for local communities... Thus, a rapidly growing co-operative sector with special emphasis on the needs of the peasant, worker and the consumer become a vital factor for social stability, for expansion of employment opportunities and for rapid economic development."

The Indian co-operative movement, thus, has emerged today as the largest in the world with more than three lakh societies of different kinds and a membership of 12.5 crores. The total credit disbursed through co-operatives stand approximately at 4,500 crores. It has become possible for the co-operative sector to cover, in India, 97 per cent of villages and 88 per cent

24.2 CONCEPT OF CO-OPERATION

The concept of co-operation existed ever since the existence of human life. However, in the primitive societies, its necessity was limited since the life of an individual was simple with few wants. In those days, co-operation was mostly related to cultural, religious and social aspects. It was a way of life and was more of an informal nature. Thus in primitive society, co-operation had become an integral part of the society.

The concept underwent an enormous change from ancient times till today. The needs of the individual and the society increased. Modern person is dependent on nature and fellow-beings. In addition, interdependence has become a way of life. It is the co-operation through which it is possible to achieve peace and prosperity.

The modern concept of co-operation is the result of Industrial Revolution which brought in a series of changes in the method of production in Europe, especially in Great Britain. The Industrial Revolution paved the way for the division of society into two classes, namely, the capitalist class and the working class. In its greed for more profits, the owners of the industries started exploiting the labourer. They were paid lower wages. They were used for producing money and more money. They were being treated inhumanly. It was during this time that social reformists like Robert Owen gave thought to the formulation of a new philosophy which ultimately led to the birth of co-operative movement. Robert Owen (1771-1859) was a British Industrialist and Philanthropist and he was the pioneer of the co-operative movement.

The Co-operative movement is an economic concept and is of a formal nature. It is a distinct form of business activity in which people have primacy whereas a secondary role is assigned to the capital. Thus, the Co-operative movement provides an opportunity to the economically deprived sections to live in better conditions.

24.3 DEFINITION

Co-operative movement is a broader phenomenon which means different things to different people. Hence, it is very difficult to provide here a precise definition. There is no unanimity about the definition of co-operation since conditions and circumstances differ from place to place. Since it is a dynamic concept which has evolved with time and experience, there is no single definition which provides all the necessary ingredients of the Co-operative movement. However, we will attempt a few which all provide us with some broad idea of Co-operative movement.

According to Lambert "a co-operative society is an enterprise, formed and directed by an association of users, applying within itself the rules of democracy and directly intended to serve both its own members and community as a whole." It is a broad definition of Co-operative society which seeks to achieve member's welfare and which also works for the betterment of the community, as a whole.

The International Labour Organisation states that a "Co-operative society is an association of persons, varying in number, who are grappling with the same economic difficulties and who, voluntarily, associate on a basis of equal rights and obligations, endeavour to solve those difficulties mainly by conducting at their own risk an undertaking to which they have transferred one or more of such of their economic functions as correspond to their common needs, and by utilizing this undertaking in joint co-operation for their common material and moral benefits." This definition is considered to be the most comprehensive definition on co-operative society since it consists of most of the principles of co-operation. Now let us, explain briefly, the objectives of co-operative movement.

24.4 OBJECTIVES OF CO-OPERATIVE MOVEMENT

A co-operative society comes into existence when a group of people join together and form an association. It is a union of individuals, who usually have meagre resources and who are

principles to ensure economic benefits to its members. People are free to join the co-operative society and they can resign at their own discretion. There is no coercion nor compulsion of any kind. The main objective of the co-operative society is to serve its members. Here, profit making becomes secondary. It is run on democratic principles. All the members enjoy equality and no discrimination is shown on the grounds of religion, gender, political ideology etc. Basically, co-operative movement gained importance as a consequence of evils of capitalism. Therefore, its major objective is to achieve social justice. Finally, co-operative movement is characterised as a constituent part of the overall socio-economic movement of the society. It is described as being capable of reforming and restructuring society by peaceful means.

Every co-operative society comes into existence with certain specific goals and objectives. However, the long-term objectives of all the societies are the same. Let us identify the basic objectives of the co-operative movement.

The most important objective of a co-operative society is to raise the standard of living of the poor who have been subject to exploitation by the capitalists. The deprived sections form an association to undertake some gainful activity and get the rewards of their work without being at the mercy of the capitalists. The other objective of co-operative movement is to eliminate the middlemen who take away the benefits that should have gone to the real beneficiaries. As a sequel to this, the co-operative society has to remove capitalist tendencies and as stated earlier it has to bring in socio-economic changes in the society at large instead of focusing on the individual and on his/her personal advancement. The other objective of a co-operative society is to conduct its activities with honesty, truthfulness and thereby raise moral standard of its members.

As stated earlier, a co-operative society should aim at bringing about the welfare of not a particular individual but of the entire community. This will foster fellow feeling and the bond of co-operation. Abolition of social inequality such as high and low should be the goal of the co-operative movement. The other important objective of co-operative movement relates to its neutral stand as far as religion and politics are concerned. This will ensure real concern for one and all without being partial to a particular religious group or a political group. Finally, it aims at providing a corporate life to the weaker sections, ensuring the world-wide concept of "each for all and all for each" replacing the natural law of "the survival of the fittest".

Check Your Progress 1

Note : i) Use the space given below for your answers.
ii) Check your answers with those given at the end of the unit.

1) Write a short note on the concept of co-operation.

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2) What was the necessity of the co-operative movement?

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24.5 MODELS OF CO-OPERATIVES

After having described the concept and objectives of the co-operatives, now let us understand different models which are followed in India to achieve socio-economic development. These models have been evolved over a period of time and have distinct

since the government has entered the co-operative institutions in a big way as a partner at different levels. The following are the different models of co-operatives :

i) Co-operative Credit Structure

In India, co-operative movement started with the establishment of credit societies way back in 1904. Credit is provided by the co-operative banking, without which many activities, particularly in the rural economy, cannot be initiated. This again is a western concept. However, Indian government adopted it in 1904. Subsequently, a large number of credit societies have come into being. Of the different types of co-operative societies, co-operative credit societies in India are very important for rural upliftment and national development.

The co-operative credit structure in India is federal in character, offering short and medium term credit. At the base, there are primary co-operative credit societies; in the middle that is at the district level, there are co-operative central banks and at the apex, there is state co-operative bank. These institutions supply credit, supervise its use and recover dues from members. They function as the balancing centres at each level and supplement their financial resources through deposits, by borrowing from the public money market and the Reserve Bank of India. The Reserve Bank of India takes active interest in the agricultural credit and is closely associated with co-operative movement in the country. An important feature of this system is that though these institutions, at different levels, are connected with each other through affiliation, they are for all practical purposes distinct entities. Each will serve a set of specific purposes. Thus, there is justification for their existence as independent units. We will now discuss each of them in the following as separate units.

ii) Primary Co-operative Agricultural Credit Society

In the Co-operative credit structure, the primary co-operative agricultural credit society at the village level constitutes the basic institutions, the foundation. The following objectives are to be achieved by the primary co-operative agricultural credit society :

- a) Mobilise deposits and provide short-term and medium-term loans on reasonable conditions.
- b) Develop the habit of savings among rural masses.
- c) Assist in the better implementation of Five Year Plans relating to agriculture, and
- d) Take up educative, advisory and welfare functions for the benefit of farmer members.

Individual farmers are the members of the primary credit societies. Each society secures its funds by way of share capital, deposits, loans and the Reserve Fund. The share capital is directly contributed by the members and indirectly by the state government. Though the primary societies are expected to be multipurpose in character but in practice credit facilities remain their most important function. Thus, loans constitute an important source of working capital. Loans are procured from the state government and central co-operative banks.

The primary credit societies provide loans which they get from the state government and central co-operative banks to their members for short periods, (between six months and one year). With the money, the member can purchase seeds, fertilizers, pesticides and other minor items. Medium term loans are provided for the purchase of cattle, pump sets, agricultural inputs etc., for periods varying between one to five years. The loan amount sanctioned varies among members depending upon the purpose, repayment capacity, the type of security pledges etc.

Primary co-operative agricultural credit societies in India suffer from the following defects :

Most of the societies are not viable since their membership is small. Therefore, the capital is inadequate. Secondly, the credit facilities, provided by the societies, are insufficient when compared to the requirements of the farmer members. Thirdly, it is seen that there is inordinate delay in the sanctioning of loans. Fourthly, a large number of weaker sections in rural areas are not in a position to receive the much needed assistance from these societies, since these societies are mostly held by the rich farmers. Finally, credit societies have failed to develop, to any significant extent, the savings habit among rural masses. All these have resulted in the growth of private money-lending and usury in the rural areas. The money-lenders continue to exploit in the rural masses.

All these defects have to be removed to achieve success.

iii) District Co-operative Central Banks

District Co-operative Central Banks have been established at the intermediary level in the

co-operative credit structure to provide a useful link between the primary societies and the apex bank at the top. The organisation of the district co-operative central banks is not based on any systematic or uniform pattern. A large number of central banks in India are of mixed type. Primary co-operative agricultural credit societies form the bulk of its membership. However, other societies, such as farming societies, urban co-operative banks, weaver's societies, industrial societies etc., are also affiliated to the central banks. Thus, we find both individuals and primary co-operative societies as its members. The government is also a shareholder. Normally, there is one co-operative central bank for a district but in certain districts, we have more than one central bank.

The share capital of co-operative central banks is provided by the individual members, primary societies and the state government through purchase of shares. Deposits of different types are received from individuals and institutions. The bank gets loans from the state co-operative bank and Reserve Bank of India.

The Central Bank acts as a link between primary societies and the state co-operative bank. It provides the necessary financial resources to the primary societies and is responsible for their recovery. It also lays down common policies and provide administrative guidance for the proper and efficient functioning of primary societies. They develop and extend the banking facilities in rural areas and make the people aware of the facilities and make use of the same. Finally, the central banks are responsible for the development of co-operative movement in the district and act as a friend, philosopher and guide to the primary societies.

We find a few defects in the working of co-operative central banks. Due to large number of district central banks, the affiliated member societies are small. Therefore, some of them have become weak and non-viable. They are always short of funds. Reserve fund is compulsory. However, it is not sufficient to overcome their financial difficulties during the peak season. The deposit mobilisation, savings etc., is not satisfactory. To overcome these problems, the banks have to improve their financial position. The government has a major role to play in this respect. Ultimately success or failure of a system depends on the political decision-makers.

iv) State Co-operative Banks

The State Co-operative Bank is the apex Co-operative institution in the state. It is at the top in the three tiered co-operative credit structure. The jurisdiction of the bank is over the entire state. The district co-operative banks in the state are members of the state co-operative banks. In some states, individuals and primary societies are also admitted as members.

The major functions of the bank are listed below :

- a) It acts as a intermediary between the district co-operative bank and the money market. It borrows money from the money market and make available loans to the district central banks.
- b) It functions as the balancing centre between district banks with surplus funds and deficit co-operative banks.
- c) It supervises and guides the activities of the district co-operative central banks in the state. It also conducts regular banking business as any other commercial bank.
- d) It operates as an agency of the Reserve Bank of India to finance agriculture. The Reserve Bank of India provide loans to state co-operative banks which in turn are disbursed to farmers with the help of the three tier structure.
- e) It helps the state government in the formulation, execution and coordination of credit policies in the state.

As stated earlier, loans constitute the major source of funds for state co-operative banks. Money is borrowed from Reserve Bank of India, State Bank of India, State government and other nationalised banks. But for state co-operative banks, borrowings from Reserve Bank of India constitute the major source of loans.

It is found out that some of the state co-operative banks have been careful while investing funds in other co-operative institutions. A few societies have made huge advances to primary credit societies with the result that recovery has become a serious problem. The over dues have been mounting due to various reasons. Credit limits for central co-operative banks have not been carefully fixed. There are several other problems faced by the state co-operative banks. However, the defects could be eliminated if the state governments and the Reserve Bank of India come forward with certain effective measures such as adequate staff, strict vigilance and political will to recover loans pending over dues from the defaulters.

v) Primary Land Development Banks

It is not enough if the agriculturists are provided only with short and medium term credit. There is a need for long-term credit since it would help the farmer to make improvements in the agricultural sector. Long-term credit facility would bring lasting benefits. Long-term credit is provided by the land development banks.

The first land mortgage bank of India was established in the Punjab province in 1920. Subsequently, other provinces also established similar institutions. Today, all the states have co-operative central agricultural development banks. It is a two tier structure: primary land development banks at the district or taluk level and central agricultural development banks at the state level.

The main function of the primary land development banks is to supply long-term credit to its members for a period varying between 15 to 30 years for bringing about permanent improvements to their lands. Thus its major function is to assist the farmers to raise their standard of living. Farmers and corporate bodies subscribe to the share capital of primary land development banks. Loans are sanctioned against immovable assets of the borrower. Loans are generally sanctioned at a lower rate of interest.

The membership of central land development banks is composed of members of primary land development banks. In some states, individual members are also permitted to acquire shares. It distributes funds to the farmers through primary land development banks. It also arranges for proper supervision and guidance and acts as an intermediary between Reserve Bank of India and primary societies and prevent farmers from mortgaging their lands with the greedy money-lenders. The prime motive in doing all this is to protect the farmers from falling victims to the middlemen and provide them with credit facilities through co-operatives.

A number of defects have been identified in the working of these land development banks. To begin with, there is no uniform organisational structure in all the states. Consequently, there is no uniform development of these banks. Many banks, it seems, are not viable. There is a lack of proper coordination between the different credit agencies operating in the rural areas leading to several complications.

The co-operative credit movement in India, having a history of nearly a century, has now developed to a substantial extent. Its coverage is substantial, nearly 95 per cent of the villages have been covered. However, a large segment of poor remain outside the co-operative fold. Yet, the credit movement made a substantial impact on the rural development. To make it more effective, various official committees have suggested certain structural changes. The essence of the recommendations of these committees is to integrate all the co-operatives whose basic objective is to extend credit to the farmers. Ultimately there should be a single source of institutional credit for meeting all requirements of the farmers. The government of Andhra Pradesh has taken steps in this direction by introducing Single Window Co-operative Credit Delivery System in 1987. Today all the credit needs of the farmers such as short-term, medium-term and long-term credit needs are met through an integrated "single window" system in Andhra Pradesh. By "single window" is meant that there is a single source of institutional credit for meeting all requirements of the farmers.

Check Your Progress 2

Note : i) Use the space given below for your answers.
ii) Check your answers with those given at the end of the unit.

1) What are the objectives of the primary co-operative agricultural credit society?

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2) What are the functions of the State Co-operative Bank?

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- 3) Write a short note on Primary Land Development Bank.

24.6 KINDS OF CO-OPERATIVES

The Indian Co-operative movement has emerged as the largest in the world. It is being said that there are more than three lakh societies of different kind. In the following, we would discuss some of the co-operative societies, operative in India :

i) Co-operative Farming

The importance of co-operative farming has been recognised by the Government of India as one of the potential strategies in rural development. Co-operative farming refers to a type of farming where the farmers of the village voluntarily pool their land, labour, equipment and cultivate the land collectively. The land, implements, bullocks etc., so pooled are divided into suitable units by the farming society and the land is cultivated collectively. The work of the members is calculated after careful examination and wages are paid. The total produce is sold in the market and the income received from the sale is distributed among the members in accordance with their share of land and labour.

The Co-operative farming societies were first started in India in the forties for the settlement of ex-army personnel. The ex-army personnel could earn their living through co-operative farming societies. After partition, it has become a useful tool for the rehabilitation of displaced persons. Co-operative farming societies were first established in Bombay, Uttar Pradesh, Madras and Mysore states. Later on, other states followed. These co-operatives came into existence due to the following reasons.

- a) Due to fragmentation of holdings as per custom and other reasons, we have small holdings which are not viable. For instance, when landholdings are distributed among sons. As a result, we have a large number of small and marginal farmers.
- b) Since there are small and marginal landholders, the farmers are poor and depend heavily on external agencies for finance. The situation also led to poor yield per acre which is reflected in utter poverty of a majority of the farmers.
- c) For a long time, the Indian farmer has been using traditional tools in agriculture. It is mainly due to their poverty and their traditional philosophy of life. Therefore, even today, the method of cultivation in India is, still to a great extent, traditional.
- d) Further, there is exploitation of ignorant farmers by middlemen.

In view of the circumstances explained above, co-operative farming was suggested for the Indian farmers. This system would help those whose landholdings were less than the holdings of basic size.

Co-operative farming would help in adoption of scientific cultivation of land. Farmers are in a position to get better seeds and modern tools. There is a possibility of getting the services of technical personnel. Collectively, the farmers would be in a position to prevent damage to the crops by pests and insects. There would be rational use of human and animal resources, resulting in the increase of yield per acre. Increased production would help the farmer in meeting his family demands without depending on others. Co-operative farming would provide gainful employment to the rural youth. And finally, it would usher in socialist pattern of society in which the wealth is not held by a few but distributed among a large number of people. Thus, it ensures rapid rural development.

However, co-operative farming in this country did not show any promise and is faced with many practical problems. It is observed that in Indian context, it is very difficult to gather

a large number of people with different castes, tastes to work together. In the absence of revolutionary ideology, which would have brought changes in the attitudes of the people, it is not possible to maintain discipline among the farmers. This has become a major problem in the socialist countries today. There is a move to disband co-operative farms and allow farmers to cultivate the land as individual owners. Co-operative farming presupposes surrender of land to the community. Indian farmer is sentimental. It is not possible for him to surrender the piece of land, however, small it might be to form a co-operative. Co-operative farming is yet to take roots in India. There may be a few stray examples of success but by and large, it did not succeed in any appreciable manner.

ii) Co-operative Marketing

Marketing is an important problem of rural development. Sound marketing helps the farmers to sell their produce at the most profitable prices and in less time. In such a situation, the producers are bound to gain substantially, leading to improvement in their financial viability. Co-operative marketing societies are not the innovations of third world societies alone, but are found even in industrially developed countries of the west. A co-operative marketing society is defined as "an activity, taken up by a group of producers, who basically are farmers, to sell their marketable surplus at most remunerative prices for their own benefit."

a) Objectives

The marketing societies have to secure best possible market price for the products of the members. The society, sometimes, does the job of processing, grading, packing etc., so that the product could fetch remunerative price. Another objective is to reduce the cost of marketing such as transportation, storage etc. The co-operative marketing societies have been established with the purpose of acting as a powerful check upon the monopolistic power, generally enjoyed by the private traders. It will also eliminate middlemen who exploit the farmers. The system also ensures protection of consumer's interest since the society adopts fair methods in its marketing activity.

b) Business Methods of the Marketing Co-operatives

The co-operative marketing societies adopt any one of the following forms :

- a) The society only acts as the agent between the members and the traders. It is like working as a commission agent. The farmers sell their produce through the society.
- b) The marketing society purchases the produce of the members and pays the price directly and immediately. This is adopted by those societies which have technical know-how, sound financial position and proper processing and storage facilities.
- c) In some cases, the marketing societies help the farmers by allowing them to store their produce with it for which they receive payment up to 70 per cent of the value of the product. This would help the members to store the material until they get remunerative price at a subsequent date.
- d) The marketing societies also undertake pooling of the produce of the members, grade the material as per standardisation, process the raw material into a form, fit for consumption like paddy, cotton, groundnut etc.
- e) In certain areas, the marketing society may undertake procurement of agricultural products on behalf of the government to ensure payment of minimum support price to the farmers. This would eliminate the tendency of distress sales by the farmers.
- f) The marketing societies, also undertake supply of essential goods like sugar, kerosene, fertilizers, seeds etc., at reasonable prices to the farmers.
- g) Marketing co-operatives extend their activities by exporting goods which are in demand in the foreign countries. The National Agricultural Co-operative Marketing Federation and the State marketing co-operatives undertake export of a number of commodities to foreign countries.

C) Institutional Structure

The first co-operative marketing society in India was started at Hubli in the year 1915. Since then, a number of marketing societies have been set up in various parts of the country. The co-operative marketing structure comprises a network of about 3700 primary marketing societies at the Mandi level, about 170 district central marketing societies and about 29 state co-operative marketing federations and at the apex there is the National

main branches all over the country. Separate tribal co-operative development corporations have been established in those states where there is a sizeable tribal population. Similarly, commodity marketing federations have been set up at the state level.

Individual farmers and primary agricultural credit and other service societies are members of the primary marketing society. The members of the State co-operative marketing federations are the primary marketing and processing societies. In a few cases credit societies are also allowed to become members of state co-operative marketing federation.

The membership of the apex organisation, NAFED, are state level marketing federations, commodity federations and a few primary and central marketing societies. Its primary objective is to assist its members to carry on business. The marketing societies raise their finance through shares, deposits and loans. Loans are raised from central co-operative banks, State Bank of India and other sister co-operative organisations.

