



**IAS 100**

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# **DEVELOPMENT PROCESSES AND THE DEVELOPMENT INDUSTRY**



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For almost every writer a different definition of development exists and it is important to first distinguish between: Development as a state or condition-static and Development as a process or course of change- dynamic.

Development is not purely an economic phenomenon but rather a multi-dimensional process involving reorganization and reorientation of entire economic and social system. Development is a process of improving the quality of all human lives with three equally important aspects, namely;

- (i) Raising peoples' living levels, i.e. incomes and consumption, levels of food, medical services, education through relevant growth processes.
- (ii) Creating conditions conducive to the growth of peoples' self-esteem through the establishment of social, political and economic systems and institutions which promote human dignity and respect.
- (iii) Increasing peoples' freedom to choose by enlarging the range of their choice variables, e.g. varieties of goods and services.

### ***Alternative Interpretations of Development:-***

1. Development as Economic Growth - too often commodity output as opposed to people is emphasized-measures of growth in GNP.
2. Development as Modernization - emphasizes on process of social change which is required to produce economic advancement; it examines changes in social, psychological and political processes; How to develop good behaviour and values in individuals; profit seeking rather than subsistence and self sufficiency; Shift from commodity to human approach with investment in education and skill training.
3. Development as Distributive Justice- view development as improving basic needs; Interest in social justice which has raised three issues:- Nature of goods and services provided by government, Matter of access of these public goods to different social classes, How burden of development can be shared among these

classes, Target groups include small farmers, landless, urban underemployed and unemployed.

### **DEVELOPMENT OF TRADITIONAL SOCIETY**

The concept of development presents many difficulties when we try to define it in precise terms. The difficulties arise due to complexity of the process of development operating in many different cultures and under conflicting political ideologies. As a result, every analyst brings a new dimension to the concept of development. The main characteristics, of traditional society in India as it existed almost upto the end of eighteenth century are:

1. Pre-machine technology.
2. Face-to-face communication.
3. Lack of belief in progress.

### ***Pre-Machine Technology***

The most important characteristic of this society was that it developed within the framework of limited pre-machine technology. This traditional society was incapable of continuous flow of innovations which were necessary for sustained growth. The pre-machine technology as characterised by several important features. In the pre-machine technology, the techniques of production in any field ran into a fixed groove with the result that any particular craft or skill remained virtually the same for centuries. For example, the methods of pottery-making or basket-weaving remained more or less the same for centuries. Another feature of the pre-machine technology was the high degree of animal and human energy used in it. That is the main reason why it is called pre-machine technology. This technology functioned in a society which lacked the basic ingredients for any fundamental changes in the social structure. The caste system led to rigid modes of thinking and patterns of life. The commercial castes were

trapped into a commercial way of life and they had no incentive to bring technological knowledge into the society from outside or generate it themselves. As a result, the traditional Indian society did not develop the mental climate which could have produced an industrial revolution as was in Europe.

### ***Face-to-Face Communication***

Traditional societies are generally characterised by the pattern of their communications system, termed as “face-to-face”. This resulted from the lack of geographic mobility and the absence of infrastructure for communications. The cellular character of the Hindu society with its intricate network of the caste system prevented communication between members of sub-castes. The caste system did not allow vertical social mobility and imprisoned individuals into fairly well-knit groups. The communication pattern in the traditional Hindu society also determined the attitude of the masses towards the rulers, the legitimacy of whose rule was taken for granted. As a result, there was little participation in the process of government. Kings ruled with an aura of divinity and the masses were merely “subjects”, not “citizens”. Both the ruling elites and the religious elites were concerned primarily with the functioning within the existing social system.

### ***Lack of Belief in Progress***

In all traditional societies, the political and administrative institutions were marked by a low degree of functional specialisation. The idea of progress was not totally absent in traditional societies since the idea of spiritual progress (in terms of individual salvation or about cosmic evolution of man) was fairly common. What the society lacked, however, was a belief in the possibility of goal-oriented secular changes through the organised activities of men.

## **THE PROCESS OF DEVELOPMENT**

Development is a total transformation of society and a movement in a consciously-chosen direction. There is no straight and linear progress from traditional to modern society, and neither is this transition smooth. Development involves change of outlook, a belief in the possibility of progress and the acceptance of objective criteria and

standards for constant improvement in all aspects of individual and social life. The essence of development lies in the awareness that men have the power to direct their lives and transform the society. Borrowing technology from advanced countries might indicate a desire to be developed, but it is not the essence of development. In fact, development is an attitude of mind; it is not to adopt, but to participate in; not to have, but to do, to be and to keep becoming. In brief, development is a complex one and involves several aspects:

1. Political development.
2. Social development.
3. Economic development
4. Intellectual development.

### ***Political Development***

The first requirement of political development is a high degree of role of specialisation (and differentiation) of political institutions and the growth of communication media. Functional differentiation is represented by political parties, trade unions, religious organizations, pressure groups and other similar organisations. In the second place, there is greater emphasis on rational scientific and secular techniques for decision making. The developed system acquires an impersonal character in which the law becomes more important than the whims of men in power. The bureaucracy develops into a highly specialised and reliable machine for tackling the problems facing the society, in a systematic and scientific manner. To achieve this goal, the bureaucracy has to be manned by a class of highly trained and professionally oriented civil servants. In the third place, there is a great deal of mass mobilisation by the people. It is important, however, not to identify political development with a liberal democratic society since development cuts across political ideologies.

### ***Social Development***

When a traditional society is developed, there is a marked shifting of population from rural areas to urban centres under the impact of industrialisation, which is one of the main agents of development. In addition to migration to cities and towns, the growth of technology gradually reduces the percentage of the population engaged

in agriculture. Social development brings about a marked change in the outlook and behaviour of social groups which are characterised by the functions they perform rather than by their caste, language and other such factors. With the growth of social development, the individual finds himself in a wider world of freedom in which there are fewer restrictions on his ability to take decision affecting his life. He is free to choose his own career rather than have it determined on the basis of his caste.

In a developed society, the communication system links up different sectors and sections of life, supplementing the face-to-face communication pattern of the traditional society. Of course, the vast communication network calls for a body of professional communicators such as journalists, writers, public speakers, etc. Another characteristic feature of social development is that it puts a premium on the acquisition of skills and achievement of desirable results rather than on birth or other social factors like caste.

### ***Economic Development***

Economic development also known as “economic growth” covers many aspects of social life. In the first place, it involves the systematic application of science and technology to the processes of production and distribution of goods and services. Secondly, it compels increasing use of inanimate sources of energy in contrast to the use of human or animal energy in traditional societies. This change in the pattern of energy consumption can only be sustained by a revolution in the consumption patterns of the masses demanding diversification of production in response to varied consumer needs. Diversified consumer needs lead to a high degree of specialisation in production techniques and labour skills. Rationality in economic decisions (in determining the location of industry, for example) results in increased mobility of labour and emergence of a vast variety of market processes.

Economic development of a society is impossible without bringing into existence specialised human skills. Economic development, like political development, gives rise to functional differentiation and to various financial institutions which feed the economic system. Economic development can not be self-sustaining without setting up financial and other institutions by which the professional, managerial and technical skills are imparted. As the development proceeds, there is a gradual shift

from the extractive industries to the manufacture and provision of consumer goods. The linking up of natural resources with the location of industries and the efficient operation of distribution channels require a well-developed transport system. Finally, there is an emergence of a labour force conscious of the important role it is called upon to play in a modern economic system. Another important aspect of economic development is advertising which has brought about significant and far-reaching changes in modern life. Due to revolution in communication media, advertising is able to link the ever-increasing number of consumers with a variety of goods and services. Advertising has encouraged launching of new brands and made the consumer conscious of his freedom of choice. In fact, advertising is one of the most reliable indices of development.

### ***Intellectual Development***

Development cannot be sustained for long in any society without a corresponding and self-sustaining intellectual development characterized by constantly increasing knowledge. This involves the existence of adequate number of fact-finding and data-processing agencies, statistical units, research and development laboratories, universities and similar institutions. Intellectual development implies the existence of intellectual elites who play a key role in sustaining the growth of technology. Intellectual development leads, in all political systems, to greater emphasis on secularism and on secularisation of the process of government and bureaucracy. It also leads to an increasing emphasis on strengthening the material of life.

## **IMPEDIMENTS TO DEVELOPMENT**

There are several impediments to development of a traditional society. Some of the obstacles are:

1. Lack of skills.
2. Rigid administrative system.
3. Impatience for rapid development.
4. Passion for quantitative expansion.
5. Premature politicisation.
6. Strain on law and order resources.
7. Rapid growth of population.

### **(1) Lack of Skills**

The developing countries are usually weak in the skills required for development. The real problem

in training personnel for development programmes lies not in imparting information to them, but in helping them to develop the required skills. It is necessary, to give field workers and administrators more freedom to experiment and to try new approaches; but this is precisely where the Indian programmes suffer.

### **(2) Rigid Administrative System**

In India and in many other Commonwealth countries, the administrative system inherited from the British rule leaves little room for freedom to experiment. The inherited bureaucracy with its outmoded procedures of work and personal attitudes, inadequate delegation at all levels, too formal supervision of field workers and poor morale provide a major impediment.

### **(3) Impatience for Rapid Development**

It arises from the belief that a country must embark on all areas of development at one time. This has led, among other things, to symbolic expenditure on big projects to convince the masses and the outside world of the country's determination to become a modern nation in the shortest possible period of time. Many poor countries have spent huge money on nuclear research even though the basic amenities of life remain unprovided for a high percentage of their population.

### **(4) Passion for Quantitative Expansion**

Another obstacle arises from the passion for a rapid quantitative expansion without attention to quality. Apart from community development, education has very rapidly expanded in India since independence and new universities and colleges have mushroomed under local pressure. The result of this expansion has been pumping into the society a vast army of unemployed graduates.

### **(5) Premature Politicisation**

The political leadership in developing countries has a marked tendency to politicise the mass prematurely. The large number of students and unemployed youths, often recruited by various political parties, contribute to the restlessness of the political process.

### **(6) Strain on Law and Order Resources**

Politicisation of the mass results in considerable strain on the law and order resources of the state. The leadership in India has done very little since independence for rehabilitating the police in the

popular mind as protectors of the law. Attitude formed in the popular mind towards police in the era of our freedom struggle has not yet died but has produced a certain ambivalence towards the police. As a result, investment in improvement and strengthening of the police department has appeared to our leadership as being in some way contrary to the spirit of democratic welfare.

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### **(7) Rapid Growth of Population**

Rapidly growing population is one of the major impediments to the development of a traditional society. Rapid population growth usually results from the improvement in the general conditions of the mass, better health-care facility and decline in morality. A high rate of population growth offsets the economic growth of a country. This leads to frustration, social tension and mass violence.