The marketing societies have an ample opportunity for development but this development is not taking place at the expected levels. The business methods followed are not satisfactory. In our country most of the co-operative societies have been organised by the government. Therefore, the farmers do not evince any interest in the working of these institutions. There seems to be lack of coordination between primary credit societies and marketing societies. There is greater emphasis on distribution of essential commodities and the marketing of other items such as processing etc., have been neglected. Financial viability is another drawback in the working of some of these societies. Finally, the success or failure of these bodies depends mostly on the Management Board at the helm of affairs.

iii) Producers' Co-operatives

In India, as all of us are aware, co-operatives have been initiated, organised and supported by the state. Due to abject poverty and ignorance, co-operatives could not survive on their own. Hence it was thought that government participation would help it. Having begun primarily in the field of credit, co-operatives, in the last four decades, have come to embrace a number of activities to serve the interests of producers and consumers. In this connection, co-operative movement in the field of dairy management, could be mentioned.

Co-operation, in the field of dairy management, is fast spreading all over the country. However, it is necessary to point out that dairy co-operatives have a long history in India but its spread has been very limited. The first dairy co-operative was organised in 1913 at Allahabad. But the growth of the dairy co-operatives has not been even and steady. It was only after Independence that the dairy co-operatives have been organised on a large-scale in several states.

The development of dairy co-operatives has the twin objectives: support the producers of milk and ensure regular supply to the evergrowing urban centres. Milk, as an essential commodity for human subsistence, needs special efforts for procurement, preservation and transportation. The Government of India did not pay much attention to this subject matter during the First and Second Five Year Plans. It was only during the Third Plan that some efforts were directed when National Dairy Development Board (NDDB) was established with a view to developing dairy technology on modern lines. This plan period is also significant because of Anand Co-operative Union of Milk Producers which proved successful in organising dairy on co-operative lines. The NDDB is the nodal organisation in establishing this type of co-operative federations in ten states in the country. About 30 thousand village level co-operatives covering about 40 lakh farming families, are functioning in India. The members of the village co-operatives are mostly small and marginal farmers. We also find a large number of landless agricultural labourers in the village societies.

A brief description of Anand pattern of co-operative is useful to appreciate the working of dairy co-operatives in the country. The Anand pattern is a successful formula developed by Tribuvandas Patel which was adopted by the farmers of the Kaira district in Gujarat to procure, process and market their surplus milk. The Anand pattern is a system that is collectively owned, operated and controlled by farmers. It ensures a fair price to the farmer and high quality of milk and dairy products to the consumer and it eliminated middlemen. Thus it aims at the utilisation of resources in the most profitable manner at the grassroot level.

The basic unit under the Anand pattern is a village co-operative society of milk producers

collectively. At the district level, there is District Milk Producers Union which receives surplus milk from the village co-operatives. The District Unions organise their state level co-operative milk marketing federation. The federation performs all the activities regarding processing, marketing and providing funds for co-operative dairy development in the state. It is said that outstanding leadership, modern technology, better marketing methods, plough back earnings and dedicated personnel were identified as the main reasons for the success of Anand pattern of milk producers co-operative movement in Gujarat. The Anand pattern is yet to be introduced in many states of India. It requires imaginative planning and sufficient financial support to the dairy co-operative societies. Proper education and necessary orientation to the farmers will go a long way in the successful management of dairy operative societies.

While explaining the producers' co-operative, it is pertinent to point out that there are co-operatives in other fields such as sugar, spinning etc. Sugar co-operative societies of Maharashtra made a mark in the co-operative sector. The above analysis of the Anand pattern is an illustrative and not an exhaustive one.

iv) Industrial Co-operatives

An industrial co-operative means a co-operative formed by artisans, craftsmen, industrial labourers etc., either for undertaking production and marketing or for providing facilities and services to them. Industrial co-operatives have been organised with two major objectives in view: Safeguard the interests of the poorer artisans/workers against the exploitation of the better placed entrepreneurs, and provide employment opportunities during the agricultural slack season so that there will be increase in production in the rural sector which would improve the living conditions of the rural artisans. It will also prevent migration of artisans to another place in search of employment.

Industrial co-operatives were organised in 1930s but their impact and contribution to the economy of the country were rather limited. Notwithstanding the limited success, during 1945-46, co-operative societies for tanners, wood workers, oil pressers, potters, toy-makers and bee-keepers were started in Madras and Bombay. Their satisfactory performance gave fillip to further growth in this sector after India became Independent.

Today there are quite a large number of industrial co-operatives in India. These societies take up the work of purchase and supply raw materials, tools and equipment, needed by the members. They also undertake sales of finished goods at a competitive price. There are a number of industrial co-operatives, functioning successfully. However, the sick units in this sector are growing at an alarming rate due to managerial defects. There is a need for corrective measures at the management level since more than one half of these societies are dormant and non-viable due to poor membership, meagre sales and inadequate working capital. Over some of the units, there is monopoly of the middlemen and traders. Again, many centres do not produce commodities but are like purchase and sale organisations. Therefore, there is an urgent need for restructuring of these societies with proper planning and feasibility study. Then only, they will succeed in their co-operative endeavour.

v) Consumer's Co-operatives

It is said that the co-operative movement originated as the consumer's co-operative movement in response to the challenges posed by industrial revolution. Later, it spread to other countries. The movement had taken shape in India in 1904, but it did not succeed to any appreciable measure. After Independence, the consumer co-operatives have expanded in almost all the states in India.

The structure of the consumer's co-operative societies in India consists of primary stores, wholesale stores, state federations and the National Co-operative Consumer's Federation at the apex level. The primary consumer co-operative store is the basic unit in this structure. A wholesale store is the second tier and the state federation, which has wholesale stores as its members, is a coordinating agency. The National Co-operative Consumer's Federation was formed in 1966. Its membership consists of state federations and some wholesale stores.

The most important objective of the consumer's co-operative is to supply goods of good quality to consumers at reasonable prices. It will also eliminate dishonest intermediaries.

In India, consumer co-operatives did not make any tangible progress since the societies have been initiated by the government. Therefore, the consumers do not evince interest with the hope that the government would look into their problems. Consumer co-operatives are

people are not covered in this movement. By and large, the consumer co-operatives in India did not succeed in their activities because of several structural and functional deficiencies.

24.7 CO-OPERATIVES AND PANCHAYATI RAJ INSTITUTIONS

The Central Government in India and all the state governments have promoted co-operative movement in its various forms. At one time, the major concern of rural co-operatives was the provision of cheap credit to the farmers to save the latter from the money-lenders. After Independence, however, there has been a definite shift. Along with the provision of cheap credit, the emphasis upon co-operative marketing, producers co-operatives and several other new areas have increased. In line with these major changes in the co-operative policy, the Five Year Plans also made sufficient provisions in the plan allocations. In fact, the allocations have been steadily increasing from first plan onwards.

In view of the important role assigned to the co-operatives, particularly in the rural development, there is a need for close liaison between Panchayati Raj Institutions and co-operatives. In fact, Panchayati Raj Institutions and co-operatives are envisaged as two pillars of rural reconstruction. There is a close affinity between co-operative movement and Panchayati Raj Institutions since both are envisaged as instruments of socio-economic transformation of rural areas. Both follow the principles of self-help, mutual aid, equality, democracy and decentralisation. Besides ideological affinity, there is a distinct pattern of interdependence from the operational point of view. The co-operatives supply credit and other major inputs while Panchayati Raj Institutions provide politico and administrative leadership in the preparation of agricultural plans and their implementation. Thus, there are several areas of common interest which would require coordination and joint approach as both the movements have one thing in common which is rapid rural development.

Since we have different patterns of Panchayati Raj Institutions in India, the association between Panchayati Raj Institutions and the co-operatives also have different patterns. In some states, the presidents of the district co-operative institutions (Banking, Marketing etc.,) are associated with the Zilla Parishads with an Ex-officio membership in the council. In some states, they enjoy voting rights while in others they are associated members without the voting rights. Similarly, at the level of middle tier, (Taluka, Mandal etc.) almost the same pattern, as it exists at the district level, is followed.

In Maharashtra and Karnataka at the district level, the subject "co-operatives" has been placed under Zilla Parishads. This would mean that the parishad is kept informed of the progress of co-operatives in the area and that it can discuss and give suitable instructions and guidelines to the co-operatives regarding various aspects like credit, marketing and other activities in the district.

There are thus several areas of common interest and association, between Panchayati Raj Institutions and co-operatives. A proper coordination and joint approach would help in their smooth functioning and ultimately lead to realisation of objectives for which they have been organised.

Check Your Progress 3

- Note : i) Use the space given below for your answers.
ii) Check your answers with those given at the end of the unit.

- 1) What is the importance of co-operative farming in rural development?

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- 2) What are the objectives of the co-operative marketing?

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3) Write a short note on Industrial Co-operatives.

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24.8 LET US SUM UP

India is predominantly an agrarian economy. Therefore the credit for agricultural and other allied activities is very important. It has been noted that in spite of the existence of several financial institutions, co-operatives have a major role to play. As such, rural development is very much dependent on co-operatives. Co-operative movement has one major advantage which no other financial institution has and, that is the involvement of masses in both their decision-making and implementation process at all the stages.

Even though the co-operatives have been playing an important role in the economic development of India, we cannot simply ignore some serious problems that the movement is facing today in the country. The recovery position of the loans for agriculture is distressing. There are many reasons. There are some genuine reasons for default but in quite a few instances, there is some amount of resistance among the sections of rich farmers and in some places there is political resistance.

Though the co-operative movement is for the common people, certain groups control this movement in different areas in one way or the other. These vested interests have developed deep roots and unless it is broken, there is no prospect of democratic functioning. It is observed that the poor such as marginal farmers, sharecroppers, landless labourers, slum dwellers and other deprived sections are still outside the orbit of co-operatives. Further, there is too much interference by the government in the working of co-operatives. Some times, it is essential to check mismanagement, corruption etc., but government control should not become a regular phenomenon and the government should not treat co-operatives as a departmental affair.

Finally, though there are about 12.5 crores of people in the co-operative movement, most of them are there because of the economic benefits. Further, we have a feeling that the initiative for co-operation is always from the government and not from the people themselves. Therefore, the co-operators should be made to realise the importance of ideals and principles of co-operation.

There may be several complaints against co-operative movement in the country, a few imaginary and some real, but still it is to be recognised that the co-operative is the most democratic agency for development and for benefit of the common people.

24.9 KEY WORDS

Capitalist tendency : The tendency to hoard money only for personal advancement, without paying attention to the community's advancement. Rather by exploiting others.

Defaulter : Persons who fail to pay debt.

Distress sales : In acute need, the farmers are compelled to sell off the agricultural products at prices less than the minimum support price.

Non-viable unit : Unit which is not capable of surviving from economic stand point.

Viable unit : Unit which is feasible from economic point of view.

24.10 SOME USEFUL BOOKS

- Chinchankar P.Y. and Namjoshi, M.V. (ed.), 1977. *Co-operation and the Dynamics of Change*, Somaiya : Bombay.
- Goel, S.L. and Goel, B.B., 1979. *Principles, Problems and Prospects of Co-operative Administration*; Sterling Publishers Pvt. Ltd. : New Delhi.
- Hough, E.M., 1960. *Co-operative Movement in India*, Oxford University Press : London.
- Krishnaswami, O.R., 1978. *Fundamentals of Co-operation*; S. Chand & Company Ltd. : New Delhi.
- Prasad, Ravindra, 1978. *Co-operatives and Rural Development*, Bookline : Hyderabad.
- Saxena, K.K., 1974. *Evolution of Co-operative Thought*; Somaiya : Bombay.

24.11 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

- 1) See Section 24.2
- 2) See Section 24.4

Check Your Progress 2

- 1) See Section 24.5 (ii)
- 2) See Section 24.5 (iv)
- 3) See Section 24.5 (v)

Check Your Progress 3

- 1) See Section 24.6 (i)
- 2) See Section 24.6 (ii)
- 3) See Section 24.6 (iv)

UNIT 25 SPECIALISED AGENCIES FOR DEVELOPMENT

Structure

- 25.0 Objectives
- 25.1 Introduction
- 25.2 The Concept
- 25.3 The Approach
- 25.4 Drought Prone Area Programme (DPAP)
- 25.5 Desert Development Programme (DDP)
- 25.6 Command Area Development Authority (CADA)
- 25.7 Hill Area Development Programme
- 25.8 Integrated Tribal Development Agency (ITDA)
- 25.9 Asset Oriented Approach
- 25.10 Let Us Sum Up
- 25.11 Key Words
- 25.12 Some Useful Books
- 25.13 Answers to Check Your Progress Exercises

25.0 OBJECTIVES

After reading this unit, you will be able to :

- understand the organisation, functions and role of the specialised agencies for development;
- discuss the short-comings of these specialised agencies; and
- critically analyse the specialised agencies.

25.1 INTRODUCTION

Elimination of poverty has become one of the greatest challenges of the modern societies. In recent years, many Third World countries have come to realise that the development strategies, they had followed in the past, were inappropriate and even irrelevant to their real needs. They have also come to realise that a development strategy linked to economic growth will not, by itself, solve the problems of poverty or improve the conditions of the poorest segments of the population.

The search of alternative strategies has now become intense in India. It is also noted that the majority of the poor live in rural areas. Therefore, attempts are being made to identify the target groups and provide assistance to them. The Government of India launched Community Development Programme during the First Five Year Plan period with a promise to improve the living conditions of the people. It was hoped that it would bring overall development of rural India. Subsequently, during the Second Five Year Plan, an effort was made to decentralise power to the representatives of the people at the district, block and village levels with an objective to mobilise people's support to the rural development programmes. The Third Five Year Plan laid emphasis on the overall growth in the country to reduce inequalities in the income and wealth. As a result of these policy formulations, a number of programmes such as Intensive Agricultural Development Programme which subsequently became Intensive Agricultural Area Programme were designed to accelerate agricultural production in selected regions that were endowed with good soil and irrigation facilities. However, it was soon realised that the above programmes did not make any dent on the poverty of the rural poor. Unemployment and inequalities in wealth and income have continuously increased, in spite of phenomenal increase in agricultural production. It is also pointed out that most of the benefits from these programmes were taken away by affluent sections and better endowed areas.

It was soon realised that unless a direct attack on poverty is launched, the developmental efforts would not help the poor. On the other hand, it may aggravate the situation. Some concrete measures, therefore, have been planned and new institutions were designed to

provide higher standard of living to the poor, to achieve equality of income and wealth to prevent economic concentration.

25.2 THE CONCEPT

Keeping the above factors in view and on the recommendations of Rural Credit Review Committee, several special agencies were established. The following considerations were also identified in favour of specialised agencies. It is pointed out that the existing bureaucratic machinery is not capable of tackling the problem of poverty. Again, the existing developmental strategies would be helpful to those who are already rich and it would not help the poor. It is also suggested that there is a need for clear identification of target groups and financial assistance in the shape of subsidy or margin money which would act as a catalyst in the development of the poor. Finally, it is possible to prepare viable schemes to enable the poor to cross the poverty line. The specialised agencies, are thus intended to tackle the poverty directly and help the poor.

At present, these are the following specialised agencies for development :

- 1) Drought Prone Area Programme
- 2) Desert Development Programme
- 3) Command Area Development Authority
- 4) Hill Development Authority
- 5) Integrated Tribal Development Agency
- 6) Asset Oriented Approach

25.3 THE APPROACH

The following important characteristics are identified in the working of the specialised agencies :

a) Autonomy

The special agencies have been established under co-operative societies Act. It is a departure from the earlier approaches. Under the new dispensation, the agencies enjoy certain amount of autonomy and flexibility in the decision-making process and in its implementation. The agencies are expected to draw up plans and programmes for investment and production activities to be undertaken by the target groups.

b) Catalyst

The agencies have to act as a catalyst to the target group mainly through generation of gainful employment. In this direction, the agencies are expected to bring the benefits of modern technology to the small and marginal farmers, rural artisans, and other members of the target group and help raise their standard of living.

c) Limited Administrative Staff

The agencies have only a limited staff since they do not undertake implementation of the programmes. The programmes of these agencies are to be implemented through the existing departments and organisations. The main job, therefore, is restricted to secure the co-operative and co-ordinate the programmes among different departments and organisations.

d) Involvement of District Collector

In most of the states, the District Collector is the chairperson of these agencies. The Collector is expected to ensure coordination among the departments. A Project Officer and an Assistant Project Officer have been provided to each agency to assist the District Collector.

e) Governing Body

Each agency has a governing body of its own. It formulates the policies and programmes to carry out the objectives of its agency and approve the annual budget. The governing body is authorised to amend or repeal any bye-laws relating to the administration and management

of the agency. There is provision for appointment of committees, sub-committees on any matter relating to the work of the agency.

f) Financial Assistance

One of the most important aspect of this new approach is the provision of subsidy to the target groups. It is also called seed money and/or margin money. Different agencies have different rates of subsidy. The balance amount is financed by the different financial agencies as commercial banks, rural regional banks, co-operative banks. The subsidy and/or margin money is intended to provide relief to the target group and at the same time stimulate the financing agencies for investment.

Having explained the need, characteristics and approach of the specialised agencies, let us describe the organisation, the functions, the role and short-comings of these agencies in detail for a better understanding.

25.4 DROUGHT PRONE AREA PROGRAMME (DPAP)

Till recently, famine, drought and scarcity were being tackled more or less on ad hoc basis. It was only in 1970-71 that the Government of India sponsored a rural works programme for organising labour intensive and production oriented work in the drought prone districts of the country. It was conceived as an addition to the normal developmental effort. In 1972, the scope of the programme was enlarged to that of an integrated area developed scheme for a permanent solution of the problems of drought in these districts. Accordingly, the emphasis shifted from labour-oriented to problem-oriented schemes. This area development programme was designated the Drought Prone Area Programme (DPAP) and classified as a plan scheme from 1972-73.

The DPAP is a centrally sponsored programme. The expenditure on this scheme is being shared equally by the centre and the states. The DPAP extended to 73 district (401 blocks) in the country, spreading over thirteen states.

i) Approach and Present Strategy

The main thrust of the DPAP is to maintain the production in good rainfall years and to minimise the losses when the rain fails. This is sought to be achieved by a number of schemes such as soil and moisture conservation methods on a scientific basis. Construction of water sheds is one method adopted for such a plan. Suitable drought resistant varieties of crops are suggested to meet the challenge of inadequate rainfall or long dry spells. Experiments have been conducted to develop a package of practices suitable under different sets of conditions so that appropriate crops could be developed to meet the requirements of the local population. It is pointed out that the development of agriculture in these regions has certain limitations. Therefore, the farmers are encouraged to take up subsidiary occupations like animal husbandry, poultry, sheep rearing, sericulture and horticulture. Development of a comprehensive package of processing and marketing has been another area of its activity so that the farmers would be able to derive remunerative prices for product under subsidiary activities.

Other activities which fall under DPAP include infrastructure for dairy, sheep breeding which have been taken up to support cattle rearing and sheep rearing avocations. Social forestry schemes have been undertaken to meet the needs of local population, both cattle and human. This would help meet the needs of the community for fuel-wood, timber and fodder for cattle. Rural electrification has been taken up to exploit ground water resources.

There has been considerable emphasis on the development of subsidiary occupations of the families below poverty line, rural artisans, agricultural labourers etc.

ii) Assessment

While implementing various schemes under DPAP, it would be seen that there are a number of problems which deserve immediate attention. Development of basic infrastructure, supporting various economic activities, like roads, rural electrification, drinking water, processing and marketing facilities would have to be taken up. However, under DPAP scheme, a ceiling of 30 per cent of the total annual plan has been earmarked

Water conservation and water harvesting are of utmost importance in the DPAP scheme. However, experience in the last few years have indicated that the techniques of survey, watershed planning and designing have not attained even the minimum satisfactory levels in most states. Not only this, the survey techniques are very slow and outdated. Men and material resources have to be adequately provided with the latest techniques on a scale several times more than deployed at present in case the watershed scheme is to have any impact.

Under the DPAP, the forestry programmes largely followed the ways of the old forest departments. The schemes taken up consisted mostly of regeneration of degraded forests, shelter belt plantations, road side plantations etc. It is a lopsided approach. What is required at present is that every village should have fuel-wood and fodder plantation to meet their needs. It is needed to involve the poor in the social forestry on government waste land which is plenty in the DPAP areas.

Regeneration of the village pastures and development of pastures on government land should be taken up as an important aspect of DPAP so that in a bad year, the cattle and men would be prevented from migration to alternative places. However, the DPAP did not make any appreciable progress in this direction.

In the drought prone areas, there is a great need for diversification of the occupations to divert the population from land and cattle. Individual beneficiary programmes have been drawn up and there is considerable progress in this sector. Dairying, sheep husbandry etc., are a few other activities which would bring considerable incomes in the drought prone areas. It requires up-to-date knowledge and technology. The DPAP should pay more attention on these activities so that the beneficiaries would sustain their interest continuously in the above mentioned sectors of rural economy.

iii) Conclusion

The concept of DPAP has started taking shape as an area approach. A good beginning has been made in conserving soil and water through watershed scheme. Ground water exploitation has received considerable fillip. Dairying, sheep breeding benefited the rural people to a large extent. However, the efforts so far did not yield much results. There is a need for sharp focus on several activities, including infrastructures, in the drought prone areas of the country. Finally, there is a need for review of focus, content and coverage of the programmes so that corrective measures could be introduced to set right the maladies, if any.