## **THE PROCESS OF DEVELOPMENT**

### ***What is Under Development?***

It is not an easy task to define under-development or an under developed country. According to the "United Nations Experts Committee," an underdeveloped country is one whose per capita real income is low when compared with the per capita real income of the US, Canada, Australia and Western Europe. According to Prof. Ragnar Nurkse, "the under-developed countries are those which, compared with the advanced countries, are underequipped with capital in relation to their population and natural resources". Even this definition is not fully satisfactory. The Indian Planning Commission has defined an under developed country as one "which is characterised by the co-existence, in greater or lesser degree, of unutilized or underutilised

manpower on the one hand and of unexploited natural resources on the other". According to Colin Clark, who was one of the pioneers in the studies of underdeveloped economies, "economic development consists in the progressive enlargement of tertiary occupations in the economy". According to this definition, underdeveloped economies are those in which the primary occupations predominate. In current literature, all countries with low per capita income are generally classified as underdeveloped. In general, all countries with per capita income less than 10% of that of the US (31,910 US dollars) may be regarded as underdeveloped countries. India, with a per capita income of 2,230 US dollars, is one of the most underdeveloped countries in the world.

### ***Characteristics of Under-Development***

Some of the basic common characteristics are discussed below:

#### **(1) Low Per Capita Income**

The per capita income in under-developed countries is low compared to that of developed countries. For example, the per capita income of India, Pakistan and many other developing countries of Asia and Africa is less than 2,500 US dollars, while that of the US and Japan is more than 25,000 US dollars. Low per capita income is such an outstanding feature of an under developed economy that it can be used as a yardstick to measure the level of development of a country.

#### **(2) Deficiency of Capital**

The insufficient amount of capital, an important characteristic of all underdeveloped countries, the rate of investment is only 5.8% of the national income, while it is 15-18% in the US, Canada and Western European countries. In an under-developed economy, the low level of per capita income limits the size of the market for goods and services which, in turn, weakens the inducement to invest. The low level of investment also arises as a result of the lack of dynamic entrepreneurship, which may be regarded as the focal point of economic development. The root of capital deficiency is the shortage of savings. The level of per capita income being quite low in a developing economy, most of it is spent in satisfying the bare necessities of life (like food, clothing and shelter), leaving very little for capital accumulation.

#### **(3) Excessive Dependence on Agriculture**

It is a well-known fact that most underdeveloped countries are predominantly agricultural. A great majority of their population (usually between 80 and 90%) are engaged in agriculture and allied occupations. This excessive dependence on agriculture is due to the fact that non-agricultural occupations do not grow at a rate commensurate with the population growth due to insufficient investments in areas other than agriculture. The labour to land ratio being high in an underdeveloped economy, agricultural holdings become subdivided into very small plots, which do not permit the use of modern mechanical methods of production.

#### **(4) Rapid Growth of Population**

Although there is a diversity among various underdeveloped economies with respect to their population, they all share a common feature, viz., a high rate of population growth. This rate has been rising still more in recent years in many underdeveloped countries due to advances in medical sciences, which have greatly reduced child mortality and death due to epidemics. While the death rate has fallen phenomenally, the birth rate has not yet shown significant decline. The common trend of rapid population growth in under-developed economies is highly important. Its great relevance lies in the fact that it frustrates all attempts at development since the increased output is swallowed up by the increased population and the country continues to remain poor. The size of Indian economy, is the fifth largest in the world (after the US, Russia, China and Germany) from the point of view of the Gross Domestic Product (GDP). On the other hand, our population is so large that if we consider the per capita income, India lies among 10 or 15 poorest countries of the world.

#### **(5) Large-Scale Unemployment**

An important consequence of the high rate of population growth in an under-developed economy without a corresponding high rate of economic growth is that there is a large-scale unemployment in urban areas and under-employment in rural areas. In India, the rate of annual growth of population is about 17 million. We are not able to create even a fraction of 17 million new jobs each year with the result that the absolute number of unemployed (or underemployed) persons goes on increasing every year. It means that more people have to remain engaged in agriculture than needed. It is obvious that the addition of such persons does not contribute much to the productivity of the land.

## **(6) Under-Utilisation of Resources**

Various natural resources in an under-developed economy are either unutilised or under-utilised. Generally under-developed countries are not deficient in land, water, mineral or forest resources and these natural resources remain merely potential resources. These countries are not able to utilise their natural resources fully or properly due to a variety of reasons such as lack of capital, lack of proper equipment, inaccessibility to natural resources, primitive technology, small size of market, etc.

## **(7) Foreign Trade Orientation**

It is a common observation that most under-developed economies are foreign-trade oriented. The underdeveloped countries export their raw materials to foreign countries instead of utilising them at home and import manufactured goods instead of making them in the country itself. Excessive dependence on exports makes the economies unstable and adversely affects the terms of trade. The tendency to import manufactured goods is also high in such countries.

## **(8) Low Levels of Skills**

The underdeveloped countries employ primitive methods of production and utilise inferior technology. There is also a terrible dearth of skilled personnel. Poor techniques and low levels of skill result in inefficient and insufficient production, which leads to poverty. The economic backwardness or poverty of underdeveloped economies manifests itself in lower efficiency, illiteracy, ignorance and lack of entrepreneurship.

### **STAGES OF DEVELOPMENT**

Prof. Rostrow, an eminent economic historian and a specialist on economic development, has divided the historical process of development or economic growth into the following five stages:

1. The traditional society.
2. Pre-conditions for take-off
3. The take-off period.
4. The drive to maturity.
5. The age of high mass consumption.

### **(1) The Traditional Society**

In a traditional society, modern science and technology are either not available or, even if they are available, they are not being systematically

applied, though there may be ad hoc applications of innovations. In a traditional society, agricultural production can be increased due to an increase in the acreage of land under cultivation and the composition of domestic and foreign trade may also change. But the distinguishing feature of the traditional society is that there exists a ceiling on the level of the attainable per capita output. A large proportion of productive resources in a traditional society is devoted to agriculture.

### **(2) Pre-conditions for Take-Off**

This stage may require a long period, a century or even more, during which the pre-conditions for take-off are established. These conditions mainly consist of fundamental changes in the social, political and economic fields. Some of the conditions are:

- a) Change of attitude towards science and technology, risk taking, earning a profit, etc.
- b) Adaptability of the labour force.
- c) Political sovereignty.
- d) Development of financial institutions.
- e) Development of infrastructures such as roads, railways, communications power etc.

### **(3) The Take-Off Period**

This is the crucial stage of development and covers a relatively brief period of two to three decades. During the take-off period, the economy of an under developed country transforms itself in such a way that the subsequent economic growth takes place more or less automatically. The "take-off period" is defined as the interval during which the rate of investment increases in such a way that the per capita real output rises significantly. This initial increase in output carries with it the radical changes in the techniques of production and the disposition of income, which perpetuate the new scale of investment and the rising trend in per capita output. The term "take-off" implies three things. In the first place, the proportion of investment in relation to the national income must rise by 12-15%, thus outstripping the likely growth rate of population. Secondly, the take-off period must be relatively short, so that it can show the characteristics of an economic revolution. Finally, the take-off period must culminate in self-generating and self-sustaining economic growth.

### **(4) The Drive to Maturity**

This state consists of a long period of self-sustaining and self-propelling economic growth.



During this stage, the rate of savings and investments is of such magnitude that the economic development occurs almost automatically. As the economy matures, the overall capital per head increases considerably and that, in turn, changes the structure of the economy itself. The initial key industries, which sparked the take-off stage, now experience retardation as the law of diminishing returns comes into play. But a high rate of growth is maintained by a succession of new rapidly-growing sectors. During this stage of development, the proportion of population engaged in agriculture declines and, consequently, the structure of the developing country's foreign trade undergoes a radical change.

### **(5) The Age of High Mass Consumption**

During this final stage of economic development, the per capita real income of the country is such that a large number of people can afford to buy the basic needs like food, clothing and shelter. There is a tendency for the leading sectors to shift towards durable consumer goods. There is also a steep rise in the proportion of population engaged in tertiary occupations. The present economies of the US, UK, Germany and Japan represent this stage of economic development. India launched her economic development programme in the form of First Five Year Plan from 1951-52. This first two Five year Plans were mainly concerned with the preparation for accelerated development of basic industries, means of transport, facilities for technical training and development of agriculture. With the Third Five Year Plan, India entered a period of self-sustained economic growth, which has continued in subsequent Five Year Plans. The country has made tremendous progress in many areas such as atomic energy, space technology, food production, etc. But we are still in the take stage of economic development.

## **PARAMETERS FOR DEVELOPMENT**

### ***Economic Parameters***

Economic development, opposite to under-development, implies that a country has a highly

developed economic system. This also means that the country has a highly developed banking and credit systems and an adequate development of transport and communication systems. In addition to these, widespread social, institutional

and organisational changes are also implied by the process of economic development. In other words, development means transformation of a predominantly agricultural economy into a highly industrialised one, bringing about a significant rise in the national and the per capita income, which is accompanied by a high rate of capital formation and a high degree of technological development.

The essence of economic development, commonly known as “development”, is the growth of per capita output or per capita income. The process of development is a highly complex phenomenon and it is influenced by a variety of political, social and cultural forces. As observed by Prof. Nurkse, “Economic development has much to do with human endowments, social attitudes, political conditions and historical accidents. Capital is a necessary but not a sufficient condition of progress”. The supply of natural resources, the growth of scientific and technical knowledge and several other factors also have a strong bearing on the process of economic growth. From the standpoint of economic analysis, the most important factors determining the rate of economic development are :

#### **a) The Rate of Capital Formation**

The crux of the problem of economic development in an under-developed economy lies in the rapid expansion of its capital investments. This is necessary so that the rate of the growth of output exceeds the rate of the growth of population growth. Only with such a high rate of capital investment will the standard of living begin to rise in an under-developed country. No economic development is possible without irrigation systems, production of agricultural tools and implements, land reclamation and construction of dams, bridges, factories, roads, railways, airports, ships and harbours. All these are the “produced means of further production”, associated with high levels of productivity.

#### **b) Capital-Output Ratio**

Apart from the ratio of capital formation to the aggregate national income, the growth of output also depends on the capital-output ratio. This ratio determines the rate at which the output of a country grows as a result of a given volume of the capital investment. A lower capital-output ratio leads to a comparatively higher rate of the growth of output as a result of a given volume of capital investment. It is difficult to estimate the capital-

output ratio for a given economy. The reason is that the productivity of capital depends upon many factors like the degree of technological development associated with capital investment, efficiency of handling new types of equipment, quality of available managerial and organisational skills and pattern of capital investments.