25.5 DESERT DEVELOPMENT PROGRAMME (DDP)

In 1977-78, the Government of India launched another programme which is very akin to DPAP, designated Desert Development Programme (DDP).

i) Objective

Its main objective has been for an "integrated development of the desert areas for increasing productivity, income level and employment opportunities for the inhabitants through optimal utilisation of physical, human, livestock and other biological resources." The programme also aimed at "Protection of and prevention from further deterioration of desert areas and of the spread of desert conditions." Pasture development, cattle development, dairy development, sheep development, canal development and forestry have been the main thrust of the scheme. Subsequently, certain schemes of individual beneficiary were also undertaken. This scheme was extended to 19 districts (126 blocks) in five states of India i.e., Rajasthan, Haryana, Jammu and Kashmir, Himachal Pradesh and Gujarat. In actual practice, in certain states DPAP and DDP have since been running parallel to each other in a number of districts.

ii) Assessment

There is a need to review this scheme. It is also suggested that for easy and effective administration, there is need for amalgamating DPAP and DDP in areas where both the programmes are running parallel. It would help achieve greater coordination among these agencies whose major objective is identification of target areas and groups for special

25.6 COMMAND AREA DEVELOPMENT AUTHORITY (CADA)

There is a growing interest in the performance of irrigation schemes in India on account of huge investment made in these schemes. It is pointed out that there has been unsatisfactory performance on agricultural front. The poor performance has been attributed in terms of technical deficiencies in planning, design and operation. It is also being widely recognised that the basic issues in the field of water management are institutional and administrative. It calls for a new approach than hitherto followed in the developing societies.

The importance of utilisation of irrigation potential created under various schemes was well recognised during the third plan period. The Fourth Plan did provide finance for proper utilisation of irrigation facilities. The progress was however not satisfactory. During the Fifth Year Plan period, an integrated command area development was suggested. The proposals of Irrigation Commission and National Commission on Agriculture were also in favour of such an organisation. Thus, the Command Area Development Authority came into existence in the last year of Fourth plan and has taken concrete shape in the Fifth Five Year Plan. The Command Area Development Authorities have been created in about sixteen states, covering about eighty major and medium projects.

i) Objectives

The objectives of the CADA are as follows :

- i) Modernisation, maintenance and efficient operation of the irrigation system.
- ii) Development and maintenance of the main and intermediate drainage system.
- iii) Development of field channels and field drains within command of each outlet.
- iv) Land levelling and land shaping on an outlet command basis for the type of irrigated crop that is to be grown.
- v) Consolidation of farm holdings and redrawing of field boundaries.
- vi) Fair distribution of water to individual fields.
- vii) Development of ground water to supplement surface irrigation.
- viii) Supply of all inputs and services including credit.
- ix) Development of marketing and processing facilities.
- x) Preparing individual schemes of action for small and marginal farmers and agricultural labour as part of the master plan of development for these categories of beneficiaries.
- xi) Soil conservation and afforestation wherever necessary, and
- xii) Town planning.

The above list of items entrusted to the CADA is quite comprehensive which includes all aspects of irrigation development as well as utilisation of water from the medium and major projects.

ii) Assessment

The CADA is not a banking or a financial institution. It receives finance from three sources : Central assistance to the states for certain selected items, the state governments own resources are institutional credit for certain specific programmes. All the budget grants for the CADA are controlled by different secretariat departments and released by the same at the appropriate time.

Thus, the centre, the states and the financial institutions are the major partners in the CADA. It is pointed out by several studies that there has been shortfall in the Institutional finance. The reasons are (a) Poor recovery of loans; (b) Increase in the number of ineligible farmers and delay in updating of land records. In addition, there was a short fall in achievement in respect of land levelling. Since land levelling is very costly, it is reported that many farmers did not show interest in this programme. With a view to reduce the gap between the potential and actual achievements, the Seventh Five Year Plan envisaged the following :

- a) Updating of land records
- b) Effecting suitable modification in the cropping pattern
- c) Drainage improvements in the irrigated areas
- d) Modernisation of entire irrigation system
- e) Development of marketing and processing facilities
- f) Construction of essential roads in the command area

Check Your Progress 1

Note : i) Use the space given below for your answers.
ii) Check your answers with those given at the end of the unit.

1) What are the characteristics identified in the working of the specialised agencies?

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2) What are the objectives of the Desert Development Programme (DDP)?

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3) What are the objectives of Command Area Development Authority (CADA)?

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25.7 HILL AREA DEVELOPMENT PROGRAMME

Since the socio-economic conditions in the hill areas are of a special nature, there has been a demand for special attention of the Government of India. Consequently, the Fifth Five Year Plan made some provision for development of hill areas. Subsequently the government of India introduced a number of pilot projects for the integrated development of agriculture and quite a few subsidiary occupations were taken up. The Hill Area Development Programme was one such programme provided only in those areas designated as hill areas in Assam, U.P., West Bengal, Tamil Nadu, Maharashtra, Karnataka, Kerala, and Goa. It is a centrally sponsored programme. This programme is taken up in addition to the funds provided by the state plans. The Fifth Five Year Plan provided Rs. 170 crores which includes Rs. 20 crores for Western Ghats Development Programme (WGDP). In the Sixth Plan, it was raised to Rs. 560 crores including Rs. 75 crores for WGDP. The Seventh Plan provided Rs. 860 crores including Rs. 116 crores for WGDP. Thus there has been a substantial increase in the financial provision in the plan allocation.

It is pointed out that during the Fifth and Sixth plan period, enough attention was not paid towards provision of ecological balance but mostly concentrated on sectoral approach. Pressure on the hill areas and denudation of forests for commercial use, soil erosion and consequent fall in the productivity of land has been recognised and therefore, there was a shift in the Seventh Five Year Plan in which allocations have been made for socio-economic growth, development of infrastructure and promotion of ecology in the hill areas. Its focus was on identification of basic needs of hill people and appropriate measures were initiated. Important basic needs of the hill areas such as energy, fodder, water supply, health and education were given priority. The proposal envisaged alternative energy sources

forests and the drudgery on women. In order to ensure sustained supplies of fodder and fuel, the barren forest lands were identified and used for afforestation by growing tree species which can provide both fuel and fodder. Protected water supply, health and sanitation and mass immunisation has been another aspect of the Hill Area Development Programme. In all these programmes active involvement of people and their local organisations, including voluntary agencies, is essential.

25.8 INTEGRATED TRIBAL DEVELOPMENT AGENCY

The Tribal communities in India constitute about 7 per cent of the total population. These communities generally live in the hills and forest regions which are mostly inaccessible. Their economy is largely self-sufficient, unstructured and non-specialised. Their social system is simple. But of late, this situation is undergoing rapid changes. Industrial and mining complexes and major irrigation dams have disturbed their habitat. In certain cases, the policies and programmes of the government have also affected their living conditions. There have been a few cases of tribal unrest since the tribals have hardly had any benefit from the ongoing developmental programmes. However, state treated the situation in a routine manner. It is necessary to point out that the tribal areas and tribal people have a distinct culture of their own and these communities differ from other races in their socio-economic conditions, educational and beneficiaries are provided with subsidies/margin money/seed money ranging from 25 per cent to 50 per cent.

Assessment

The ITDA is expected to improve the living conditions of the tribals and protect them from exploitation. Therefore, the success or failure has wider implications. However, a number of studies pointed out that the performance of these agencies is far from satisfactory. Quite a large number of tribals were not aware of the existence of ITDA, therefore, unable to avail of the benefits. The procedures are cumbersome and some of the programmes were not viable. There has been a lack of coordination among the various developmental departments and lukewarm attitude of the financial institutions also contributed largely to the unimpressive performance of these institutions. That is the reason why during the Seventh Plan period it was proposed to undertake an evaluation study on the impact of different development project meant for the socio-economic uplift of tribals.

Check Your Progress 2

Note : i) Use the space given below for your answers.
ii) Check your answers with those given at the end of the unit.

- 1) Write a short note on Hill Area Development Programme.

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- 2) What are the areas which have been given priority in the tribal Sub-plan of the Integrated Tribal Development Agency?

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25.9 ASSET ORIENTED APPROACH

Lack of adequate employment and chronic under-employment are the most difficult problems of rural India. This has led to a large-scale poverty in the midst of surplus manpower and abundant natural resources. Poverty is the result of poor income, inadequate supply of goods and services and defective distribution and inequitable spread of wealth. Removal of poverty and provision of suitable employment opportunities has been the major thrust of all the Five Year Plans. Several measures have been initiated in this direction. However, the measures did not achieve success as desired and performance was very disappointing. It is said time and again that the rural poor have been by-passed both in terms of growth and distribution of gains of growth. It was with this in view that the Government of India has evolved certain programmes specially to tackle the poverty in rural India and those programmes were launched over a period of time. Let us describe them briefly and study the organisational set up of the specialised agency to which the programmes have been entrusted.

i) Small Farmer's Development Agency (SFDA) and Marginal Farmer's and Agricultural Labour Development Agency (MFAL) :

It has been pointed out that some of the earlier programmes did not help the poor. Therefore, on the recommendations of the Rural Credit Review Committee, two new agencies have been initiated by the Government of India in order to help the small and marginal farmers and agricultural labourers. Small Farmer's Development Agency (SFDA) and Marginal Farmer's and Agricultural Labour Development Agency (MFAL) were established in 1971-72 for the benefit of small farmers and marginal farmers and agricultural labourers respectively.

The main thrust of these agencies is to assist persons specially identified in improving their income level. To achieve this objective, the agencies have to identify the target group according to the norms laid down, draw up suitable programmes for improved agricultural and allied occupations, arrange credit through institutional sources and get the programmes executed through the existing organisational arrangement. The main focus is on agricultural production. The programme includes improved agricultural methods, land development, soil conservation, minor irrigation, horticulture, field demonstrations etc. The agencies are also expected to take up subsidiary occupations such as dairy, poultry, piggery, sheep and goat rearing, fisheries etc.

The SFDA and MFAL have been established under Societies Registration Act 1860. Therefore, they enjoy certain amount of autonomy in their functioning. The District Collector is the chairperson and the Project Officer is the Vice-Chairperson. The other members of Committee consists of the heads of the developmental departments and a few non-officials at the district level.

The identified beneficiaries under SFDA and MFAL get the benefit of 25 per cent and $33\frac{1}{3}\%$ of subsidy on the total investment for various programmes such as land development, soil conservation, animal husbandry etc. However, there is a ceiling on such a subsidy. In case of community irrigation works, a liberal subsidy of 50 per cent is allowed. Scheduled Tribes farmers get 50 per cent of the subsidy in view of their general economic backwardness. Thus, different schemes have been visualised under the SFDA and MFAL agencies.

i) An Analysis

An evaluation of SFDA and MFAL is necessary since experience of these schemes will have impact on the subsequent developments in the anti-poverty programmes. It is pointed out by several studies that the coverage of beneficiaries has been much below than that of the expected levels. But the amount, spent on the targeted group, is quite impressive. This however, does not indicate how many beneficiary families were really helped to become economically viable and could cross the poverty line.

Some more short-comings in the working of these agencies deserve attention. It appears that no proper care seems to have been exercised in the selection of some of the projects. Critics also pointed out that while selecting beneficiaries, proper care was not exercised, with the result a number of affluent farmers got the benefits through manipulation and foul method. Very little attention had been paid to identify the agricultural labourers and scheduled castes and tribes. No reliable data is available, till today, about different categories of people who

It was found that the procedures, prescribed by the financial institutions, were cumbersome. This resulted in delay and corruption was rampant. It has also led to the growth of middlemen called **pyarivikars** who did considerable damage to the schemes.

The above mentioned problems are illustrative and not exhaustive. The problems are general in nature and these new agencies are no exception to it. Since the problems of the rural poor are many and complex in nature, they need a thorough analysis in the selection of beneficiaries with sufficient care to the factors of eligibility and needs.

It should be noted that with effect from October 2, 1980 the SFDA and MFAL have been merged with Integrated Rural Development Programme which is ultimately handed over to the District Rural Development Agency for planning and implementation.

ii) Minimum Needs Programme

In 1974, the Government of India introduced the "Minimum Needs Programme" to improve the quality of life of the rural poor and provide infrastructure facilities required for supporting and supplementing various programmes which have been started to help the rural poor. This programme is essentially meant for human resource development. It seeks to improve the consumption levels of those living below the poverty line and thereby improve their productive capacity. The main components of minimum needs programmes are 1) elementary education; 2) rural health; 3) rural water supply; 4) rural roads; 5) rural electrification; 6) house sites for landless labourers; 7) nutrition and 8) environmental improvements of urban slums.

Nearly six thousand crores were provided during the sixth plan while a total provision of about ten thousand crores were made under central and state sector during the seventh plan. It is quite a substantial amount and gives indication of the commitment of the Government towards rural development. All the programmes mentioned above have been handled by different agencies such as DRDA, DPAP etc., at the implementation stage.

iii) Special Livestock Production Programme

The Special Livestock Production Programme was launched in 1975 mainly to provide employment opportunities to the rural poor through improvements in the livestock products such as milk, wool, eggs etc., and to set up sheep, poultry, piggery production units. This programme is in operation in about 183 districts in thirteen states and four union territories. One third of the beneficiaries will have to be from SCs and STs only. This programme is also managed by DRDA.

iv) Antyodaya

The Antyodaya scheme is based on Gandhian philosophy. Its main objective is to uplift the poorest of the poor in the rural areas. The sole criteria in the selection of people is the extent of poverty and no discrimination is shown on the basis of caste, class, religion etc. Under this scheme, an attempt is made to identify the requirements of the poorest families amongst the poor living below the poverty line and take appropriate steps for their betterment. It was first launched in Rajasthan in 1977. The cost of the scheme is to be shared by the state government, financial institutions and Khadi and Village Industries Commission. Certain guidelines have been prescribed to identify the target group.

Several schemes have been formulated under this programme. Allotment of agricultural land and credit facilities for securing inputs for the development of agriculture, old age pension to the old, infirm and disabled would be provided to the Antyodaya families. Loans from the financial institutions have been arranged under differential rate of interest to the families for the purchase of bullock cart, camel cart, donkey cart, pair of cows, sheep, goat units etc. Self-employment schemes to the rural artisans have been provided through Khadi Board. School going children of Antyodaya families are provided with school dress, books, medical facilities etc., at free of cost.

The policy, strategy and guidelines of this scheme are prepared by a state policy committee headed by the Chief Minister. With the help of a full-fledged Commissioner for Antyodaya scheme, the Chief Secretary is responsible for implementing the various programmes. There is a District Antyodaya Committee headed by District Collector with officials and non-officials as members of the committee. This committee is responsible for the implementation of the programme at the district level. The Panchayati Raj Institutions, the Co-operative and other financial institutions have an important role to play in this programme.

There has been a considerable progress under this scheme in Rajasthan. In view of the

Government of India had decided to extend its assistance for the programme if implemented under the Integrated Rural Development Scheme, cultural attainments. Their literacy rate is low and government service is the most disappointing factor.

With a view to bring the tribal population in the country within the mainstream of socio-economic development, an integrated sub-plan approach for tribal development was adopted during the Fifth Five Year Plan. This new strategy is adopted in almost all the states where there is tribal population and the Integrated Tribal Development Agencies were established for each tribal area. Now, we will discuss the tribal sub-plan objectives and the programme of ITDA.

a) Tribal Sub-Plan Objectives

The basic objectives of the sub-plan and ITDA are to narrow down the gap between the backwardness of the tribal areas and the economically developed areas. It is intended to improve the quality of life of these long depressed and neglected sections of the society. It is also pointed out that the tribal areas, which have become easy prey of non-tribals, have to be liberated from the all forms of exploitation by non-tribals. Further, it is proposed to provide suitable locations to rehabilitate those tribal families, displaced due to location of projects like power, irrigation, industry, mining etc. It is a gigantic task.

The Integrated Tribal Development Agency is registered under Society's Registration Act with the District Collector as the Chairperson and the Project Officer as the Chief Executive. There is a Managing Committee consisting of official and non-official members of the district concerned.

Under the special assistance for tribal development, the Fifth Plan provided Rs. 526 crores, while the same has come down to Rs. 485 crores in the Sixth Plan. However, during the Seventh Plan, there was an increase in the allocation to Rs. 756 crores.

b) The Programmes of the ITDA

The main thrust of the ITDA is to encourage the programmes of the local nature. However, the tribal sub-plan was to identify the thrust areas of the different areas for the different regions. After a review of the state efforts, some major areas were identified for action. The following areas have been given priority in the tribal sub-plan of the ITDA.

- a) The major area in the ITDA scheme is on agriculture and allied activities such as animal husbandry, horticulture etc. By horticulture is meant intensive cultivation of vegetables, fruits and flower crops on relatively small plots. Under this programme, the ITDA undertakes the supply of high yielding variety seeds, plough bullocks, oil engines, electric motor pumpsets, soil conservation, horticulture and orchard development.
- b) Supply of milch animals, sheep, goat, piggery duck and establishment of fodder plots are undertaken by the ITDA.
- c) Minor irrigation works, irrigation wells, tube-borewells community irrigation wells and filter points are undertaken by the ITDA.
- d) The ITDA provides assistance to form cooperative societies for the benefit of tribals.

A number of other activities have been taken up by the ITDA for the welfare of the tribals. In all these activities, today, the DRDA is responsible for the execution of Antyodaya scheme in all the states.

In view of its working and experience so far gained, it is pointed out that the loans given to the beneficiaries should be utilised for the purpose for which they were granted. Further, there is a need for involving voluntary agencies in these programmes. Finally, the success of the schemes depends mostly on the fair selection of the target group, integrity and sense of devotion of the officials and non-officials and the co-operation of different segments of the society.

v) Food for Work Programme

In 1977, Food for Work Programme was launched to provide opportunities of work to the rural poor. It was also intended to provide employment opportunities during slack season and create durable assets in the form of roads, canals, minor irrigation projects. The basic aim was to provide additional employment in rural areas and at the same time create durable community assets which would strengthen the rural infrastructure. The workers were paid partly in cash and partly in food grains. Initially, the results were encouraging but

after sometime, there was steep decline in employment opportunities. Therefore, the food for work programme was reshaped into National Rural Employment Programme in October, 1980.

vi) National Rural Employment Programme (NREP)

With a view to provide employment opportunities to rural workers, particularly during the lean season or severe drought conditions, an integrated scheme has been introduced in 1980. It is expected to prepare a district level employment plan keeping in view the availability of skilled and unskilled workers. Projects are to be prepared for each district on the basis of the felt needs of the rural community. The NREP has to give priority to works relating to social forestry and pasture development, soil and water conservation, irrigation, flood control and drainage and improvements to village tanks. further, 10 per cent of the resources under this scheme are allotted to people belonging to Scheduled Castes and Scheduled Tribes. Similarly, 10 per cent of the resources are earmarked to social forestry programmes. It is a centrally sponsored scheme which will be executed through Panchayati Raj Institution (PRIs) and its implementation is entrusted to DRDA. There is a provision for involving voluntary organisations in this venture. Substantial allocations have been made in the VI and VII Five Year Plans. In 1989, the Government of India launched yet another employment generation programme called Jawahar Rozgar Yojana. It is intended to combine National Rural Employment Programme (NREP) and Rural Landless Employment Guarantee Programme (RLEGP).

vii) Rural Landless Employment Guarantee Programme (RLEGP)

In August 1983, yet another programme called the Rural Landless Employment Guarantee Programme (RLEGP) was launched with an aim to alleviate poverty, unemployment, underemployment among the rural landless workers. The main objectives of the programme are to a) improve and expand employment opportunities for the rural landless and provision for guarantee of employment to at least one member of every landless family up to 80 to 100 days in a year and b) creation of durable assets for strengthening of the rural infrastructure, capable of increasing production. Rural link roads, field irrigation channels, land development, reclamation of waste lands, social forestry have been identified as priority items under the RLEGP. It is entirely financed by the Government of India. In the Sixth Plan, an amount of Rs. 500 crores were provided. About one thousand crores have been earmarked during the Seventh Plan period.

The RLEGP has created substantial infrastructure facilities and community assets. However, the amount of employment opportunities provided to the landless has been meagre because of the concentration of asset creation rather than creation of required quantum of employment.

viii) Integrated Rural Development Programme (IRDP)

The concept of Integrated Rural Development Programme (IRDP) was introduced in 1978-79. This has been started mainly with a view to achieve better results with proper coordination and integration of different programmes. The attempts so far made have been piecemeal, fragmented rather than integrated and comprehensive. This resulted in lopsided approach in the area of rural development. The different programmes such as SFDA, MFAL, DPAP, NREP, RLEGP, MNP, Antyodaya etc., did not bring desired results and on the other hand a majority of the rural population continue to remain extremely poor without income generating assets and without access to institutional credit and other inputs.