### **c) The Rate of Population Growth**

For effecting a significant improvement in the standard of living, the rate of capital formation and the consequent rate of the growth of output must be seen in relation to the rate of population growth. The rate of population growth is given by the difference between the birth rate and death rate of a country. In an underdeveloped economy, the population may be growing so fast that it may off-set even a relatively higher rate of capital formation and the resulting increase in the output. The population of a country can be both a helpful and a retarding factor in economic development. It depends on the size of the population is just enough to utilise these resources fully and efficiently, it contributes greatly to the development of the country concerned. On the other hand, if the size of the population is too large or too small in relation to natural and capital resources, it becomes an obstacle to economic growth. If the population of a country is too large, it contains a higher proportion of dependent population. A large dependent population implies a high expenditure on consumption and, therefore, low savings and investments. Since it is the responsibility of the government to provide the basic necessities of life to the citizens, a relatively higher population involves a higher expenditure to provide such necessities

### **Non-Economic Parameters**

The non-economic parameters provide as much motivation for economic development as the economic parameters. In fact, the difference in the growth rates of the developed and developing countries can be explained mainly on the basis of non-economic parameters like political sovereignty of the country, the type of government, The Government of India has put its faith in democratic planning for development. Equally important for the process of development are social and cultural factors. Each society has certain social institutions which have a strong bearing on economic growth. In India, the social institutions of caste, joint family system and the non-materialistic attitude of the

people have proved to be some of the serious impediments to rapid development in India must aim at removing or at least weakening these age-old social institutions and bringing in about a fundamental change in the attitudes of the people. Likewise, rampant illiteracy among the people in most of the developing countries is another example of social and cultural factors which hinder economic development. A more detailed discussion on some of the important non-economic parameters for development is given below:

#### **a) The Quality of Human Resources**

In the past, economists used to talk of labour as if it was a well understood uniform input into the process of production. Now it has been realized, that the typical adult worker is not just a basic factor of production, but a mixture of labour and a great deal of the so-called embodied capital. Thus, the output per head and a great deal of the so-called embodied capital. Thus, the output per head can be increased by increasing the quantity of the capital invested in a typical worker and improving the quality of labour.

All serious studies in industrial productivity point to the fact that advanced technical training pays not only the individual worker (or manager) who gets the training but also the society as a society as a whole since it increases the per capita output. In addition to increased output, there are other general advantages derived by the society from an educated population. Various studies have shown that productivity improves with literacy and, in general, the longer the period of education a person has, the more adaptable he is to new challenges in this fast-changing world.

#### **b) The Quantity of Labour**

It is obvious that, for any given state of technical knowledge and the supply of other factors of production like machinery and raw materials, the size of the population can affect the level of per capita output. Every child born represents both a mouth to feed and a pair of hands to work. It is perfectly possible to speak of over-populated economies, depending on whether the contribution of additional people to production would lower or raise the level of per capita income of the nation concerned.

#### **c) Invention and Innovation**

New knowledge and inventions can significantly contribute to the economic development of a nation.

In order to see this, let us assume that the proportion of the nation's resources devoted to the production of capital goods is just sufficient to replace the capital stock as and when it wears out. Now if the old capital goods were merely replaced in the same form, the capital stock would remain constant and there would be no increase in the national income. On the other hand, if there is a growth of knowledge, the old worn-out equipment would be replaced by different and more productive equipment. In this case, the national income will have to grow because of the growth of knowledge rather than the accumulation of more and more capital. This sort of increase in the national income can come about either by generating knowledge internally through research and development activities or by importing it from abroad through technical collaboration with multi-national companies. To some extent, developing countries can adapt the techniques that are already developed and used elsewhere. Developed countries, on the other hand, have the more difficult task of developing new techniques by research, invention and innovation. The historical importance of invention and innovation in contributing to economic growth is so well-established that it hardly needs any elaboration. The assembly line and automation are radically transforming the means of production. Similarly, the invention of aeroplane has revolutionised transportation and electronic devices have come to dominate the communication industries. These innovations plus the less well-known but no less profound ones have created many new opportunities for investment and creation of wealth. The nature of goods and services consumed and the techniques employed to produce them are continually changing through research, development and innovation.

#### **d) Social and Legal Institutions**

Social habits of a country have a significant effect on its economic growth. Certain religious patterns are said to be conducive to economic growth.

The well-known sociologist Max Weber argued that the Protestant ethic encouraged the acquisition of wealth and was thus more likely to encourage economic sphere. Although this hypothesis is not yet well-established, economists are interested in such relationships. On the other hand, if certain religious patterns or social habits tend to make economic growth more difficult, one cannot conclude that the religious and social structures

should be changed to maximize the possibility of economic growth. In addition to religious and social institutions, the legal institutions of a country may also affect its economic growth. The pattern of ownership of land and natural resources naturally affect the way such resources are used which, in turn, affect their productivity. If agricultural land is divided into very small plots with each rural family having one such plot, it would be difficult to achieve the advantages of modern agricultural techniques. On the other hand, the concentration of land ownership in the hands of a few absentee land-owners, who are not much concerned to maximise their profits, may also be detrimental to economic growth. If the land lord's holdings are so large that he can obtain all the income he desires without using his land effectively, he may have little incentive to introduce advanced techniques. In many countries where this system (i.e. absentee land lords owning land) exists, land reform (which usually implies the confiscation, nationalization or communisation of land) becomes a necessary condition for growth.

#### **e) The Role of International Trade**

International trade plays a very important role in economic development since it allows a country to escape from its own limitations of natural and human resources and concentrates its efforts in the areas in which it has a genuine advantage. If there were no international trades, a developing country would have to grow on all fronts simultaneously. In that case, its growth could be seriously impaired by the limitations of natural resources and acquired human skills in many areas. A country bent on growing through an industrialisation policy may benefit if it can concentrate at first on light manufacturing and exporting consumer goods in return for capital goods made by heavy industries in more developed countries. In this way, a developing country can gain many of the benefits of more efficient production that it could not hope to match for a long time to come.