Keeping these aspects in view, a new strategy has been evolved to improve the economic and social life of the poorest of the poor living in the rural areas. The scheme is designed as the Integrated Rural Development Programme. Most of the earlier schemes are now merged into IRDP. It is extended to all the districts in the country.

The IRDP aims at generating additional employment opportunities to raise the income levels of all the poor families who live below the poverty line. The thrust of the scheme is on the poorest of the poor, consisting of small and marginal farmers, agricultural and non-agricultural labourers, rural artisans and craftsmen, scheduled castes and scheduled tribes. The main effort is to prepare area specific plans for full employment, seek people's participation, involve voluntary agencies, motivate target groups and evaluate the programme through research and concurrent evaluation.

The major focus of the IRDP is to undertake agricultural development, animal husbandry, fisheries, soil and village forestry and horticulture. The development of village and cottage

entrusted to the IRDP. Thus the integrated approach is expected to yield significant results in evolving a new strategy to face the problem of poverty.

The implementation of the programme is done by the District Rural Development Agency, a registered body under Society's Registration Act 1860. All the schemes in the district have been entrusted to DRDA. It is an autonomous body with district collector as the Chairperson and Project Officer as the executive authority. Recently, the Karnataka Government has placed the DRDA under the control of Zilla Parishad.

It is pointed out that for the proper implementation of all the schemes so far described, the financial institutions have an important role to play. The presence of the bankers is all pervading, starting right from identification of target group, selection of asset, adjustment of subsidy and follow up on the use of credit. Thus, they have a very crucial role in the implementation of various schemes in the rural development.

A number of evaluation studies have indicated that the IRDP did not succeed in identifying the beneficiaries to the extent it was expected. The wrong identification is said to be between 15 and 20 per cent. Further, there have been complaints of corrupt practices due to the role of **pyaravikars** i.e. middlemen because of lack of awareness among the beneficiaries. In certain places, the banking services were inadequate which invariably resulted in inordinate delay in disposing of loan applications. Absence of appropriate technology, inadequacy of infrastructure, hostile political conditions in the rural area accounted for poor implementation.

Check Your Progress 3

Note : i) Use the space given below for your answers.
ii) Check your answers with those given at the end of the unit.

1) Why was the Minimum Needs Programme introduced?

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2) Write a short note on Antyodaya.

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3) What are the objectives of the Integrated Rural Development Programme?

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25.10 LET US SUM UP

Beginning with the Fifth Five Year Plan, a number of specialised agencies for rural development have been organised by the Central Government and by all the states with a hope to eliminate poverty by lifting people from below the poverty line through various schemes. There have been massive investment in these programmes. But sadly enough, they

The following analysis is based on studies conducted by academics, government and voluntary bodies :

Specialised Agencies for Development

It is pointed out that the agencies did not leave any significant and positive impact on the conditions of the rural poor. On the other hand, the rural rich got the benefits through manipulation and tightened their grip over the poor. In case of a few who got the benefit did not use the assistance for the purpose for which it was given but diverted the same for other pressing need. The unimpressive performance of the specialised agencies may be traced to the following factors.

A critical analysis of the working of these agencies reveals that the special agencies have been run by those who belong to the regular administrative machinery. In fact several officers are deputed from regulatory departments. Almost all the schemes have to be implemented through the usual machinery available at the grassroot level. This raises the question that how can an agency which is manned by the same bureaucrats and dependent on the same administrative machinery be different from the rest of the machinery in actual practice.

In fact the specialised agencies have created new problems. The regular staff treated the work of the agencies as additional burden. The specialised agencies do not have a machinery to monitor the schemes. The district bureaucracy do not feel happy with this new agencies. In certain cases, officers who have been inconvenient in the department were sent to the new agencies. It means they do not have any stake nor commitment. We find an acute problem of coordination. This is only an illustration but not an exhaustive analysis of the problems faced by the specialised agencies.

In the existing socio-economic culture, it is very difficult to insulate the vested interests from these agencies. The agencies are guided by the rural elite at various levels. The rural poor are helplessly dependents on these elite. Mere establishment of a special agency would not help in breaking the stronghold of the rural elite on the administrative culture of the state.

While identifying the target groups, the personnel of the agencies depend on the rural elite. There are a number of cases where the qualified and deserving were ignored. It means that the special agencies could not be of much help in an anti-poor culture inside and outside the agency. The financial help, extended to the target group in the shape of subsidy/seed money is treated as a 'dole'. At least that is the impression one gets from the existing political culture. Therefore, the middlemen, who are corrupt knock away a large cake of subsidy component of the loan. Special agencies should have evolved their own special or convenient procedures to transmit the benefits to the target members.

Finally, the very idea of creating several special agencies, indicate that there has been failure in the working of Governmental institutions. Therefore, modifications are carried out. It means that the instruments are not sharp enough to attack the rural poverty. It calls for a deeper analysis to understand the root cause of the existing socio-economic structure which needs to be transformed drastically.

25.11 KEY WORDS

Afforestation : Planting of land, not formerly so covered.

Ground water exploitation : Making use of water lying under the surface of the ground.

Infrastructure facilities : Facilities regarding the basic structure which supports the whole system. For e.g., it would be water supply, means of communication etc.

Livestock : domestic animals.

Margin money : The least amount of money at which a transaction is economically sound.

Marginal farmer : The farmers who makes just the profit at which a transaction is possible.

Waste land : Uncultivated, uninhabited land.

Water shed : A water parting, the elevated line which may or may not be sharply defined, separating two contiguous drainage areas from which the headstreams flow in different directions in different river systems or basins.

25.12 SOME USEFUL BOOKS

- Arora, R.C., 1986. *Integrated Rural Development*; S. Chand : New Delhi.
- Paul, S., 1978. *Rural Poverty : The Cancer and the Cure*; Sugar : New Delhi.
- Prasad, Kamta, 1985. *Planning for Poverty Alleviation*; Agricole Publisher : New Delhi.
- Punit, A.C., 1981. *Profiles of Poverty in India*; B.R. Publication : New Delhi.
- Sundaram, I.S., 1984. *Anti Poverty Rural Development in India*; D.K. Publisher : New Delhi.

25.13 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

- 1) See Section 25.3
- 2) See Section 25.5 (i)
- 3) See Section 25.6

Check Your Progress 2

- 1) See Section 25.7
- 2) See Section 25.8 (ii)

Check Your Progress 3

- 1) See Section 25.9 (ii)
- 2) See Section 25.9 (iv)
- 3) See Section 25.9 (viii)

UNIT 26 EVOLUTION AND EXPANSION OF PUBLIC SECTOR

Structure

- 26.0 Objectives
- 26.1 Introduction
- 26.2 Public Sector and Public Enterprise — Meaning
- 26.3 Evolution of Public Sector in India
- 26.4 Objectives of Public Sector
- 26.5 Expansion of Public Sector and its Impact on the Economy
- 26.6 Let Us Sum Up
- 26.7 Key Words
- 26.8 References
- 26.9 Answers to Check Your Progress Exercises

26.0 OBJECTIVES

After studying this unit, you should be able to :

- explain the meaning of public sector and public enterprise
- discuss the evolution of public sector in India
- highlight the objectives of public sector; and
- analyse the expansion of public sector and its effect on the economy.

26.1 INTRODUCTION

State intervention of a positive kind in the regulation, ownership, and operation of industries and services has become an essential activity of public administration in almost all the countries. For example, the manufacturing of arms and ammunition and other related activities for the defence of the country had been an indispensable part of the state function. During ancient times also, as mentioned in Kautilaya's Arthashastra, there are references about departmental heads dealing with coinage and other economic activities.

Over the years, the role of the state in undertaking commercial activities has gained importance due to changes in the economic system. The most important reason has been the advent of industrial revolution and its expansion which has necessitated state intervention in various forms. During the period of Great Depression in the early thirties, the view which was held that if the government is kept out of the business it will automatically provide the community with necessary economic development had been amply disproved. In USA during this period the federal government entered into the field of economic and industrial management in a bigger way than before.

The extent of the state regulation or control of industries varies from country to country. The government's ownership of industry in the socialist societies is based on the plea that public sector plays an important role in bringing economic development. In the case of capitalist countries, it is felt that there should be conscious effort to keep the government out of economic operations as far as possible. In a developing country like India, public sector is largely a necessity and not a matter of choice.

In this unit, we will explain the meaning of public sector, public enterprise and discuss the evolution of public sector in India. The unit will also deal with the objectives of public sector and highlight the expansion of public sector and its impact on the economy in terms of investment, turnover, employment, bringing about balanced regional development etc.

26.2 PUBLIC SECTOR AND PUBLIC ENTERPRISE—MEANING

Despite a large volume of literature on the subject which has considered the importance of public sector in the economic development, the meaning of public sector, public enterprise, public sector undertaking continues to be vague and varying. Now let us know the meaning of these terms.

As we have read in Block 2 of this course, the present Indian economic structure is characterised as 'mixed economy' with the presence of public, private and joint sectors. Public sector in a wider sense covers all the governmental activities which are social, industrial, and commercial in nature. Public sector is said to cover all publicly controlled activities, the developmental activities in the fields of education, public health, transport and communications, infrastructure etc. Public Sector includes not only government departments but also government companies whether in the central or the state sector, irrigation and power projects, railways, posts and telegraphs, ordnance factories, other departmental undertakings. The banking, insurance, financial and other services also come under the purview of public sector.

The Bureau of Public Enterprises, Government of India in its annual Report 1973-74 states, "Public Sector in its widest sense covers all activities of the Government. It is in this sense that the overall expenditure mentioned in the Five Year Plans are described. In a more specific sense, however, public sector would cover industrial and commercial undertakings of the Government which are in the form of state corporations or companies registered under the Indian Companies Act".

Public enterprises, on the other hand, can be defined as those specific forms of institutions set up either at the central, state or local levels involving manufacturing or production of goods including agriculture or making available a service for the price. Such institutions can be maintained either directly in the form of a departmental organisation or through any autonomous body. The main focus is that in public enterprise, the price is charged for goods and services provided by it. Such price may cover the entire cost or not but the aim is that the enterprise as a whole, should at least have a breakeven. Therefore, the social services, the administrative functions of the government are not covered under the term public enterprises, while public utility services like railways, postal services and telecommunications, though managed by the respective departments are called public enterprises because the objective is to breakeven over a period of time.

According to the United Nations Document, a public enterprise is that organisation in which the government has a majority of interest of ownership and/or management. In one of the studies of the Standing Conference of Public Enterprises (SCOPE), a public enterprise is defined as an entity/organisation which is owned and/or controlled by public authorities and whose output is marketed. In U K, public enterprises are known as nationalised industry because most of them came into existence as a result of nationalisation of existing industries. In India, on the other hand, majority of the public enterprises have been set up as a result of governmental entrepreneurial efforts after Independence.

Thus, while public sector refers in a widest sense to all the economic activities undertaken by the government, public enterprises are those specific forms of institutions or establishments in the public sector, responsible for production of certain goods and services. Public enterprises are also referred as public sector undertakings/units, government controlled enterprises, state economic enterprises. Public enterprises are set up in various forms like corporation, company etc., about which we will discuss in Unit 27.

26.3 EVOLUTION OF PUBLIC SECTOR IN INDIA

The earliest reference to the state ownership and operation of industry in India is contained in the report of the Indian Finance Commission of 1888. It recommended

development of industries as a remedy for frequent famines. The Commission stressed the need for governmental help for the creation of new industries. It also suggested that the government should start manufacturing of sugar, cotton, wool, silk, paper, pottery, glass etc. However, no action was taken by the then government as India's role was confined to that of an exporter of rawmaterials for manufacturers in England. Even in the Report of the Indian Industrial Commission (1904) the government's policy of industrial development was confined to a few provisions of technical and industrial education, collection and dissemination of commercial information and publication of monographs on Indian industries. In 1905, the government established a Department of Commerce and Industry. It was hoped that public sector would be initiated. Though some steps were taken in this regard, it aroused opposition by the European Communities who interpreted the action of the government as a serious menace to private enterprise and considered it as an intervention on the part of the state in matters beyond their sphere.

The First World War brought to the fore, the vulnerability of the Indian economy. After the commencement of the war, the government resolved to examine the industrial policy. It was felt that a definite and self-conscious policy of improving the industrial capabilities of India should be pursued after the war. This led to the appointment of Industrial Finance Commission in 1916. It recommended that the government must play an active part in industrial development. It also felt there was a need for establishing certain key industries. Later, under the Government of India Act 1935, the development of industry became a provincial subject and the Centre had only the powers to give directions and provide technical education. Since the provincial government lacked adequate experience, organisational funds, initiative and creativity, nothing much was done except the creation of departments of industries in provinces. In 1937, when the Congress came to power in many provinces, the Conference of Industry Ministries of the provinces under the Chairmanship of Subhash Chandra Bose emphasised the need for industrialisation and recommended a comprehensive national plan for the purpose. It was also felt that the public utility services could be owned by the central, provincial and local governments. Even the key industries like machine tools, manufacture of machinery, heavy engineering, automobiles, chemicals and fertilisers were recommended to be under the direct operation of the state.

In April 1945, the government issued a statement on industrial policy under which continuation of ordnance factories, railways and public utility services already under the state ownership and operation was confirmed. It declared that some of the basic industries should also be under the ownership of the state. Such state intervention was required as adequate capital was not forthcoming and also it was essential in the national interest to promote such industries. The Advisory Planning Board set up in December, 1946, suggested that the state should take into its own hands the ownership and management of large industries. However, the interim government which came into power in 1946 was more concerned with the transfer of power, and therefore nothing could be done on this recommendation.

After Independence, the government had to tackle the urgent and difficult problem of securing growth at a faster rate. Basic requirements of economic development were lacking and foundation for economic growth had to be laid. For this purpose it was considered that building up of infrastructure was essential. It was also felt that owing to long gestation period, low yield and high capital intensive nature of the investments, which could not be taken up by the private enterprises, state intervention in economic activities, was necessary. Keeping in view the varied problems faced by India on its economic, social fronts, it became imperative to introduce public sector which was to help in building a sound agricultural and industrial base, overcoming the economic and social backwardness.

The growth of public sector in India over the years, since Independence can be traced to the Industrial Policy Resolutions made by the government. The Industrial Policy Resolution of 1948 emphasised on the growth of industry and expanding production capacity of both the public and private sectors. It made it clear that the State must play a progressively active role in the development of

industries. It was also felt that due to the inadequacy of resources, the State may not be able to enter into all industries as widely as it may desire. Therefore, the decision was to set up units of production in the newer fields rather than acquiring or running existing units. It was also felt that the private enterprises if properly directed and regulated must also play an important role. According to the Resolution, the industries were divided into four categories. The first category included the manufacturing of arms and ammunition, production and control of atomic energy, ownership and management of railways and transport. These were to be under the exclusive monopoly of the Central Government. The second category which covered setting up of new undertakings like coal, iron and steel, aircraft manufacturing, ship building, telephones etc., were to be the responsibility of Central, State governments and municipal corporations. The third category of industries which included automobiles, heavy machinery etc., was to be increasingly subject to Central control and regulation in co-operation with state governments. Rest of the industries were left to the private enterprises subject to the provision that the State will also progressively participate in this field and will not hesitate to intervene where the progress of industry, under private enterprise is unsatisfactory.

The Constitution of India which was adopted later, emphasised the role of the State for ensuring better utilisation of resources, and also in preventing concentration of wealth in few hands. Article 39 of the Constitution provides that "the State shall, in particular, direct its policy towards securing that the ownership and control of the material resources of the community are so distributed as best to subserve the common good" and that "the operation of economic system does not result in the concentration of wealth and means of production to the common detriment". The introduction of planned economy and setting the goal of achieving socialistic pattern of society also emphasised the need for public sector and for its rapid expansion. It was felt that the public sector should not only initiate developments in the activities in which the private sector was either unwilling or unable to undertake, but also play a dominant role in shaping the entire economy of the country. Thus, the extensive role of the public sector in the country had been well established after Independence.

The Industrial Policy Resolution of 1956 emphasised on the need for planned and economic development and declared that all industries of public utility services should be in the public sector. Other industries which are essential for the development of the country and required investment on a large scale should also be in the public sector. Thus, the government was to assume direct responsibility for future development of industries over a wide area. The industries under the Resolution of 1956 were classified into three categories. Category one consisted of industries like arms, ammunition, defence equipment etc., the development of which would be the exclusive monopoly of the State. In the second category, industries were to be progressively State-owned and the State was to take initiative to establish new undertakings. The private sector was expected to supplement the efforts of the state. The third category comprised the consumer industries, the development of which was generally left to the initiative of private sector though the State could set up any industry in this category. From the Industrial Policy Resolution, it is amply clear that India has consciously adopted the policy of mixed economy where the co-existence of public and private sectors have been emphasised. We have already discussed in detail the concept of mixed economy in Unit 5 of Block 2 of this Course.

It is clear from the Industrial Policy Resolutions that the compulsions of securing the desired socio-economic objectives for improving the standard of living of people, and also the then prevailing inability of the private enterprises to meet this challenge were primarily responsible for assigning a dominant role to public sector in India. The Industrial Policy of 1977 also envisaged a greater role for public sector in various fields. The Industrial Policy Statement made in 1980, also expressed that public sector will continue to play an increasingly important role. During the last two decades, there has been an unprecedented expansion of public sector, to the extent that there is no sphere of economic activity left where the direct participation of the public sector is not to be seen. This has led to various positive benefits in the economy about which we will be discussing in Section 26.5.

An important aspect which needs to be discussed is the objectives for the fulfilment of which the public sector has evolved in India. The Five Year Plans as well as the Directive Principles of State Policy have enumerated a number of objectives which are to be fulfilled by the public sector. Let us discuss these in the next section.

Check Your Progress 1

Note : i) Use the space given below for your answers.

ii) Check your answers with those given at the end of this unit.

- 1) Distinguish between public sector and public enterprise.

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- 2) What steps were taken during the pre-Independence period towards promoting State intervention in economic activities?

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- 3) Highlight the main provisions of Industrial Policy Resolution of 1948.

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26.4 OBJECTIVES OF PUBLIC SECTOR

Though the reasons for the expansion of public sector in different countries, may differ, the United Nations has clearly given a comprehensive understanding of the reasons why the governments have set up the public sector. Following are some of the objectives as indicated by the United Nations :

- 1) Government must supply the developmental initiative. The purpose of the future development will require the stimulus of the government on the demand side and its determined direct participation in the economic and social works. Such an initiative may come in the form of initiative for investment and promotion of industrial activity, initiative for developing infrastructure and basic activities or the government may supply the required managerial and technical capabilities to the enterprise.
- 2) Government has specific priorities and compulsions which are unlikely to be realised if they are left entirely to the private enterprise.
- 3) Government may be able to supplement the efforts of the private sector in import substitution and export promotional activities.
- 4) The government may wish to promote savings faster by generating resources through prices charged by public sector enterprises. This is

being considered as more convenient method of resource mobilisation rather than exclusive resort to measure of borrowings from public.

- 5) The government may introduce public sector enterprises as an agency of development in an under-developed region because the private sector has a tendency to entrust their units in already developed region.
- 6) In many cases, the governments of the developing countries have certain ideological objectives such as promotion of economic and social justice, which also necessitates a greater role for public sector.

The state of Indian economy, at the time of Independence which is basically agrarian, with a weak industrial base, low level of savings and investment, near absence of infrastructural facilities, made it imperative for the government to step in to all sectors of the economy. Moreover there still exists considerable inequalities of income, low level of employment opportunities, serious regional imbalances in economic development and inadequate trained manpower. Given the types and ranges of problems faced by the economy in the economic, social and strategic fronts, it became a pragmatic compulsion to expand the role of public sector as an instrument of self-reliant economic growth so as to develop a sound agriculture and industrial base, diversify public economy and overcome the socio-economic backwardness.

The need for public sector arises to meet the following objectives :

- i) to help in the rapid economic growth and industrialisation of the country and create the necessary infrastructure for economic development;
- ii) to earn return on investment and thus generate resources for development;
- iii) to promote redistribution of income and wealth;
- iv) to create employment opportunities;
- v) to promote balanced regional development;
- vi) to assist in the development of small-scale and ancillary industries;
- vii) to promote import substitution, save and earn foreign exchange for the economy.

These objectives are the macro-goals or broad objectives of the public sector. Till now no effort has been made to lay down micro-objectives for public enterprises on an individual basis. Andhra Pradesh was the first state to have brought out a white paper on state level public sector enterprises, in 1989 which was the first of its kind in India. There has been persistent demand on the Central Government to present a white paper on public enterprises. Earlier too, the Administrative Reforms Commission and the Parliamentary Committees have repeatedly recommended to the government to specify the objectives of every public enterprise. This will facilitate the evaluation of the performance of public enterprise, in terms of the fulfilment of the laid down objectives. A recent development in this direction is the practice adopted by the government in signing a Memorandum of Understanding (MOU) between the government and the enterprise. It is a simple and effective technique of establishing clear objectives and targets, unambiguous criteria for evaluation and a system of rewards for achievement. Nearly 26 public sector enterprises have been covered by this system and one hundred more are likely to be covered during 1991-92.

26.5 EXPANSION OF PUBLIC SECTOR AND ITS IMPACT ON THE ECONOMY

In India, before Independence, State intervention in economic and commercial activities was confined to a few areas like railways, ports, posts and telegraphs, ordnance factories etc. Since Independence, the range of activities and products of public sector have expanded tremendously. It includes making of steel, mining of coal, ferrous and nonferrous minerals, extraction and refining of crude oil, manufacturing of tools, machines, electrical, building equipment, telecommunications, cement, textiles, newsprint, and many other consumer, trading and service activities. These activities dominate the national economy in several sectors especially in the production of basic metal industries, fertilisers, and fuel. The public sector's contribution to the total industrial production

constitutes more than 50% in many metals, steel and coal, while it is 100% in the area of petroleum, copper, lead and electromechanical teleprinters.

In the last two decades there has been continued large investments in public sector. This was done with a view to accelerating the growth of core sectors of the economy, to serve the equipment needs of the strategically important sectors like railways, telecommunications, defence etc., and also to achieve a certain degree of self-sufficiency in critical sectors. There has been growth of consumer oriented industries in public sector like drugs, hotels, food industries etc. This was done to ensure easier availability of vital articles of mass consumption and to check prices of important products.

There are a large number of public enterprises operating in national and international trade, consultancy, contract and construction activities, communications etc. The public sector coverage has of late enlarged and a sizeable proportion of its outlay has been directed towards the various public enterprises. At the commencement of the First Five Year Plan, there were only five Central Government enterprises and the number rose to 244 by March 1990. The growth of public sector enterprises has been phenomenal not only in terms of investment, but also in terms of production, profitability and range of activities. The imperatives of bringing about accelerated economic growth of the country as well as achieving socio-economic goals under planned development has given fillip to the expansion of public sector.

The expansion of public sector in terms of the number as well as investment has led to many positive effects on the economy in terms of output, employment, generation of resources, balanced regional development in the country etc. Let us discuss these briefly.

Investment

The investment in central public sector undertakings alone has grown appreciably over all these years. From Rs. 29 crore as on April 1st 1951 in five enterprises, the investment has gradually increased to Rs. 99,315 crore in 244 operational public enterprises as on March 31, 1990. The plan-wise growth of investment in central public sector enterprises from 1st April 1957 to 31 March, 1990, is given in the table below :

Table 1

Plan-wise Growth of Investment in Central Public Enterprises

	Total Investment (Rs. in Crores)	No. of Enterprises
At the commencement of 1st Five Year Plan (1.4.51)	29	5
At the commencement of 2nd Five Year Plan (1.4.56)	81	21
At the commencement of 3rd Five Year Plan (1.4.61)	948	47
At the end of 3rd Five Year Plan (31.3.66)	2410	73
At the commencement of 4th Five Year Plan (1.4.69)	3897	84
At the commencement of 5th Five Year Plan (1.4.74)	6237	122
At the end of 5th Five Year Plan (31.3.79)	15534	169
At the commencement of 6th Five Year Plan (1.4.80)	18150	179
At the commencement of 7th Five Year Plan (1.4.85)	42673	215
As on 31.3.1989	85628	238
As on 31.3.1990 (i.e. at the end of 7th Five Year Plan)	99315	244

Besides the number of units given in the table above, there are many enterprises which are under the various departments of the government. If those are included, the amount of investment would become tremendous.

Turnover

The expansion of public sector can also be analysed from the turnover of the public enterprises. The turnover which during 1979-80, was only 23,290 crore rose to Rs. 93,122.13 crore in 1988-89. During the last ten years, the turnover has increased by nearly four times. The ratio of net turnover to capital employed brings out the efficiency of utilisation of funds of any enterprise. During 1988-89, this ratio was about 127%. Bulk of this turnover is from enterprises like Indian Oil Corporation, Oil and Natural Gas Commission, Steel Authority of India and Food Corporation of India. In fact, the major turnover is in the Oil and Petroleum Industry. The public sector's role in the total economy of India has been rapidly expanding since the beginning of planning. In terms of its contribution to net domestic product which was only 3% at one time has already increased to over 20%. Apart from the share in the Net Domestic Product, the rapid rise of public sector is manifested in the growth of income. Over the last few decades the income of public enterprises has increased by 374 crore, at an annual rate of 20% as compared to 11% for the private sector in the organised segment of the economy.

Infrastructure Development

Public Sector has contributed significantly to the development of strong infrastructure which is essential for economic development. There has been tremendous improvement in the road, rail, air and sea transport system. There has been sufficient expansion of irrigation facilities, power, energy which has contributed to agricultural and industrial development. Such improvements brought about in the infrastructure by the public sector after Independence have benefited the private sector too.

Balanced Regional Development

Public Sector had made significant contribution in bringing about balanced regional development and accelerating economic growth. The position of economic development in some states and regions in the country has not been uniform over the years owing to some historic reasons and other factors. During the pre-Independence days, there was concentration of industries in Bombay, Calcutta and Madras while other parts of the country lagged behind. It was only after 1951, that attention was paid towards these problems and steps were initiated to set up industries in other areas which had been neglected. The Industrial Policy Resolution of 1956, and subsequently the Resolutions of 1977 and 1980 also emphasised the need for accelerated rate of growth in the economy, speedy industrialisation and removal of imbalances in development between different states/regions/areas. Hence, a substantial portion of investment of public sector has been diverted to setting up large units in backward regions and also in remote areas. It was with this objective of developing the backward areas that all the four major steel plants have been set up in Madhya Pradesh, Orissa, Bihar and West Bengal; fertiliser factories have been located in Andhra Pradesh, Bihar, Assam and so on.

The dispersal of public sector units to all the states and union territories has been appreciable as it has led to the expansion of employment opportunities, growth of small scale and ancillary industries along with the development of infrastructural facilities. It is with this view of bringing about balanced regional development that the government has been following the policy of giving preferential treatment to backward states in the field of public sector investment.

Employment

The real strategic position of public sector can be seen by looking at its shares in employment. The expansion of public sector has witnessed considerable increase in employment. As on March 31, 1989, 232 Central Public Sector enterprises employed 22.93 lakh people which constitutes more than one third of the total employment in the organised sector. During 1978-79, the number of employees in public sector was only 17.03 lakhs. State-wise distribution of employees reveals that Bihar accounted for the largest number of 4.33 lakh

employees as on March 31, 1990 followed by West Bengal, Madhya Pradesh, Maharashtra, Uttar Pradesh. The industries, which have a sizeable number of employees in the public sector include coal and lignite followed by steel, textiles, heavy engineering, petroleum etc. The coal and lignite sector alone accounted for more than 30 per cent of the total employees.

The public sector is becoming a model employer and most of the enterprises have recognised their social responsibility in providing housing, educational, medical, recreational facilities to the employees, especially in cases where the projects are located in towns and villages which are inaccessible. The actual gross investment incurred on township of public sector enterprises (including work in progress) as on March 31, 1990 amounted to Rs. 2,965 crore. Housing is a major contributory factor in bringing about an attachment of employees with their enterprises and in promoting better and balanced industrial development including higher productivity. Keeping in view the need for overall improvement in the productivity of personnel working in various public enterprises attention is being paid towards training and re-training programmes. Public sector has been one of the instruments in bringing about development of human resources.

Internal Resource Generation

Over all these years, public sector has been paying great attention towards generating resources internally for financing their own expansion and for other development activities. In the context of resource crunch being faced by the country, the generation in internal resources by the public sector has assumed greater importance. The gross internal resources generated by the public sector enterprises during the third plan period was of the order of Rs. 287 crore which in the seventh plan period went up to 37,678 crore. The public sector contributes to the government exchequer by way of

- i) dividends
- ii) interest payment on loans
- iii) income tax
- iv) excise and other duties.

During the year 1989-90, such contribution amounted to Rs. 18,252 crore as against Rs. 16,352 crore in the previous year, recording an increase of 11.6 per cent.

Import-Substitution and Export Promotion

In a developing economy like India, the problem of foreign exchange becomes a serious constraint on the process of industrialisation. The expansion of activities of public sector in areas like steel, aluminium, heavy engineering has to a certain extent lessened this problem. The contribution of some of the public enterprises like Indian Oil Corporation, Oil and Natural Gas Commission, Bharat Heavy Electricals has been significant in reducing imports substantially thereby reducing foreign exchange pressure and creating a base for industrial and economic self-reliance of the country.

Public Sector has also contributed towards expanding exports of the country especially in products as metal ores, engineering goods etc. Apart from foreign exchange earned through exports by manufacturing concerns, other enterprises like Air Corporations, Shipping Companies etc., are also contributing towards the external trade of the country. During all these years there has been steady growth of export earnings by the public sector enterprises which in the year 1988-89 stood at Rs. 4,898.07 crores.

Public Sector in any country, more so in the developing countries, certainly plays an important role in its economic development. In fact in the developing countries it is the most important agent of development. It has been able to translate into reality the policy of technical managerial and economic development. It is also true that the financial position of a large number of public enterprises the world over, has not been appreciable. For example, in India, the net profit works out to be 4.4% of the capital. Some of the public enterprises are having consistent losses. There is a need to improve the performance of public enterprises but at the same time there are no easy solutions for improving the performance. Profitability, though extremely important, cannot be the sole

criterion for judging the performance of public enterprises in a developing country. However, there is a need to efficiently manage all the available resources at the disposal of public sector enterprises. In the foreseeable future, industrial and economic development in the country is expected to take place to a considerable extent through the public sector. Public sector has to provide the lead with the private sector enterprises continuing and supplementing the effort of economic development.

Check Your Progress 2

Note : i) Use the space given below for your answers.

ii) Check your answers with those given at the end of the unit.

- 1) State the objectives for the fulfilment of which the public sector has evolved in India.

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- 2) Discuss the expansion of public sector in terms of investment and increasing employment opportunities.

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- 3) How far has the public sector contributed towards internal resources generation?

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26.6 LET US SUM UP

Intervention of a positive kind in the ownership and operation of economic activities has become an essential role of all the States but more so in the developing countries. Though public enterprises existed in one form or the other in the earlier societies, generally it is regarded as a development of post-World War I period. Most of the developing countries have generally adopted the mixed economy model and the expanded role of public sector is being considered as a pragmatic approach for the socio-economic development rather than a dogmatic approach.

Such activities where the organisation charges price for goods and services are generally regarded as public enterprises. Though in a limited form, public enterprises existed in India during pre-Independence period but the dominant

role of the public sector in shaping the economy of the country is considered as a post-Independence activity. Under the Industrial Policy Resolutions of 1948 and 1956, the public enterprises are helping in the rapid economic growth and industrialisation of the country and have been called upon to create necessary infrastructure for economic development, promote balanced regional development, create employment opportunities, earn foreign exchange and generate internal resources.

Since Independence, there has been a tremendous expansion of public enterprises in terms of its activities and products, number of units, investment and the turnover. Over all these years it has played an important role in bringing about socio-economic development and helping in assisting the small scale and ancillary industries. It has also been generating resources for the public exchequer. In the near future, public enterprises will be required to take up additional responsibility in bringing about economic development.

26.7 KEY WORDS

Ancillary Industries : The industries which are dependent upon the main industries and provide some help in the form of goods and services to the main industries.

Break-even : It refers to that stage or point when the economic activities start giving some profit.

Dividend : It is share of profits earned from a company, either by the government or any individual as holder of shares in that company.

Equity : A form of financing the organisation under which the capital stock is held in the form of shares.

Infrastructure : The organisations whose activities indirectly help in providing base for further economic development.

Memorandum of Understanding : In simple words it means an agreement between two or more parties. In case of public enterprises, it means an agreement between the administrative ministry and its enterprises which is expected to set out mutual obligations and expectations. The memorandum clearly establishes the objectives, targets of the enterprises concerned, criteria for evaluation of achievements and a system of rewards.

Re-training : It is instruction in a new field of specialisation or extensive training in the old field of specialisation.

Turnover : The turnover relating to public sector refers to the total value of goods which are sold by the organisation.

White Paper : An official document which gives the policy of the government on a particular subject.

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26.9 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

- 1) Your answer should include the following points :
 - Public Sector covers all the governmental activities which are social, industrial and commercial in nature. It is said to include industrial, commercial undertakings of the government which are in the form of corporations or companies.
 - Public enterprises are those specific form of institutions set up either at the central, state or local levels which are involved in the manufacture or production of goods. These goods and services are made available by the enterprises for a price.
- 2) Your answer should include the following points :
 - The Indian Finance Commission set up in 1888 stressed on the need for governmental help for the creation of new industries.
 - A Department of Commerce and Industry was set up in 1905.
 - With the commencement of First World War, the vulnerability of the Indian Economy came to fore and the government felt the need to improve the industrial capabilities of the country, through a definite self-conscious industrial policy.
 - The Industrial Finance Commission in 1916 recommended that the government must play an active part in industrial development and stressed the need for establishing certain key industries.
 - In 1945, a statement on industrial policy was issued under which continuation of ordnance factories, railways, public utility services already under the State ownership and operation was confirmed.
 - The Advisory Planning Board in 1946, also suggested State ownership and management of large industries.
- 3) Your answer should include the following points :
 - The Industrial Policy Resolution of 1948 made it clear that the State must play an active role in the development of industries.
 - The State was to set up units of production in the newer fields rather than acquiring or running the existing units.
 - It proposed fourfold classification of industries. The first category consisting of manufacturing of arms and ammunition, atomic energy, railways etc., were to be under the exclusive monopoly of the central government. The second category covering iron and steel, coal etc., were to be the responsibility of the central, state and local governments. The third category of industries which included automobiles, heavy engineering was to be subject to central control and regulation in co-operation with state governments. Rest were left to the private enterprises with the provision for State intervention in cases where the progress of industry under private enterprises is unsatisfactory.

Check Your Progress 2

- 1) Your answer should include the following points :

The objectives for the fulfilment of which the public sector has been set up in India are to :

 - help in the rapid economic growth and industrialisation of the country and create infrastructure for economic development;
 - earn return on investment and generate resources for development;
 - promote redistribution of income and wealth;
 - create employment opportunities;
 - assist in the development of small-scale and ancillary industries;
 - promote import substitution, save and earn foreign exchange for the economy.
- 2) See Section 26.5
- 3) See Section 26.5

UNIT 27 FORMS OF PUBLIC ENTERPRISE

Structure

- 27.0 Objectives
- 27.1 Introduction
- 27.2 Departmental Undertaking
- 27.3 Statutory Corporation
- 27.4 Government Company
- 27.5 Choice of a Form of Organisation for Public Enterprises
- 27.6 Other Forms of Organisation
- 27.7 Joint Enterprise
- 27.8 Need for an Apex Organisation for Public Enterprises
- 27.9 Let Us Sum Up
- 27.10 Key Words
- 27.11 References
- 27.12 Answers to Check Your Progress Exercises

27.0 OBJECTIVES

After reading this unit, you should be able to :

- state the main features of Departmental Undertaking, Statutory Corporation and Company form of Organisation
- discuss the issue of choice of form of organisation for public enterprises
- describe the features of other forms of organisation
- explain the concept of joint enterprises; and
- indicate the need for having an apex organisation for public enterprises.

27.1 INTRODUCTION

As discussed in the previous unit, as a direct consequence of Industrial Policy Resolutions of 1948 and 1956 and avowed declaration of 'Socialistic Pattern of Society', 'Directive Principles of State Policy' and under the impact of planning, the public sector in India has assumed a very significant role in the economic development of the country. Public sector units have been established in industries like steel, coal, fertilisers, heavy electricals etc. Some important financial institutions like the Reserve Bank of India, insurance companies etc., have been taken over by the government, while a number of financial institutions for providing finance to different sectors of the economy have been set up. In all these endeavours, when a government determines to acquire or create a public sector unit, it is faced with a dilemma as to how to devise an administrative structure which is subject to government's direction in important policy matters like other public organisations, while at the sametime having the freedom of action necessary for it to operate efficiently like a private organisation. Accountability towards public, flexibility in operations are important amongst the other characteristic features of public sector organisations. Basically, therefore, the choice of a form of organisation means nothing but the ability to strike a right balance between 'public accountability' and 'operating autonomy'.

Three principle forms of organisation for the administration of the public enterprises, each achieving a different balance between the 'autonomy' and 'governmental control' are being experimented by the Government of India. These forms of organisation are Departmental Undertakings, Statutory Corporations and Government Companies. But, so far well-defined principles have not crystallised either in theory or in practice regarding the choice of the form of organisation for the public sector undertakings in India. The Administrative Reforms Commission in its Report on Public Sector Undertakings has recommended that a "Statutory Corporation" should in

general be adopted for public sector projects in the industrial and manufacturing field. A similar suggestion was also made earlier by the Estimates Committee. But the government has been favouring the company form of organisation for industrial and manufacturing undertakings.

In this unit, we will initially describe the features of the above mentioned three principal forms of organisation i.e. the Departmental Undertaking, Statutory Corporation and Government Company. Then the issue of choice of a form of organisation for public enterprises will be discussed. Other forms of public enterprise organisations like control board, operating contract, sector corporations will be described. The concept of joint enterprise and the need for having an apex organisation for public enterprises will be highlighted.

27.2 DEPARTMENTAL UNDERTAKING

Among the different forms of organisation, the 'Departmental' form is the oldest and is at par with normal government departments in matters of appropriation, parliamentary control and accountability. This form has commonly been used for the administration of national services like posts and telegraphs and railways besides defence production units.

The main features of the 'Departmental' form of organisation are :

- A department is headed by a minister who is responsible for policy making and day to day administration.
- Departments do not enjoy any financial autonomy, as the government exercises strict financial and budgetary control over them.
- Department follows routine procedures of administration and this leaves no scope for any flexibility in taking decisions and other matters too.
- The departments do not enjoy any autonomy in personnel matters. The personnel working in the departments are recruited by the public service commission and are governed by strict rules, regulations of the government.

According to the Report of the Seminar on Organisation and Administration of Public Enterprises in the Industrial Field conducted by the United Nations Economic Commission for Asia and the Far East in 1956, the main features of departmental form of organisation in most of the countries are :

- the departmental enterprise is financed entirely by appropriations from the Treasury and all or a major share of its revenues are paid into the Treasury;
- the enterprise is subject to budget, accounting and audit controls applicable to other government activities;
- the permanent staff of the enterprise are civil servants and the methods by which they are recruited and the conditions of service under which they are employed are ordinarily the same as for other civil servants;
- the enterprise is generally organised as major subdivision of one of the control departments of government and is subject to the direct control of the Head of the Department; and
- where this applies in the legal system of the country concerned, the enterprise possesses the sovereign immunity of the State and cannot be sued without the consent of the government.

Although this form of organisation ensures full control by the government, there are obvious limitations in this form of organisation. It may not have adequate freedom of action in matters such as technological improvements, capital expansion, finance and accounting, purchase and personnel administration. The Krishna Menon Committee Report on State Undertakings has also pointed out some limitations in having a purely departmental form of organisation. These include :

- Permanent staff is subject to rules and regulations applicable to civil servants, thereby preventing both promotion on merit and prompt disciplinary action where necessary;
- tardy procedures for arranging funds, for instance, the necessity for getting sanctions for expenditure and other matters in every single case;

- iii) cash receipts have to be put into government account and cannot be taken out without special sanction;
- iv) the system of accounting; and
- v) the departmental methods of purchase of raw material and sale of products and so on.

The Departmental form of undertakings due to their being subject to such limitations are not very popular. Inadequacy of this form has been recognised and two alternative forms viz., a 'statutory corporation' and 'government company' were developed to allow flexibility and initiative in the management of the public sector undertakings. Let us now discuss these two forms of organisation.

27.3 STATUTORY CORPORATION

After Independence with the government assuming new economic, commercial, industrial functions for the welfare of the people, it was felt that departments are not suitable for carrying out all these functions. As we have discussed in the earlier section, departmental undertakings lack flexibility, autonomy, quick decision making powers. Hence statutory corporations are better suited for these functions, as they have altogether a different type of structure. Since they have more freedom in decision making and flexibility in their day to day working than departments there was acceptance of statutory corporation as the appropriate form of organisation for public sector units. This is one of the reasons, for adopting this form of organisation while setting up the Damodar Valley Corporation, the Industrial Finance Corporation etc., after Independence.

Statutory Corporations are set up under specific statutes of the Parliament and the extent of their accountability and the nature of the parliamentary control is indicated in the statutes.

The principal characteristics of a corporation are :

- a) It is owned by the government and it is established for some specific purpose.
- b) It is established by law or statute passed by the Parliament or Legislature. The statute clearly lays down the objectives, powers, and privileges, the form of management and its relationship with the established departments and ministries.
- c) The statutes creating the corporations also vest in a body, usually known as the 'Board of Directors' the powers to act in the name of the 'Corporation' subject to government's right to issue directions from time to time.
- d) The corporation has a 'corporate status'. It implies that in the eyes of law a corporation has a status of that of an individual. For legal purposes it is a separate entity, can enter into contracts, acquire property, can sue anybody and be sued. A statutory corporation is an administrative agency of the government, but in the eyes of law it has an independent status like a citizen. This is known as 'corporate status' of the corporation.
- e) The statutory corporation has financial autonomy. It is usually independently financed. It obtains its funds from borrowings and is authorised to use and re-use its revenues.
- f) The employees of the corporation normally are not civil servants. They are recruited and remunerated under the terms and conditions determined by the corporation, except that in certain matters certain broad guidelines issued by the government have to be adhered to.