Among the other advantages of specialisations that international trade makes possible are the opportunities to take advantage of the economy of scale by producing far more goods than would be required to meet the domestic demand in a state of self-sufficiency. A further advantage that may be significant for a developing country is often called the advantage of "learning by doing". On the other hand, economic growth with a heavy dependence on the foreign trade often brings in the dependence

on the foreign trade often brings in the serious problem of the balance of payments in a world of fixed exchange rates. In a developing country, capital goods are often one of the main limitations to growth. In a closed economy, the problem of scarce capital appears as a resource problem since there are not enough resources to produce capital goods at a rate as fast as desired. In an open economy the same problem appears as a foreign exchange problem since there is not enough foreign exchange to buy all the imported capital goods that are desired for faster economic growth. In both cases, the problem is the same, i.e., it is very difficult to obtain a desired level of capital goods. One way is to make the capital goods at home; the other way is to make consumer goods at home and then sell them abroad in exchange for capital goods. A second problem in a developing country is related to the import of consumer goods, if the country's economy is an open one. As the country's productivity rises, disposable income and the standard of living also rise. In many developing countries, the goods produced at home are mainly in the necessity class with low margins of profit, whereas imported goods tend to have a higher profit margin. In such a situation, the rise in income that accompanies economic growth brings with it a shift in the pattern of consumer demand, with a larger proportion of consumers opting for the purchase of imported goods. Unless something happens to offset this shift in consumer demand, economic growth can be accompanied by an increasingly severe problem of the balance of payments. This problem can be offset in two ways. The first way is for the country to develop export commodities with rapidly expanding demand for the country to develop export commodities with rapidly expanding demand for them in foreign countries. In this case, the exports can expand rapidly to match the increasing imports. A second way is for its domestic growth to take place partly in the so-called "import-substitute" industries. Growth of industries that compete with imports can keep the rapidly expanding demand for luxury goods from being translated into an equally rapidly demand for their imports.

### **THE ROLE OF NGOS AND CIVIL SOCIETY IN DEVELOPMENT AND POVERTY REDUCTION**

Civil society is the arena, separate from state and market, in which ideological hegemony is

contested across a range of organisations and ideologies which challenge and uphold the existing order. To the extent that individuals cannot accomplish certain tasks alone, they typically fall to voluntary associations or civil society organisations, which exist to change or challenge the existing structures and processes underlying exclusion or disadvantage. While in mainstream development usage, civil space is often viewed as "an unqualified good", it represents all interests and contains many competing ideas and interests that may not all be good for development.

Civil society is a broad and hazy concept, and if we see diversity in the NGO sector, we see even greater diversity within it, covering all non-state, non-market, non-household organisations and institutions, ranging from community or grassroots associations, social movements, cooperatives labour unions, professional groups, advocacy and development NGOs, formal non-profits, social enterprises, and many more. In recent decades, 'old' social movements of trade unions and labour have been joined by movements focusing on issues such as gender, environment and a wide diversity of other citizen interests. Context, therefore, is key to civil society and must be key to any analysis and understanding of it.

Across the developing world, states with limited finances and riddled by poor governance and corruption have failed to lead to development for all of their citizens. Within this context, alternative forms of development have been pursued, and since the 1980s, nongovernmental organisations (NGOs) have been increasingly advocated as a means through which the gap between citizens' needs and existing services can be bridged. Where states cannot provide sufficient goods, services or enabling environments that help citizens in securing livelihoods, or where disadvantaged groups are excluded from existing state institutions, alternative channels of service provision and/or holding governments to account must be found. It is into this gap that NGOs have neatly fitted.

### **NGOs**

The emergence and expansion of NGOs in development-

It was perceived failures of state-led development approaches throughout the 1970s and 1980s that fuelled interest in NGOs as a development alternative, offering innovative and

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people-centered approaches to service delivery, advocacy and empowerment. While NGOs and their position within the development sector have risen dramatically, the taxonomy of NGOs remains problematic. Emerging from long-term traditions of philanthropy and self-help, NGOs vary widely in origin and levels of formality. While terms such as 'NGOs' and 'third sector' are classificatory devices that help understand a diverse set of organisations, they can also be obscure in presuming the institutionalized status of NGOs, for example, one potentially ignores a large number of unregistered organisations seeking to further the public good.

### ***The rising prominence of NGOs:***

**Until late 1970s:** A limited number of small NGOs receiving little external support constituted the NGO sector. Most were northern-based with a southern presence, often based on religious assistance and/or in short-term relief.

**Late 1970s to 1980s:** 'The NGO decade' takes place amidst the Western pursuit of neoliberal agendas, with NGOs emerging as a promising development alternative.

**Late 1990s:** Alongside emergence of the good governance agenda, the first concerns surrounding NGOs take off alongside a focus back on the role of the state.

**2000s:** A new international aid regime promises greater consultation and focus on non-growth factors. NGOs with their people-centered, rights-based, and grassroots-driven approaches are well-suited to continue riding the NGO wave.

**2010s:** With persistent concerns of NGOs remaining unaddressed and recognition of their limited success in advocacy and empowerment, there is increasing recognition that NGOs are only one sector within broader civil society and they must reorient themselves with their grassroots-roots.