A corporation therefore is in an advantageous position because it has initiative, flexibility and operational freedom and relieves the ministers of direct administrative responsibility. However, the creation of this device has given rise to new and equally difficult problems. There is a danger that their operations may become unco-ordinated and they may become too much independent. According to Hanson, "the freedom conferred on an enterprise by this form of

organisation can be so large that the problem of public accountability becomes very difficult". The resultant problem is as to how far should the government keep control over a corporation or how far should it go to grant it autonomy. Exercise of control by the government and Parliament is likely to take away its primary advantages of autonomy and freedom.

27.4 GOVERNMENT COMPANY

Government company is the new form of organisation which is being widely used in India and many European countries for the industrial and commercial undertakings. The company form has become popular due to the merits of easy formation, flexibility in administration, freedom from governmental interference etc. The government company, according to Sec. 617 of the Companies Act is that in which not less than 51 per cent of the paid-up share capital is held by the Central government or State government or jointly by the Central and state governments. This form of organisation can associate private enterprise-national or foreign. A government company is established by issue of an executive order. It does not need the approval of the Parliament or State Legislature.

Some of the characteristics of a government company are :

- a) It is a body corporate created under the Companies Act. Like statutory corporation, it can own property, sue, be sued in its own name and enter into contracts.
- b) It is governed by Memorandum of Association and Articles of Association which lay down the objectives of the company, and other rules governing its internal management.
- c) A company is managed by a board and depending upon the extent to which private capital is participating in the enterprise, all the directors or majority of them are appointed by the government.
- d) The personnel of a government company are not civil servants and they are appointed by the company on terms and conditions different from that of government departments.
- e) It enjoys financial autonomy. If it is fully owned by the government, it obtains funds from the government and otherwise from some private shareholders, revenues secured through sale of its goods and services. It is also not governed by accounting and audit procedures applicable to government departments.

A government company is far easier to form than a public corporation. The latter generally calls for specific legislation for which the Parliament may not have time or which the government may not wish to introduce at a given point. With the adoption of company form of set up for any public enterprise, the government is not bound by any limitations as imposed by any specific act because of the regulations governing and guiding the Board of Directors in the form of Articles of Association which unlike an Act, can be modified periodically in an easier way.

The company form is also convenient when

- i) the government has to take over an existing enterprise in an emergency;
- ii) the government wishes to manage an enterprise in association with private enterprise;
- iii) there is competition with the private sector requiring operational autonomy; and
- iv) there are certain compulsions by the donor countries to have specific form of organisation.

The use of company form of organisation has at times been criticised on certain grounds like it does not assume accountability to the Parliament which is implicit in the case of departmental form of organisation and explicit through legislation in the case of public corporation. Also it serves a limited purpose in the case of organisations established for developmental or promotional purposes.

27.5 CHOICE OF A FORM OF ORGANISATION FOR PUBLIC ENTERPRISES

The problem of evolving a suitable form of organisation for public enterprises has been since long a matter of controversy. Regarding the suitability of departmental type of organisation, consensus exists that it be used for undertakings relating to defence, having a strategic or security base and for enterprises designed for commercial activities or public utility services. The Estimates Committee also in its 16th Report (1954-55) discussed this problem and expressed its disapproval of adopting a form of departmental undertaking and recommended company type of organisation.

Regarding the relative utility of the 'corporation' or 'government company' as the form of organisation, there has been an absence of *raison d'être*. The corporation form has been adopted for most of the industries in England and other Commonwealth countries. The company form is extremely popular in Europe, France, Germany and Italy. In India too, the company form has been favoured for industrial and manufacturing industries.

A company form of organisation gives the government a free hand and there is less dependence on Parliament's approval for policies relating to day to day administration of such an organisation. Hence the parliament naturally, is not in favour of such an organisation, which reduces its 'Parliamentary control'. This controversy between the choice of either a statutory corporation or a government company form of organisation is pretty old.

The Estimates Committee again in April 1960 in its report observed that no well-defined principles had been followed in determining the form of organisation. It recommended that state owned public undertakings be organised in the form of statutory corporations and the company form be organised only under special circumstances like for instance if an enterprise is to be launched in association with private capital. The government in reply defended its choice and pointed out that the company form has the necessary flexibility and autonomy needed for the successful operation of commercial enterprises. The government, however agreed that corporation form of organisation will be deemed favourable whenever the undertaking is to handle enormous finances or where the normal functions of an industrial or commercial enterprise are lacking.

The Administrative Reforms Commission in 1967 examined the issue, and felt that the adoption of a statutory form of organisation for a public enterprise is advantageous as compared to the company form. Since the corporations are set up by the Parliament, it has the opportunity of discussing the details of the constitution of enterprise in public sector, its objectives, operations and other obligations the enterprise has to fulfil. The specific act creating a corporation can define the extent of autonomy and decentralisation necessary for the enterprise. Hence the Commission favoured the adoption of statutory corporation form in general and also suggested for the establishment of the Sector Corporation about which we will discuss in the next section. It recommended :

- a) Adoption of statutory corporation form in general for public sector projects in the industrial and manufacturing field.
- b) Company form of organisation for projects where there is an element of private participation, undertakings which are primarily trading concerns or which are set up to improve particular areas of business. This form is suited for an undertaking which is small in size and is to be given an independent legal status.
- c) Promotional and developmental agencies should as far as possible, be formed as statutory corporations or departmental concerns.

The Government of India did not fully accept the recommendations of the ARC, but later, keeping them in view clearly demarcated areas where the corporation and company form of organisations are preferred. The statutory corporation is preferred for certain enterprises which provide utilities, which are primarily intended to develop the basic infrastructure facilities, but where the

commercial aspect is predominant the company form of organisation may be adopted.

It is the experience of most of the countries including India that both statutory corporations and government companies do not enjoy the extent of autonomy which was originally expected from them. The idea which was once widely expressed that the requisite autonomy for a public undertaking can be secured by the appropriate legal status has now proved rather illusory. Whether the undertaking is organised as a statutory corporation or a government company, the autonomy which it enjoys and the kind of control under which it has to work depends mainly on the conventions and the working precedents which develop along with its legal status. With the obstructive presence of our bureaucracy and political interference, directly or indirectly in the appointment of personnel, it turns more into an apology of autonomy, being what politicians permit and civil servants allow.

Hence, every form of organisation has its relative advantages and disadvantages. Determining a particular type of organisation for a public enterprise is a difficult task which has to take into account various factors like the nature of activity of that particular enterprise, its contribution to the national economy, its personnel, financial requirements, etc.

Check Your Progress 1

Note : i) Use the space given below for your answers.

ii) Check your answers with those given at the end of the unit.

- 1) Distinguish between a departmental form of undertaking and a statutory corporation.

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- 2) State the characteristic features of a government company.

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- 3) Discuss the recommendations of the Administrative Reforms Commission regarding the choice of organisation for public enterprises. Were these recommendations accepted by the government?

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27.6 OTHER FORMS OF ORGANISATION

Apart from the three principal forms of organisation we have mentioned above, there are other forms of organisation under which some public enterprises are functioning. Let us discuss these.

Control Board

The Control Board comes into existence based on the resolution of Central or state governments as the case may be. These Boards are set up generally for the management of river valley projects. Control Board is not a statutory body but is created by the executive authority and hence does not enjoy operational autonomy like the public corporation. Except the Damodar Valley Corporation which was set up as a statutory corporation, other projects like Bhakra Management Board, Tungabhadra Project are set up under the form of Control Board. The Board is given the charge of the project including technical and financial matters.

Operating Contract

It is another form of organisation where the government entrusts management functions to a private party on an agreed remuneration with a view to getting the benefit of private control and management. Till now no central public enterprise has been set up in India in this form of operating contract as this device establishes the supremacy of private management.

Co-operative Society

At times a public enterprise may also be established as a co-operative society. A public enterprise is treated as a co-operative society only if the government has a majority investment. Many of the development or promotional activities can also be taken up by registered societies under the Societies Registration Act. Such organisations are basically non-profitable in nature. Some of the central enterprises like the Indian Diary Corporation, Trade Fair Authority of India, National Research Development Corporation are set up in the form of co-operative societies.

Sector Corporation

In most of the countries including India there are large number of organisations which are performing particular activity or area of operation. They function directly under the concerned ministry. It was the Administrative Reforms Commission which recommended the setting up of sector corporation in areas like oil, coal and lignite, petroleum, petrochemicals, iron and steel, electricals, fertilisers etc. The objectives of sector corporation which will be a single integrated corporation for each major sector of industry are to :

- a) achieve broader co-ordination and uniformity of policies among constituent units;
- b) provide better professional development to its employees through exchange of experience and training;
- c) avoid duplication of services and unnecessary competition;
- d) pool together the activities relating to research and development.

According to the ARC, setting up of sector corporation by amalgamation of similar activities and converting the organisation into corporation would make the government control more effective by confining it to strategic and vital points. Even the span of control for the purpose of ministerial supervision would be reduced. The major functions of the sector corporation were to (i) advise the government on general matters affecting the particular industry, (ii) receive and secure the implementation of government directives and (iii) promote, provide, co-ordinate activities relating to research and consultancy, recruitment and training of personnel, marketing and purchase, pricing policy etc.

The Government of India did not agree with the suggestion made by the Administrative Reforms Commission, as it felt that a large organisation like sector corporation would become unmanageable. Moreover healthy competition among the public enterprises is needed to improve their performance. However, the government agreed on an experimental basis to integrate some of the units having some common functions. For this purpose in 1973, a holding company in the form of Steel Authority of India (SAIL) was created. A holding company is that which by virtue of its share ownership in other companies is able to exercise control over the management of those other companies known as subsidiaries. It was meant to integrate all the companies into one company so that there is overall control of the management of its subsidiary companies. Such a system would bring better co-ordination in the

development of an overall strategy to plan, promote and organise its management functions. The Steel Authority of India was assigned functions of planning, organising an integrated and efficient development of iron and steel industries, formulating a national policy for the development of iron and steel industries and also rendering advice on all policy and technical matters.

The formation of sector corporation was extended to coal industries too by creating Coal India Limited and to the Hotel Industries by creating Ashoka Group of Hotels. However, this had not been extended to other industries. The argument regarding grouping of public enterprises having somewhat similar functions still remains valid. In a developing country like ours, this grouping will help to reduce unnecessary expenditure and will bring about better management. The establishment of Holding Companies in core sectors was emphasised again in 1986 by the Arjun Sengupta Committee especially in areas like energy, fertilisers etc., as it would provide a link between the government and public enterprises under them.

27.7 JOINT ENTERPRISE

A new trend in the field of public undertakings in some of the developing countries is government participation in economic activities jointly with the private sector. It was the Industrial Licensing Policy Enquiry Committee popularly known as Dutt Committee, which in its report in 1969 advocated the joint sector as an effective antidote to the concentration of economic power, curb the uncontrolled growth of large business houses. According to the Committee the joint sector could fulfil two important objectives of (a) ensuring a positive say in the management and control of assisted private sector industries (b) preventing large industrial houses from expanding their industrial empire with the resources of public financial institutions.

The reasons for creating joint enterprises can be as follows :

- a) While the government desires to set up an enterprise but lacks requisite initiative, skill, by using this device of joint sector, private sector managerial resources can be drawn.
- b) Through joint sector the government may acquire some equity interest in some enterprise that is sick or is mismanaged by the private sector and is causing concern to the government.
- c) The government participation through joint sector would accelerate industrial growth as it helps in activating any untapped segment of industrial sector.
- d) The government may acquire shares in the private enterprises for the sake of profits that are likely to follow.

Although the concept as well as the practice of joint sector has been gaining popularity, it seems that there is no clarity regarding the exact roles of public or private sectors. Also some operational problems like autonomy, pricing policy, representation of government and private sector in the board of management are faced by the joint sector undertakings. Joint enterprise can be powerful instrument of development in the developing countries if mutual trust and confidence is created between the private and public sectors.

27.8 NEED FOR AN APEX ORGANISATION FOR PUBLIC ENTERPRISES

As we have discussed in Unit 26 there has been a significant increase in the number of enterprises. This poses a question whether there is any need to have one overall organisation or single apex body for all the public undertakings. A.D. Gorwala in his Report on the "Efficient Conduct of State Enterprises" (1951) recommended that there should be one Board of Management for all public undertakings. Based on this recommendation, a Ministry of Production was created in the mid fifties and was given the responsibility of co-ordinating the activities of all production units in public sector. But this ministry was wound

up later due to resistance put up by other ministries affected by this move. The proposal of the Select Committee on Nationalised Industries of the UK to have a Ministry of Nationalised Industries and also the presence of Ministry of State Holdings in Italy since 1956, brings the issue of having a separate Ministry of Public Enterprises to the fore.

It is felt that there should be a separate ministry which is well equipped with the managerial personnel having technical ability to deal with all the problems relating to public enterprises. Such a ministry would help in having consistent policies and integrating the efforts of public enterprises towards the process of national development. It will be able to develop and promote common techniques and bring about harmonious relationship among the public enterprises. Even the ministerial control and parliamentary accountability will become effective. On the other hand, since the public enterprises are large in number and constitute a substantial part of the economy, creation of a ministry might lead to organisational problems. The main problem of such a ministry would be its organisational size which may become unwieldy and gigantic. Moreover public enterprises are functioning in different areas which are either commercial or non-commercial in nature with divergent objectives of the individual enterprises and each functioning with a different technology. Hence co-ordination may become ineffective.

The Department of Public Enterprises was created in 1985. The Bureau of Public Enterprises (BPE) which was created in 1965 acts as a nodal staff agency to provide managerial, advisory, performance monitoring services in various facets of management of public enterprises. The Bureau which was functioning earlier under the Ministry of Finance is now under the Department of Public Enterprises. The Bureau is required not only to bring unity and co-ordination in the internal functioning of enterprises but to give expert advice and guidance to various public enterprises. It acts as a vital link with the public enterprises on the one hand and the government and Parliament on the other. It also consolidates the entire activities of public enterprises and their financial results into one consolidated report. Similarly, the Standing Conference of Public Enterprises (SCOPE) also brings similar type of co-ordination within the public enterprises. Besides this there are various committees which are being set up to bring co-ordination among various public enterprises.

Check Your Progress 2

Note : i) Use the space given below for your answers.

ii) Check your answers with those given at the end of the unit.

- 1) Explain the meaning of Control Board.

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- 2) What is a sector corporation? Discuss its functions.

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- 3) What role does the Bureau of Public Enterprises play in the management of public enterprises?

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27.9 LET US SUM UP

Right from the beginning, the government is confronted with a problem to set an appropriate organisation for the management of public enterprises whereby a likely balance between public accountability and operational autonomy may be achieved. For this purpose three principal forms of organisations namely; departmental undertakings, statutory corporations and government companies have been set up. Every form of organisation has its advantages and disadvantages. However, for the purpose of strategic and defence oriented industries, it has been argued that we should have a departmental form of organisation. In the case of financial institutions and public utility services, it is advisable to have a statutory corporation. In the case of manufacturing, processing and trading activities as well as those activities where there is likely to be some competition with the private sector it should be under the government companies. At the operative level, there is indeed no discoverable correlation between the legal status of the undertakings and its autonomy and quality of performance.

As discussed in the unit the suggestion of the Administrative Reforms Commission to have a sector corporation has not found the favour of the government though on an experimental basis Holding Companies have been created for some of the activities in India. The joint sector which has its obvious advantages has also not been successful in this country. Some of the countries have unified department or a ministry at the apex to deal with all the public enterprises. Efforts are being made to create such an organisation in India.

27.10 KEY WORDS

Appropriation : The authorisation of finances drawn by the legislature through the instrument of budget.

Articles of Association : These are regulations for the management, internal arrangement of a company and the terms and conditions on which the shareholders agree, amongst themselves, as to how the business of the company shall be carried.

Arjun Sengupta Committee : The Committee set up in September 1984 headed by Dr. Arjun Sengupta with the objectives of analysing the performance of public enterprises, identifying their constraints and suggesting measures to improve their functioning.

Equity Capital : The total stock/money capital held in the form of shares required for the financing of organisation.

Holding Company : The main company which holds the shares of other companies for the purpose of financing and co-ordination. The other companies are subsidiaries to these companies.

Memorandum of Association : It is considered to be a charter of company which defines or lays down the objects, operations of the company. It sets out the powers the company is entitled to exercise to carry out its objectives. It is a document which consists of details as to the name of the company, state in which the registered office of the company will be situated, objectives etc.

Operational Autonomy : Freedom to take decisions and managing the activities relating to the internal functioning of the organisation.

Public Accountability : To render an account of the performance either directly or indirectly to the public or to the Parliament.

Standing Conference of Public Enterprises (SCOPE) : This was set up in 1970 under the Indian Societies Registration Act. The objectives behind its establishment was to collect, analyse information regarding public enterprises, promote better understanding of the role and performance of the public sector.

Sovereign Immunity : The power enjoyed by an organisation/authority, which being a part of the State is not subjected to legal control by any private authority or organisation.

Span of Control : The number of persons/organisations that can be effectively supervised by the supervisory/controlling authority.

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27.12 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Your answer should include the following points :

- Departmental undertaking is the oldest form of organisation and is at par with normal government departments in various matters while statutory corporation is created for specific purpose by law or statute.
- Department is generally headed by a minister who is responsible for policy making, day to day administration while these functions in case of corporation are discharged by the Board of Directors.
- Departments do not enjoy autonomy in financial, personnel matters while corporations are not bound by any strict rules and regulations of the government regarding these matters.

2) Your answer should include the following points :

- A company is a body corporate created under the Companies Act. The objectives of the Company, rules governing its internal management are laid down in its memorandum and articles of association.
- It is managed by a Board.
- The personnel of company are not civil servants and are appointed on certain terms and conditions laid by the company.
- It enjoys financial autonomy.

3) Your answer should include the following points :

The Administrative Reforms Commission examined the issue of choice of organisation for public enterprises and recommended :

- adoption of statutory corporation form in general for public sector projects in the industrial and manufacturing fields;
- company form of organisation is suitable for projects where there is an element of private participation, trading concerns or those which are set up to improve particular areas of business;
- promotional and developmental agencies be formed as statutory corporation or departmental concern.

The Government of India did not fully accept the recommendations of ARC, but keeping them in view demarcated areas where the corporation and company form of organisations are preferred. The statutory corporation is suitable for certain enterprises which provide utilities, which are primarily intended to develop the basic infrastructure facilities, while the company form may be adopted for commercial enterprises.

Check Your Progress 2

1) Your answer should include the following points :

- Control Board is a body created by the executive authority and is not created by a statute.
- It is set up generally for the management of river valley projects like for example Bhakra Management Board, Tunga Bhadra Project etc.
- Control Board is responsible for the management of the project including the technical and financial matters.

2) Your answer should include the following points :

- Sector corporation is single integrated corporation for each major sector of industry.
- The Administrative Reforms Commission recommended the setting up of sector corporations in areas like oil, and lignite, Petroleum and petrochemicals etc.

The functions of the sector corporation are to

- advise the government on general matters affecting the particular industry;
- receive and secure the implementation of government directives;
- promote, provide, co-ordinate activities relating to research, consultancy, recruitment and training of personnel, marketing and purchase, pricing policy etc.

3) Your answer should include the following points :

The Bureau of Public Enterprises plays an important role in

- bringing about unity and co-ordination in the internal functioning of the public enterprises;
- giving expert advice and guidance to the enterprises;
- acting as a vital link between public enterprises, government and the Parliament.

UNIT 28 ROLE OF DEVELOPMENT CORPORATIONS

Structure

- 28.0 Objectives
- 28.1 Introduction
- 28.2 Concept of Development Corporation
- 28.3 Functions of Development Corporations
- 28.4 Development Banks
- 28.5 Role of Development Corporations and a Critical Evaluation
- 28.6 Let Us Sum Up
- 28.7 Key Words
- 28.8 References
- 28.9 Answers to Check Your Progress Exercises

28.0 OBJECTIVES

After studying this unit, you should be able to :

- explain the concept of development corporation and development bank
- describe their functions
- evaluate the overall role of development corporations in promotional and developmental activities; and
- highlight some of the administrative problems being faced by the development corporations.

28.1 INTRODUCTION

In India, industrial development for a long time has been hampered due to lack of adequate capital. As we have discussed in Unit 26 about the evolution of public sector and its gradual expansion after Independence, in the initial years it had become a stupendous task for the government, to set up and develop industries in the large and medium scale sectors. The problem was not only of financing them, but also providing technical help. Hence, a need arose to set up specialised institutions known as development corporations in different areas, to initiate, promote and operate financial and other promotional activities in the economy. These institutions serve as development agencies, in not only carrying on lending operations, but also developmental activities including promotion of projects, guiding and advising the entrepreneur.