**(a) NGOs as the 'Development Alternative':** Service Providers and Advocates for the Poor-

Two distinct roles for NGOs are highlighted, both as service providers and advocates for the poor. The service provider-advocate divide differentiates between the pursuit of 'Big-D' and 'little-d' development. 'Big-D' development sees 'Development' as a project-based and intentional activity, in which tangible project outputs have little intention to make foundational changes that

challenge society's institutional arrangements. In contrast, 'little-d' 'development' regards development as an ongoing process, emphasizing radical, systemic alternatives that seek different ways of organizing the economy, social relationships and politics. In their role as service providers, NGOs offer a broad spectrum of services across multiple fields, ranging from livelihood interventions and health and education service to more specific areas, such as emergency response, democracy building, conflict resolution, human rights, finance, environmental management, and policy analysis. Ninety percent of registered NGOs in Kenya, for example, are involved primarily in service delivery. In the process, NGOs and their activities have become professionalized and depoliticized.

The role and contributions of NGOs in advocacy and empowerment is difficult to define, but we can look at their efforts along a broad spectrum. At one end are those NGOs actively intervening in democracy-building and transforming state-societal relations such as those emerging to mobilize and support radical social movements in the early 'NGO decade' in Latin America. NGOs are vastly constrained in this sphere, seeking instead to convince governments that they are non-political. Instead, at the other end of the spectrum, most NGOs seek 'empowerment' as an indirect outcome of their wider service delivery activities. People-centered and participatory approaches to service delivery are suggested in this approach to lead to local-level capacity building in the long run, fostering a stronger democratic culture in which changes are hypothesized to feed into local and national institutions and processes.

**(b) Grassroots Orientation:** Supporting Community-level Initiative through Mobilization, Networking, and Federation-

The major task of NGOs is to serve as an intermediary to accelerate the pace of the creation of self-governing grassroots organisations (GROs), provide them with assistance as they expand, and foster links between them. A rapid expansion in the numbers and capacities of such groups was seen as permitting not merely an increase in their development 'projects', but a much greater impact on state policies and on local, regional, and national political processes. It is commonly viewed that NGOs provide more effective targeted aid, given their closer proximity to the poor, and that their operations should not be subject to distortions by commercial or political interests. With their

participatory and bottom-up development approach, they are differentiated by the fact that their programmes should reflect local contexts, needs and realities.

**(c) Innovation:**

Alongside their participatory roots, the ability of NGOs to be innovative and experimental are said to underlie the secrets of NGO effectiveness. Alongside the external determination of local agendas, a number of internal and external factors constrain the innovativeness of NGO activities, which instead fall into a 'predictable range' of activities, varying little by region, country or continent.

**(d) Expert Advice and Analysis- Intellectual Competition to Governments:**

NGOs can facilitate negotiations by giving politicians access to competing ideas from outside the normal bureaucratic channels; NGOs often have much better analytical and technical skills and capacity to respond more quickly than government officials;

**(e) Mobilization of Public Opinion and Representation of the Voiceless:**

NGOs can influence the public through campaigns and broad outreach; NGOs can help vocalize the interests of persons not well-represented in policymaking;

**(f) Monitoring and Assessment- Legitimization of Decision Making Mechanisms-**

NGOs can help strengthen inter-national agreements by monitoring negotiation efforts and governmental compliance; NGOs could broaden the base of information for decision making, improving the quality, authoritativeness, and legitimacy of the policy choices of international organizations

**Criticisms of NGOs:**

1. There has been criticism on how NGOs have used their funding and other monies received or raised. Criticisms range from pointing out that only small percentages go to people in need, that a lot goes to recover costs, and some have even been used to pay very high salaries of the people at the top of these organizations.

2. They are seen as vehicles for privatizing foreign assistance, making it less accountable to either government authorities or local people because of a lack of clear governance structures for NGOs.

3. Another type of criticism for some NGOs is that despite good intentions, they may be doing more harm than good, without realizing it. For example, many food aid groups where, in non-emergency situations, food is delivered from rich countries for either free, or virtually free, end up under-cutting local producers and hence have a negative effect on local farmers and the economy.

4. Criticism of NGOs also comes from another quarter: corporate-related interests. Because there are a number of development and social-justice oriented NGOs that criticize excesses of concentrated and corporate capitalism, and because some of these criticisms are slowly spreading, corporate funded research and think tanks are hitting back. Criticism has typically come in the form of questioning the "undemocratic" nature of NGOs, because the people didn't choose them, yet they claim to be fighting for various issues for the people.

5. NGOs are working with the Government without having any coordination among them. It often creates duplication of activities and wastage of money.

**SELF HELP GROUP (SHGs):**

Self-help group is a method of organizing the poor people and the marginalized to come together to solve their individual problem. A self-help group (SHG) is a village-based financial intermediary usually composed of 10–20 local women. Most self-help groups are located in India, though SHGs can also be found in other countries, especially in South Asia and Southeast Asia.

Self-help groups are started by non-governmental organizations (NGOs) that generally have broad anti-poverty agendas. Self-help groups are seen as instruments for a variety of goals, including empowering women, developing leadership abilities among poor people, increasing school enrollments, and improving nutrition and the use of birth control. Financial intermediation is generally seen more as an entry point to these other goals, rather than as a primary objective. This can hinder their development as sources of village capital, as well as their efforts to aggregate locally controlled pools of capital through federation, as was historically accomplished by credit unions.