In this unit, we will discuss the concept and functions of development corporations, and the role of development banks. A critical evaluation of the development corporations will also be dealt with in the unit.

28.2 CONCEPT OF DEVELOPMENT CORPORATION

It is difficult to define a development corporation in exact terms. In most of the developing countries the term is used to signify an autonomous agency established in the public sector mainly to promote, rather than operate economic activities through some system of assistance. An important feature of such a corporation is that it aims at achieving some external returns and benefits against its own profit. As far as fostering promotional activities is concerned, the development corporations are useful as they (1) promote an activity which otherwise may not be supported by the private sector or where the private initiative is lacking; (2) accelerate those activities which may materialise but at a slow pace, in a small size and that too, in a sectorally unbalanced manner, (3) promote a desired economic activity as envisaged by the government.

The development corporation connotes the expansion of desired sector of activity, promotion of units, effecting reforms in the structure of ownership and management of some economic activities, attaining the desired balance of payments and development of economic activities in certain backward regions or areas. Thus, the central focus of the development corporation is a planned and deliberate promotional initiative in the public sector which is desirable but may not take place through the initiative of the private sector. The initiative of the government through the development corporation provides initial boost to the economic activities. At times these corporations may promote an activity jointly with the private sector so as to provide necessary confidence to the private sector. Desired development activities are promoted by the development corporations and its promotional benefits do not go to the undeserving beneficiaries.

These development corporations are established in the public sector, firstly because the private sector is not interested in such activities as the projects involve huge amounts of investment, long gestation period or the return on investment is negligible. Secondly, most of the developing countries have the chronic shortage of finances due to reduced amount of savings, low rate of capital formation and these corporations are designed to fill the gap between savings and investment. Thirdly, it may act as an instrument of government policy in bringing about planned economic growth and industrialisation.

Development corporations are provided sufficient autonomy as is normally given to a statutory corporation. We have already discussed the characteristic features and advantages of statutory corporation in Unit 27. These development corporations owing to internal autonomy are able to perform such promotional, developmental and commercial activities which otherwise may not be possible under a departmental form of organisation. It is due to this autonomy, that they are able to offer financial, technical and managerial assistance to the beneficiaries. And they can take decisions suited to the circumstances of each case, like for instance whether to participate in the form of equity or loans or to operate activities by itself or to give some subsidies or to sell the entire enterprise to the private sector.

28.3 FUNCTIONS OF DEVELOPMENT CORPORATIONS

In most of the developing countries, development corporations perform a number of functions. These functions can be broadly classified under four different categories : (1) Financial, (2) Promotional, (3) Technical and (4) Operative functions.

1) Financial Functions

Development Corporations provide loans to industry, trade or agriculture. They may also participate in the equity of an enterprise whereby they are able to promote an enterprise. They may also engage in the activities that have the effect of promoting an active capital market by underwriting the capital issues of the company. In India, the development corporations or development banks like the Industrial Finance Corporation of India, National Industrial Development Corporation, Industrial Credit and Investment Corporation of India, the Industrial Development Bank of India discharge these financial functions. Similarly, various financial and development corporations have been created by the respective state governments since 1952 to provide financial assistance to small and medium-scale industries. We will be discussing in detail about these in Section 28.4.

2) Promotional Functions

The promotional functions take different forms. In some cases, the development corporations may undertake pre-investment studies of the viability of the project and help the entrepreneurs and investors to pick up a feasible project. In most of the developing countries where the skills of the project appraisal and market analysis is not adequately available this promotional aspect of the development

corporations helps the entrepreneurs. In some of the cases, these corporations set up industrial estates in which the promoters are given incentives to locate their establishment. In these industrial estates, land is provided at a concessional rate. Inputs required by the industrial units like power, water etc., are given at subsidised rates. Marketing, warehousing, communication facilities are also provided in these industrial estates. Various state governments in India have set up a large number of such industrial estates.

In many development corporations, actual promotion may take place by initiating steps including procurement of capital arrangements for foreign collaboration and equipment. The State Trading Corporation of India Limited (STC) is a classical example of such promotional activities. The principal business of the STC includes organising and undertaking trade with other trading countries and promotion of export of both traditional and new commodities with a view to diversifying trade and maximising foreign exchange earnings.

Some development corporations are set up, either exclusively or partly, to develop a backward region. For example, the IDBI and other financial institutions have started consultancy organisations like the North Eastern Industrial and Technical Consultancy Organisation (NEITCO), Kerala Industrial and Technical Consultancy Organisation (KITCO) etc, for providing technical advice to entrepreneurs who are desirous of setting up industries in backward regions.

The Industrial Policy Resolutions of 1956 and 1977 entrusted the public sector with the responsibility of encouraging and developing a wide range of ancillary industries and contributing to the growth of decentralised production by making available its expertise in technology and management through small scale and cottage industries. Balanced regional development, extension of the benefits of economic progress to the backward regions and a widespread expansion of industries have been the major objectives of the development corporations in India.

3) Technical Functions

Research and development of new technology is one of the major objectives of the development corporations. For example, the National Research Development Corporation of India was established with a view to promote technical research. The development corporations discharge the function of arranging technical knowhow for the enterprises which may be available either indigenously or from other countries. This to a large extent helps small scale industries in modernising their technology. In India, the National Industrial Development Corporation, is one such development corporation whose major and a continuous function consists of providing consultancy in project engineering, preparation of detailed project reports, drawings as well as assistance and site supervision. The Engineering India Limited is another example whose development function consists of processing, designing and supervising the engineering work of the proposed units. Some of the development corporations provide managerial advice and expertise to the entrepreneurs. They also provide training facilities to their technical and managerial personnel. A development corporation may also offer assistance in the marketing of products of certain categories of industrial enterprises. For this purpose, a large number of marketing units for the sale of agricultural as well as industrial products have been set up by the state governments in our country.

4) Operative functions

A development corporation may promote and operate the activities, of any enterprise under its own control or before transferring it into private sector. Hence, a number of joint sector units have been promoted by the state governments. In the developing countries, owing to the non-availability of desired co-operation either by the government or private sector, the role of the development corporations has not been fully realised. However, there is great potential in co-operative ventures for operating diverse activities. Throughout the world, there has arisen a tendency to privatise the existing units set up in the

public sector. This is being regarded as a better alternative for fast industrialisations, in a developing country.

A development corporation, therefore, is set up not exclusively for one particular function, but may have divergent functions as discussed above. Many of the financial corporations like the Industrial Finance Corporation of India, Industrial Credit and Investment Corporation of India, Industrial Bank of India are also assigned non-financial functions.

Check Your Progress 1

Note : i) Use the space given below for your answers

ii) Check your answers with those given at the end of the unit.

- 1) Explain the meaning of development corporation. What purpose do they serve in developing countries like India?

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- 2) Point out the reasons for the establishment of development corporations.

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- 3) Describe any two functions of development corporations.

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28.4 DEVELOPMENT BANKS

We have discussed in Section 28.3 that one of the functions of development corporations is to provide financial assistance to industries. Those development corporations entrusted with financial functions are also known as development banks. The evolution of these specialised financial institutions has been a post World War-II phenomenon. In most of the developing countries one of the major reasons for lack of development has been the inadequacy of finance. Consequently, in the post-war period many of the developing countries have established special institutions to supply finance for the purpose of industrialisation. These financial institutions are known as development banks. These banks were first set up in Europe and Japan. The important function of a development bank is to mobilise resources and then utilise them for industrial growth.

In India, the Industrial Finance Corporation of India (IFCI) was the first all-India lending institution set up in 1948, entrusted with the function of providing medium and long term credit to industry. Later, the state government

had also set up state level institutions known as State Financial Corporations. In 1964, the Industrial Development Bank of India (IDBI) was set up as an apex organisation in the field of development banking. It was assigned the functions of co-ordinating the activities of other financial institutions, supplement their resources, plan and promote industries of major importance and adopt priorities, promote industrial growth.

Like other development corporations, these development banks are playing a very important role in filling the gap in the capital market and providing finances to those industrial enterprises which may not be able to raise funds from the normal channels existing in the country. One of the greatest barriers to development, namely finances, has been removed to a large extent. Their rendering of financial assistance is confined not only to new enterprises, but small and medium firms, enterprises in the backward region and non-traditional enterprises. Such assistance is provided for expansion, diversification and modernisation of the enterprise.

Most of these development banks along with providing finances, discharge promotional activities also. Some of these activities are :

- 1) Identification of projects from an overall economic study of the country through area and sector surveys.
- 2) Identifying entrepreneurs to manage the projects.
- 3) Undertaking full feasible studies of the project either through their own efforts or through appointed consultants.
- 4) Appraising the feasible studies and assisting in the implementation and execution of these projects.

These development banks are now occupying a position of dominance in the field of finance. The technical help coupled with the financial help have helped in reducing regional imbalances, developing backward regions, encouraging structural changes and bringing about diversification in the industrialisation of the country. Through the efforts of these financial institutions, infrastructure for development has been created. Small and medium scale industries have been encouraged which in turn has accelerated the industrial development in our country.

28.5 ROLE OF DEVELOPMENT CORPORATIONS AND A CRITICAL EVALUATION

In India, we have a large number of development corporations both at the Central as well as the State level. As we have discussed earlier, some of these apart from the development banks, include the National Research Development Corporation, National Small Scale Industries Corporation, Central Warehousing Corporation, State Trading Corporation, Rehabilitation Industries Corporation, National Seeds Corporation, Indian Tourism Development Corporation, Film Finance Corporation etc. Similarly a large number of state governments have also set up development corporations for the purpose of meeting the needs of agro-based industries, small-scale industries, for the export, marketing and tourism sectors. There has been a gradual tendency in India to establish development corporations with specific purposes rather than in an omnibus manner. The dominant area in our country has been in the field of finances. But some of these corporations in fields of tourism, export, research and development have been very effective.

The National Industrial Development Corporation has been functioning effectively as an instrument of government for securing a balanced and integrated development of industries both in public and private sectors. It has been setting up new industries and developing new lines of production. It has also taken up the study and investigation of industrial schemes, ensuring the maximum possible use of industrial equipment, and also the available skill and experience in the country. The industries which have been set up in turn encourage the growth of ancillary industries.

The promotional activities undertaken by development corporations in the area of agro-based industries, fisheries, textiles, jute and similar other activities have boosted the overall production and the marketing of these products. On a wider scale the development corporations have also been effective in bringing about social transformation especially for the scheduled castes and tribes and in the tribal areas. They have inculcated the spirit of self help and provided sources of employment to the large number of vulnerable sections of the society. The warehousing facilities provided by these corporations has provided adequate protection to our small scale manufacturers and growers. Tourism in most of the states has become an important industry and in this context the contribution by the Tourist Development Corporations has been quite significant. Substantial foreign exchange is also being earned through this sector.

The development corporation has no doubt contributed to the cause of overall development, strengthening the economy by providing economic and social infrastructure, removal of regional imbalances and encouraged entrepreneurship among different sections of our society. But a serious problem facing most of these corporations have been one relating to its autonomy. Though it is in the form of statutory corporation which enjoys more operational autonomy, being an instrument of government policy and promotional intentions, these corporations have not been able to come out of the government influence in any major way. Unless sufficient autonomy to these institutions is granted it will not be possible for them to operate as commercial enterprises. Since most of these development corporations are undertaking developmental and promotional activities, the influence by the government cannot be undermined especially when they have some social implications. It is expected that a clear understanding especially with the help of memorandum of understanding needs to be built up to have an effective working relationship with the government and the corporations. Once the objectives are clarified and the targets fixed, these corporations should be provided sufficient autonomy so that they are able to discharge their functions.

The priorities laid down for the development corporations many a time are broad in nature. This hinders the effective functioning of the corporations. For example, the Industrial Financial Corporation of India has been making frequent changes in the priorities of its financial operations consistent with the directives received from the Government of India. Unless the directives are clear, positive and issued timely, the development corporations cannot discharge their functions effectively.

To enable the development corporations make a significant impact, their organisation should be so constituted that they are ensured of autonomy in their day to day matters consistent with their overall objectives. There is need for proper delegation of administrative and financial powers to the Board of Directors and lower authorities in the organisation. Professionalism needs to be developed in these corporations through imparting training to the managerial and technical personnel.

Modern techniques of financial management, electronic data processing and better office management techniques should be introduced to improve the overall effectiveness and efficiency of the corporations. This may bring in better system of planning, decision-making monitoring and evaluation.

Check Your Progress 2

Note : i) Use the space given below for your answers

ii) Check your answers with those given at the end of the unit.

1) Point out the important functions of development banks.

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- 2) Highlight the contribution made by development corporations in our country.

- 3) Discuss the administrative problems faced by development corporations in India.

- 4) What steps can be taken to improve the effectiveness of the corporations?

28.6 LET US SUM UP

In most of the developing countries there exists a large number of development corporations to promote and initiate such activities which may indirectly help in the process of socio-economic development of the respective countries. These corporations are created to help the private entrepreneurs in financial and technical matters. In this unit, we have discussed the concept of development corporations and their functions. Generally, those development corporations which provide financial assistance to industries are known as development banks. We have highlighted the functions of these banks like the Industrial Development Bank of India, Industrial Finance Corporation. The development corporations have made a remarkable impact on the economy in various sectors like tourism, marketing, warehousing facilities etc. But a critical analysis of their role brings out that most of these corporations have overlapping functions, they do not enjoy sufficient autonomy and are not able to bring about professionalism among their technical and managerial personnel. To make the corporations effective, there is a need to modernise and improve their administrative set up.

28.7 KEY WORDS

Capital Market : It refers to various institutions, arrangements concerned with the purchase, sale and transfer of stock, bonds etc.

Electronic Data Processing : Use of Computers for the purpose of storage and processing of information for managing an organisation.

External Returns : The advantages and benefits of investment reaching other organisations which secure assistance from the promoters.

Feasibility : Practicability; activities/tasks capable of being executed or managed.

Joint Sector : Those forms of organisation which are managed and operated by public and private sectors together.

Market Analysis : Measurement of market potential and its characteristics.

Operative Functions : Functions and activities related to the direct running of an organisation.

Underwriting of capital issues : It means contracting with or without condition, to subscribe for the stocks, shares, bonds or debentures of any company or industrial concern with a view to the resale of the whole or any part thereof.

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28.9 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Your answer should include the following points :

- Development Corporation refers to an autonomous agency established in the public sector with the purpose of mainly promoting, rather than operating economic activities through some system of assistance.

In developing countries like India, they are useful as they

- promote such type of activities which may not be supported by the private sector or where the private initiative is lacking.
- accelerate those activities which take place at a slow pace, in a small size and in a sectorally unbalanced manner.
- promotes a desired economic activity as envisaged by the government.

2) Your answer should include the following points :

The reasons for setting up of development corporations in the public sector are to

- take up those projects which the private sector is unwilling to take as they involve huge amounts of investment, long gestation period or the return on investment is negligible.
- meet the financial requirements of industries in developing countries.
- act as an instrument of government policy in bringing about planned economic growth, industrialisation.

3) Your answer should include the following points :

- The development corporations discharge financial functions through provision of loans to industry, trade or agriculture. They may also

engage in activities which promote an effective capital market by underwriting the capital issues of the company.

- The development corporations take up promotional functions in undertaking pre-investment studies of the viability of the project, helping the entrepreneurs in taking up feasible projects. Industrial estates are set up in which the promoters are given incentives to locate their establishment, other facilities like power, water, marketing, warehousing are given. Promotional functions can take the form of procurement of capital arrangements for foreign collaboration and equipment.
- Some of the development corporations are entrusted technical functions which take the form of arranging technical know-how for the enterprises which may be available either indigenously or from other countries. It includes providing consultancy in project engineering, preparation of detailed project reports, drawings, site supervision etc. Provision of managerial advice and expertise to entrepreneurs, training facilities, assistance in marketing of products, etc., are some of the technical functions discharged by the corporations.
- Operative functions take the form of joint sector units promoted by many state governments. A development corporation may promote and operate activities of any enterprise under its own control or before transferring it into private sector.

Check Your Progress 2

- 1) Your answer should include the following points :

The functions of development banks include :

- providing medium and long-term credit to industry;
- co-ordinating the activities of other financial institutions; supplement their resources, plan and promote industries of major importance and adopt priorities to promote industrial growth;
- identification of projects;
- identifying entrepreneurs to manage the projects;
- undertaking full feasible studies of the project either through their own efforts or through appointed consultants;
- appraising the feasible studies and assisting in the implementation and execution of these projects.

- 2) Your answer should include the following points :

The contribution made by various development corporations in

- bringing about a balanced and integrated development of industries both in public and private sectors;
- setting up new industries, study and investigation of industrial schemes, ensuring maximum possible use of industrial equipment;
- undertaking promotional activities in the fields of agro-based industries, fisheries, textiles, jute, small-scale industries, export, marketing, tourism sectors;
- inculcating the spirit of self-help and providing sources of employment to a large number of vulnerable sections of the society.

- 3) Your answer should include the following points :

The administrative problems of development corporations relate to :

- inadequate operational autonomy;
- the priorities fixed for the corporations are broad in nature and are not specific;
- lack of clear, positive, timely directives by the government;

- 4) Your answer should include the following points :

- Proper constitution of the organisation of the development corporations with sufficient autonomy in their day to day matters consistent with their overall objectives.
- Proper delegation of administrative and financial powers to the Board of Directors and lower authorities in the organisation.
- Development of professionalism in the corporations through imparting training to the managerial and technical personnel.

UNIT 29 ADMINISTRATIVE PROBLEMS OF PUBLIC SECTOR

Structure

- 29.0 Objectives
- 29.1 Introduction
- 29.2 Major Problems of Public Sector in India
- 29.3 The Policy Aspect
- 29.4 Organisational Problems
- 29.5 Operational Problems
- 29.6 Let Us Sum Up
- 29.7 Key Words
- 29.8 References
- 29.9 Answers to Check Your Progress Exercises

29.0 OBJECTIVES

After reading this unit, you should be able to :

- identify the major problems relating to the performance of public sector in India
- discuss the organisational problems faced by public sector
- analyse the various problem areas relating to the operation of public sector, and
- point out the institutional and procedural changes required in the administrative set up of public sector in India.

29.1 INTRODUCTION

In the previous units we have discussed the evolution and expansion of public sector and the role of development corporations. We have also hinted at some of the administrative problems which are being faced by the public sector in India as well as in some of the other developing countries. In this unit an attempt is being made to examine those administrative problems in a greater detail.

29.2 MAJOR PROBLEMS OF PUBLIC SECTOR IN INDIA

As discussed earlier in Unit 26, as a direct consequence of the Directive Principles of State Policy, Industrial Policy Resolutions of 1948 and 1956 and the government's declaration of establishing a socialistic pattern of society, the public sector in India has come to occupy a commanding position. It has been called to play a significant role in accelerating the rate of economic growth, speeding up the process of industrialisation, increasing employment opportunities and improving the living standards of our people. The performance of public sector, therefore, largely determines the speed and the effectiveness with which we can achieve our social and economic goals.

All these years we have been facing various administrative problems relating to planning, construction and the commissioning of the projects. It has been argued that many of our projects have not been properly planned. They have not been set up at the appropriate locations. Moreover, there has been delay in the construction and commissioning of the projects. There has been considerable increase in the cost of completion of these projects which in turn has not only deprived the nation of the much needed goods and services but has also put extra burden on the public exchequer. With the operation of these public sector undertakings, the operational problems have now assumed greater importance.

In this context the public sector enterprise surveys have clearly brought out that many of the public sector enterprises have not been functioning as expected. The profitability profile of the public enterprises indicates that during the year 1988-89, in 222 operating public enterprises having a capital investment of Rs. 67,535 crore, the net profit has been only Rs. 2,981 crore which works out to be 4.41 per cent of the capital employed. Even in terms of capacity utilisation, labour productivity, operational cost of the products and the rate of industrial unrest the performance of public sector in India has not been much encouraging. The record should be a matter of concern and has been indeed an issue of public discussion at various levels. In an endeavour to improve the performance of public undertakings various reports of the Parliamentary Committees, Administrative Reforms Commission and many other studies have highlighted various administrative problems. While emphasising on improving the functioning of public enterprises a number of issues pertaining to the conceptual and operational aspects, especially related to its economic and social objectives have been raised. It had clearly pointed out that the public enterprises are neither functioning according to its declared objectives nor it has been able to achieve effective utilisation of resources especially personnel, money and material. It is in this context that we are trying to highlight some of the administrative problems being faced by the public sector in India towards the fulfilment of its declared policies and objectives.

For the purpose of discussion these problems can be classified as those related to policy, organisation and operations of the enterprises. The operational problems may in turn cover some major issues relating to financial management, human resource management, materials management, marketing, pricing etc.

29.3 THE POLICY ASPECT

As per the Industrial Policy Resolutions, the public enterprises were required to play a dominant and an exclusive role in the strategic as well as core industries. The consumer activities were left to the private sector. It is a matter of concern that the public enterprises have entered into non-priority areas including manufacturing of beverages and marketing of consumer goods, which legitimately could have been given to the private sector. Since the public sector has started operating in those areas which were assigned to private sector, the private sector is demanding a share in the core as well as strategic industries. There is a need to have a fresh look at our industrial policy. The public sector should hand over these non-priority areas of operation to the private sector. This would thereby reduce the size of the public sector. There is a need to encourage small and medium scale industries in the private sector. The government should adhere to only those areas of operation which are strategic, core and basic in nature.

29.4 ORGANISATIONAL PROBLEMS

In our previous unit we indicated that there has been no consistency rather there has been confusion about the organisational policy of state enterprises. There has been a demand for creating statutory corporation rather than a joint stock company. The recommendation of the Administrative Reforms Commission to have "Sector Corporation" which was referred to earlier in Unit 27 of this Block has not been accepted by the government. On the contrary we are creating a large number of companies out of the existing departmental forms of organisation. But most of these enterprises are functioning as bureaucratic organisations. Moreover there are a large number of public sector units performing nearly the same functions and there is no co-ordination between these units in matters relating to marketing, research and personnel management. There is a lack of effective and proper linkages between the different units within the public sector on one hand and the government on the other.

Most of the public enterprises do not have adequate delegation of powers. There are frequent instructions and directions which are given by the government. Also there is no clarity of objectives for these organisations. Most of the public enterprises do not have adequate power to take timely decisions. There is frequent interference both by the politicians as well as the administrators of the concerned departments. Both ministerial control and the parliamentary accountability have been found to be ineffective. Norms and techniques of accountability have not been adequately established. The control and accountability has been ad hoc in nature and has restricted the managerial autonomy. This has neither been in the best interest of the public enterprises nor has assured their accountability in substantial terms.

There is a need for new scientific techniques of accountability, monitoring and evaluation as opposed to routine rule of thumb and strict bureaucratic system. The main concern should not be more accountability but good accountability. It is only through the "management by objectives" and accountability by results and operational output that the operational autonomy and accountability can be reconciled. In this process both operational autonomy and accountability can be simultaneously enhanced. More accountability can be secured if it is not for individual actions and decisions but for results. To achieve this, instead of hierarchical, authoritative and unidirectional control, there should be more managerial accountability which lays stress on harmonious relationship, unity of action based on common purpose amongst controlling agency and public sector undertakings in the formulation of policies and their implementation. It is hoped that with the memorandum of understanding which has been introduced in our country, the control and accountability in public sector would become more meaningful.

Another problem relating to the organisational structure has been the composition of the board of directors. Most of the public enterprises have a mixed type of board consisting of a few full-time members and a few part-time members. The studies have indicated that many of the part-time members do not take adequate interest in the functioning of public enterprises. Many of them do not attend meetings regularly. Therefore, the advantage of having external experts on the board of directors to give adequate representation to different interests like consumers, suppliers, financial institutions and others, is not being served. There has also been a talk of bringing employees/workers representatives on the board of directors. Once this policy is accepted and implemented in toto, it may bring about a cordial relationship between the management and the workers of the public enterprises. One hopes that the industrial unrest may also reduce and we may witness a harmonious relationship between the management and the workers. Unless adequate powers of decision making are given to its board of directors, a structural change may not bring about a desired improvement.

Planning and Construction of the Projects

Studies have indicated that there have been defects in the planning, preparation of the detailed project reports. In some cases the feasibility reports have not been prepared or have been prepared on the basis of wrong assumptions. There has been lack of proper assessment of the location of the projects and incomplete analysis of commercial profitability as well as socio-economic benefits. For example, 6th Report (Third Lok Sabha) of the Committee on Public Undertakings revealed that setting up of two plants of Fertiliser Corporation at Namrup and Gorakhpur suffered from locational disadvantages. No techno-economic evaluation of the project was undertaken before setting up these two plants and the decision to this effect was taken by the government based on consideration that every state needs to have a fertiliser plant. At times when the reports have been prepared it takes a long time to get it cleared from the appropriate authority which results in considerable delay. Even at the time of construction, the site of the projects has been changed due to political interference. It has not been completed as per the time schedule. Modern techniques like PERT and CPM which help in project planning and monitoring have neither been prepared nor adhered to. Whenever contracts were given, the details were not adequately laid down. All this has resulted in delay in the construction and increase in the cost of the project.

Check Your Progress 1

- Note : i) Use the space given below for your answers.
- ii) Check your answers with those given at the end of the unit.
- 1) Explain the nature of the major problems being faced by the public sector in India.

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- 2) Discuss some of the organisational problems of the public sector in India.

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29.5 OPERATIONAL PROBLEMS

The operational problems faced by the public sector in India relate mainly to financial management, human resource management, materials management, industrial relations, pricing, marketing etc. Let us briefly discuss these problems.

Financial Management

If the public enterprises have to function on commercial principles it is essential that their financial management is consistent with this requirement. Many of them adhere to the bureaucratic procedures existing in the government departments and have not applied the modern techniques of financial management.

A sound budgeting system is very essential for building up an effective mechanism of financial management and control. The budget which apart from providing accountability and internal control, is also a plan of action and a tool of management. The financial performance of an enterprise depends significantly on proper planning and control of its resources. But most of the public enterprises in India do not give much importance to this tool of budget while planning their physical and financial targets. The Estimates Committee in its 20th Report of the Second Lok Sabha also stressed upon the need for toning up the efficiency of public sector undertakings through preparation of a performance-cum-programme statement for the budget year together with the previous year's statement. The Study Team of the Administrative Reforms Commission in 1967 which investigated into this aspect pointed out towards this adoption of the traditional pattern of budgetary forms and procedures in public sector and emphasised the need for introduction of performance budgeting as the expenditure needs to be linked to the activities and end results. But not much headway was made in the adoption of performance budgeting in public sector as still most of the enterprises follow the preparation of traditional budgets.

There is a need to introduce 'performance budgeting' and 'zero-base' budgeting in the public sector enterprises. The improvement in the budgetary system should also be accompanied by greater delegation of authority as well as reduction in the number of cases requiring prior financial approval.

Internal audit is also an important tool of financial management. There is a need to strengthen the internal audit system so that it is able to review the soundness adequacy and application of sound financial principles and operational control. It should play a positive role in suggesting improvements in the financial management rather than acting in an obstructive way. They should also conduct

a test check of a certain percentage of transactions with a view to verify inventories and ensure prevention and reduction of fraud, misappropriation and pilferage.

One of the greatest problems of financial management is resource mobilisation. Most of the public enterprises have their initial supply of capital out of the budgetary allocation. During the last few years some of the public enterprises are getting loans directly from the public to augment their resources. Recently a decision has been taken by the government that 20% of the finances can also be obtained from the public in the form of equity. This equity participation would increase the financial resources of the public enterprises and would reduce their dependence on the budgetary allocation. Moreover, if the public enterprises are able to improve their overall performance, it would be able to generate sufficient internal resources and keep those financial results for their modernisation and future development.

Human Resource Development

It has been well established that the success of any undertaking ultimately depends on the ability, training, experience and morale of the personnel engaged by the public enterprises. Perhaps the most important failure of the public sector has been its inability to develop, to a requisite extent, its own resources of managerial and technical personnel. For staffing most of the managerial positions, the government and the public enterprises right from the beginning have been depending upon private sector, foreign personnel and civil services. But their continuous dependence on any of these resources has been found to be neither practical nor desirable. Private sector as a source of staffing is professional and qualitatively weak because the nature of public sector is different from the private sector. Moreover some of public sector units are in competition with the private sector. Therefore, dependence on this source is not desirable. Most of the existing public sector departments like railways, posts and telegraphs and the then existing ordnance factories did provide a limited number of persons for filling up those positions. With the expansion of the public sector it may not be possible to spare their experienced personnel to the new public sector enterprises. Even the services of foreign personnel which were acquired by the public undertakings for staffing their positions have been found to be very costly and their dependence may not result in the development of people from within organisation as it limits the opportunity for development of its own employees. Most of the public undertakings, therefore, during the initial stages have been depending upon the civil servants to staff various positions. This dependence on the civil service, especially in the central public enterprises has reduced to some extent but it still continues at the state level. The dependence on the civil servants has brought a large number of problems relating to the bureaucratic culture, short tenure and lack of commitment to the public enterprises. Ultimately, the public enterprises are required to have its own cadre of management. In this regard the Public Enterprises Selection Board (PESB) in the Bureau of Public Enterprises has been of some help. Even then most of the top positions are vacant for a long period. There had been a suggestion to create separate management service for the public enterprises and to have separate public service commissions for the public sector undertakings. Neither of the suggestions has found favour with the government.

Public enterprises have not been able to attract trained and competent managerial personnel because the salary structure is not comparable with the private sector. Pay-scale is considered as one of the important factors which affect motivation and mobility of personnel. It is therefore desirable that the remuneration policies of the public sector should be rationalised and considerable changes in the pay structure should be brought about. It should be uniform throughout the public sector and should be somewhat comparable with the private sector.

Many of the public enterprises have excess manpower that too, at the clerical and unskilled level. Partially it has been because the public enterprises were required to retain the employees working in the construction of the projects and there have been tendencies to provide helpers, peons and other staff to the skilled and senior personnel. Partly, it has been due to the fact that manpower

planning has not been done on scientific basis during the initial stages of the project. This has resulted in reduction of 'labour productivity' and increase in the cost of operation. Defects in manpower planning in public sector in India has been pointed out by many studies and committees. Excess of staff strength, employment of large-scale casual labour, ad hoc additions from time to time and employment of helpers etc., have been said to be the problems facing some public enterprises.

Training and development of the employees is another area which can help in providing the undertaking competent employees on a continuous basis. With the increase in the number of public enterprises, the present supply of technical and managerial personnel to man various positions is not sufficient. Also our educational system is not directly related to the professional requirement of the public undertakings. Moreover, most the public undertakings are modernising and diversifying their activities. All this necessitates augmenting of the training facilities and co-ordinating all the training activities which are currently carried on by the public sector. There are two institutions which impart management training in public enterprises i.e. Institute of Public Enterprises in Hyderabad, and Continuing Education for Public Enterprises in New Delhi. Also many public enterprises have in-house training facilities for workers, supervisory managerial staff.

Many of the public enterprises have been sending their employees to foreign countries for training. It has been observed that at times, this training is not effectively utilised as it does not suit the requirements of the job to be performed. This is because right type of identification of training needs has not been done.

Industrial relations

Unfortunately the public enterprises are suffering from poor industrial relations. Being not owned by any individual or a group of capitalists the public sector was expected to have not only cordial but harmonious industrial relations. Owing to the political interference and political patronage, greater concept of job security and encouragement from senior managers, many of the trade unions in the public sector are resorting to frequent strikes and thereby creating industrial unrest. The present system of works committees and limited employees participation in management has not improved the industrial relations to a great extent. It is hoped that if the government introduces the modified form of workers participation, whereby the employees can participate at the shop floor level, plant level and the board level it would help in bringing about better industrial relations. Though public enterprises are spending substantially on labour welfare, housing, employees education, transportations and other such facilities, the employees have not been adequately motivated to give their best to the organisation.

Materials Management

The efficient and economic use of materials is essential for the profitable operation of any undertaking. It forms the most important part of managerial effort in controlling cost. Moreover the value of inventory also imposes a heavy financial burden. The study team of the Administrative Reforms Commission, based on its own study and the reports of the parliamentary committees and Planning Commission pointed out some of the deficiencies in the area of materials management. These include unjustifiably high amount of inventories, lack of adoption of scientific methods of inventory control, delay in the delivery of materials which has resulted in under-utilisation of the capacity of the undertakings. Also, some of the undertakings do not have proper storage and handling facilities. Even the procedure for purchases is lengthy and involves a large number of references to the finance branch.

Studies relating to inventory management in public sector reveals that the time taken to place an order for purchasing materials from the time of placing requisition for those materials is very long. Also there are procedural delays in the organisation for processing the orders for purchase of materials. With this, especially those public enterprises which import materials for their operations tend to import huge stocks, to avoid any possible stoppage of production in between due to non-availability of material.

There is a need to simplify the procedures and introduce modern techniques of materials management, adequate delegation of powers for the purchase of materials. Inventory preparation should be done in a scientific way and should be kept to the minimum. Better storage facilities would help maintain the material in good shape and quality.

Marketing

One of the very important functions, namely marketing is generally not effective in the public sector. This is basically because it enjoys the patronage of the government. Much importance is not given to market planning. Public sector faces other problems like lack of well-developed and integrated marketing information system, formulation of marketing objectives in generalised terms, lack of professionally qualified and trained marketing executives etc. The marketing function has not assumed importance in the public enterprises, owing to monopolistic nature of the enterprises in the market and the absence of private competition. This has retarded the growth and development of public enterprises especially when they have to compete in the international market.

It is, therefore, essential that the public enterprises should make special efforts to attract and develop marketing strategies for the overall growth and prosperity of public sector in India. The Committee on public undertakings has recommended that the government should evolve a centralised marketing set up for each type of industry as well as for specialised products manufactured by more than one public enterprise. The marketing strategy should be to develop long range plans by assessing the environmental factors, production capability and the capacity of the market to absorb the products and services of the public sector.

Pricing

The most controversial and frequently debated issue relating to public enterprises has been its pricing policy. Since there are a number of enterprises in public sector operating in different fields like developmental and promotional, industrial and trading, basic or essential service sectors, there has been no uniform policy and hence they vary from one enterprise to the other.

Broadly, the pricing policies can be classified under three major areas namely; (a) promotion oriented pricing (b) surplus-generation-oriented pricing and (c) regulation oriented pricing. For the enterprises adopting promotion oriented pricing, the prices are fixed low and the external benefits are greater as compared to the surplus created for the organisations. This indirectly implies subsidies to the beneficiaries. For example in case of a public sector unit like the Food Corporation of India, the costs incurred by the unit at the point of sale are higher than the issue price fixed by the government.

Some of the public enterprises follow the surplus-generation oriented price policy to generate surpluses for their own development or to contribute to the public exchequer. In fixing such prices they take into account the cost of operation and the desired profit.

The regulation oriented price policy is adopted by certain enterprises where there is a need to stabilise or regulate the prices and the enterprises are required to provide adequate goods and services at lower prices so that the prices in the private sector are brought to some reasonable levels. Such prices are fixed for commodities which are of mass consumption.

The Bureau of Public Enterprises from time to time has been laying down guidelines regarding pricing policies to be followed by public enterprises. It has been emphasised that the public sector has economically viable units and all efforts should be made to increase their efficiency and establish their profitability. In respect of those units producing goods and services which are in competition with the private sector the normal market forces of demand and supply should operate and such organisations should have competitive prices. A public sector unit like Hindustan Machine Tools (HMT) comes in this category. For instance, the price policy of enterprises operating in the international market like the Bharat Heavy Electricals (BHEL), Hindustan Steel Ltd., etc. is determined by the forces in the international market.

Since the pricing policy in public sector has to satisfy varied interests of the enterprise, consumer, and supplier it becomes difficult to fully meet everyone's requirements and hence some clash of interests is inevitable. But the prices need to be determined keeping in view the overall guidelines issued by the government, individual circumstances of each enterprise, and larger national interests.

Check Your Progress 2

Note : i) Use the space given below for your answers.

ii) Check your answers with those given at the end of the unit.

- 1) Indicate the major problems relating to human resource management in public sector.

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- 2) Highlight the problems relating to materials management in public sector.

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- 3) Explain the three types of pricing policies of public sector in India.

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29.6 LET US SUM UP

In an endeavour to improve the performance of public enterprises various reports—official and non-official—have stressed upon the importance of efficient functioning of public enterprises. It has been particularly pointed out that the performance and the success of any public sector unit depends, ultimately, on the administrative/managerial capabilities of the organisation. The public sector even with the government patronage is likely to fail unless it is able to streamline its administrative system and build up professionalism amongst its managerial/administrative and other employees of the undertaking.

The administration of public enterprises are confronted with a large number of organisational and operational problems. The most important of these relate to finance, management and human resource management. Some of the recommendations to improve the functioning of the public enterprises have either not found the favour with the government and the public enterprises or there has been considerable delay in accepting such suggestions. Unless the suggested institutional and procedural changes are brought in the administrative set-up of the public sector, it will not be possible to fulfil the declared objectives and improve the performance of public sector in India.

29.7 KEY WORDS

Committee on Public Undertakings : This is a parliamentary committee set up in 1964, consisting of members from the Lok Sabha and the Rajya Sabha. It is entrusted with the function of examining the reports and accounts of public undertakings to see whether in the context of the autonomy and efficiency, the affairs of undertakings are conducted according to sound business principles and prudent commercial practices. The committee is essentially a fact-finding body and helps Parliament in ensuring accountability of public undertakings.

Critical Path Method (CPM) : This is a planning technique which by means of diagrams indicates the order in which jobs relating to an activity or project are to be accomplished or completed. It defines a project in terms of its component events: By ordering the events or activities and showing their interdependency in the form of a diagram, this technique enables one to identify the critical or important events or activities, whose delay might lead to delay in the overall completion of projects. This technique is used for planning, estimating, scheduling and controlling of engineering, construction or related projects.

Inventory : It refers to part of the assets of an organisation consisting of raw materials to be used in the manufacture of a product, goods in the process of manufacture, finished goods which are ready for delivery to the customers.

Internal audit : It is an integral part of any organisation which includes examination of the accounts to ensure that they are maintained properly, expenditure incurred is within the prescribed limits and the financial rules and regulations are adhered. The scope of internal audit is determined by the management of the organisation.

Manpower Planning : It is the process of developing and determining objectives, policies and programmes in an organisation that will develop, utilise and distribute manpower so as to achieve economic and other goals.

Management by Objectives : It is a management technique which helps in achieving performance goals of an organisation. It is based on mutual understanding between the management and employees under which specific targets are agreed upon, actual performance towards the objectives is monitored and if necessary, corrective action can be taken.

Materials Management : It consists of all the activities concerned with movement of materials, production, control, inventory control, storage, materials handling, purchasing etc.

Performance budgeting : A method of preparing budget in which items appearing in the budget represent functions to be performed or activities to be undertaken. It is system of presentation of public expenditure in terms of functions, programmes and activities/projects.

Programme Evaluation Review Technique (PERT) : It is a relatively new planning and control technique which is designed to help the management with planning, problem solving, control of organisational processes. It is generally suitable for projects where there are uncertainties and with the help of this technique, statements about the probability of completing a project within a certain stipulated time can be obtained.

Public Enterprises Selection Board (PESB) : The board was set up by the Government of India in 1974, entrusted with the responsibility of selection and recruitment of top managerial posts in public sector undertakings.

Works Committees : These are committees consisting of representatives of employers and workers in equal number, which are set up for industrial establishments with one hundred or more workers. Its functions include matters which affect the working conditions in the establishments like safety, provision of amenities, educational and recreational activities etc.

Zero-base budgeting : It is an approach to budget formulation in which all the activities have to be justified as though those activities were being started for the first time. It aims at analysis and justification of existing activities and a systematic consideration of how the objectives should be accomplished.

29.8 REFERENCES

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29.9 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

- 1) Your answer should include the following points :
- Organisational problems relating to planning, construction and commissioning of public sector units
 - Operational problems relating to financial management, human resource management, materials management, marketing pricing.
- 2) Your answer should include the following points :
- Bureaucratic functioning of most of the public sector organisation
 - Lack of effective and proper linkages between the different units within the public sector and the government
 - Inadequate delegation of power
 - Frequent interference by the politicians as well as the administrators of the concerned departments
 - Ineffective ministerial control and parliamentary accountability
 - Composition of the Board of Directors consisting of both part-time and full-time members. The part-time members do not take adequate interest in the functioning of the enterprise.

Check Your Progress 2

- 1) Your answer should include the following points :
- Inability to develop, managerial and technical personnel
 - Dependence on the civil service to staff various positions in public sector which has led to problems relating to the bureaucratic culture, short tenure and lack of commitment to the public enterprises
 - Improper remuneration policies due to which the public enterprises are not able to attract trained and competent managerial personnel
 - Defective manpower planning leading to excess of staff strength at the clerical and unskilled levels, employment of large-scale casual labour etc.
- 2) Your answer should include the following points :
- High amount of inventories leading to heavy financial burden
 - Lack of adoption of scientific methods of inventory control
 - Delay in the delivery of materials
 - Lack of proper storage and handling facilities
 - Procedural delays in the organisation for processing the orders for purchase of materials.
- 3) Your answer should include the following points :
- There has been no uniform pricing policy in public sector and it varies from one enterprise to the other
 - Broadly, the pricing policies can be classified into three types i.e. (a) promotion oriented, (b) surplus generation oriented and (c) regulation oriented pricing policy

- In case of enterprises adopting promotion oriented pricing policy, the prices are fixed low and external benefits generated are greater compared to the surplus for the organisation's
- In surplus generation oriented pricing, surpluses are generated by the enterprises for their own development or to contribute to the public exchequer
- The regulation oriented prices policy is adopted by enterprises involved in production of goods for mass consumption with a view to stabilise and regulate the prices of goods and services and offer them at a lower price.