Members make small regular savings contributions over a few months until there is enough capital in the group to begin lending. Funds may then be lent back to the members or to others in the village for any purpose. In India, many SHGs

are 'linked' to banks for the delivery of microcredit. The SHG method is used by the government, NGOs and others worldwide. The poor collect their savings and save it in banks. In return they receive easy access to loans with a small rate of interest to start their micro unit enterprise. Thousands of the poor and the marginalized population in India are building their lives, their families and their society through Self help groups. The 9th five year plan of the government of India had given due recognition on the importance and the relevance of the Self-help group method to implement developmental schemes at the grassroots level.

NABARD's 'SHG Bank Linkage' programme: Many self-help groups, especially in India, under NABARD's SHG-bank-linkage program, borrow from banks once they have accumulated a base of their own capital and have established a track record of regular repayments. Self Help Group (SHGs)-Bank Linkage Programme is emerging as a cost effective mechanism for providing financial services to the "Unreached Poor" which has been successful not only in meeting financial needs of the rural poor women but also strengthen collective self help capacities of the poor, leading to their empowerment.

#### **The Concept of SHG is based on the following Principles:**

- Self-help supplemented with mutual help can be a powerful vehicle for the poor in their socioeconomic development;
- Participative financial services management is more responsive and efficient;
- Poor need not only credit support, but also savings and other services;
- Poor can save and are bankable and SHGs as clients, result in wider outreach, lower transaction cost and much lower risk costs for the banks;
- Creation of a common fund by contributing small savings on a regular basis;
- Flexible democratic system of working;
- Loaning is done mainly on trust with a bare documentation and without any security;
- Amounts loaned are small, frequent and for short duration;
- Defaults are rare mainly due to group pressure; and
- Periodic meetings on non-traditional savings.

#### **Why Self-Help Group Is Important?**

- To alleviate poverty
- To increase employment opportunity

- To accelerate economic growth
- To raise status in society is the prime reason for respondents joining the SHG
- To promote income generating activities

#### **Role and Impact of Self-Help Groups:**

**a. Saving and Financial Decision Making-** One of the primary benefits of participation in a SHG is the opportunity to save regularly, access formal savings institutions and participate in the management of these savings. They save regularly, have their own bank accounts and make deposits into these accounts. SHGs have a good impact on members, in their ability to save their hard earned money.

**b. Access to credit-** A corollary of participation in SHGs is an improvement in a woman's access to credit. The financial mobility due to participation in the SHG led to an improvement in the quality of life, and financial inclusion, according to some of the successful groups.

**c. Employment-** The implementation of SHGs in various parts of the country helps in generating Self-employment opportunities for the rural poor.

**d. Decision making within the household-** The social impact of the SHG has increased involvement in Decision-making, awareness about various programmes and organisations, increased access to such organisations, increased expenditure on Health and Marriage events, there is a Change in the attitude of male members of the families, now they are convinced about the concept of SHG and encourage women to participate in the meetings and women reported that they have savings in their name and it gives them confidence and increased self respect.

**e. Participation in local government-** Because of SHG, women know about their local political institutions such as the Gram Panchayats and have better knowledge of where to report certain types of grievances. As part of the political empowerment process, it is a pertinent fact that many women have not only been elected to the Gram Panchayats but have become the role holders too.

**f. Self Confidence among Members-** The group formation has brought out the hidden talent and leadership qualities among the members. Therefore, it can be concluded that after joining the SHG the members have improved their status in family, become helpful in family finance and sometimes helped others too.

**g. Change in Family disputes / Violence-** Involvement with SHGs can reduce violence in various cases, especially due to reduction in economic difficulties.

**h. Community Participation-** SHGs encourages community participation in various areas such as education, environment, etc.

**Role of Donors, Charities, Institutional and other Stakeholders, Various Groups and Associations:**

Charity is defined as giving voluntarily to those in need. It covers the giving of both money, and of the self through service to the needy. The term is also used to denote an institution or organization, which helps those in need. Though the roots of charity are to be found in religious belief and practice, charitable trusts and voluntary organizations are its secular and institutional manifestation.

Those who desire to work together for social reforms or to provide service to the poor and needy can form associations or societies for the purpose. Religious organizations, especially Christian missions, took up work to help the poor to improve their conditions. This was the genesis of what came to be referred to as voluntary organizations. With the freedom struggle and Gandhiji's advocacy of voluntary constructive work to improve the lot of the masses, many more voluntary organizations were formed.

Those who were unable to serve society directly, but were able to provide money and other material resources, either established charitable institutions like dharamshalas, schools, orphanages, women's

homes and the like, and donated funds to run them, or established endowments to provide monetary help in perpetuity to some charitable cause.

After Independence the numbers of voluntary organizations expanded to meet national development goals, especially when it became apparent that the governmental programmes were inadequate to respond to the development needs of the deprived sections of the society.

The definition of charity brought within its ambit a very wide range of organizations working for both welfare and development, and not only those working for relief of distress.

Collectively all such organizations are today referred to as the nonprofit sector, (NPO sector) which has grown almost exponentially over the last few decades. Today the non-profit sector comprises organizations that

- Donate money for charitable causes, (trusts and foundations);
- Charities for the welfare of the poor and the needy, (charitable organizations);
- Organizations that are development oriented, (NGOs);
- Organizations engaged in advocacy, protection of human rights, research and resource centres, environmental conservation et al., (intermediary support organizations, umbrella groups, networks, ) and,
- Associations of all kinds, including Chambers, Associations of lawyers and chartered accountants, which are not for public benefit but are mutual benefit organizations, though nonprofit making.

