UNIT 10 RURAL INDUSTRIALISATION PROGRAMME

Structure

10.0 OBJECTIVES

After reading this unit, you will be able to:

- define the concepts involved in the rural industrialisation strategy/programme;
- outline the various policy initiatives taken to promote rural industries in India;
- analyse the impact of policies pursued for rural industrialisation;
- describe the features of rural non-farm sector (RNFS); and
- suggest a strategy for policy reorientation.

10.1 INTRODUCTION

In unit 1, we learnt about how in agrarian economies like India the surplus labour in agriculture needs to be facilitated to find employment in non-agricultural sectors like industry/services. This is required for reasons of: (i) seasonality of employment in agriculture; (ii) large number of small and marginal farmers who subsist on agricultural work are underemployed; (iii) low educational and economic conditions of farming labour family; and (iv) agricultural alone is not adequate to provide full employment to all rural workers. In this unit, we will study about how rural industrialisation programmes have been adopted as a policy instrument in India to increase the employment and income earning avenues of rural workforce in general, and the rural poor in particular. What has been the result of more than six decades of efforts in this direction? Are there any pre-conditions required to be met for a successful realisation of the potentials of this approach? What stylised theoretical postulations have been advanced about the rural non-farm sector's growth? These are the questions to which we shall seek answers in this unit. We shall begin with a brief conceptual overview of some of the key terms used in this context.

10.2 CONCEPTUAL OVERVIEW

The development of rural industrialisation would result in three kinds of employment opportunities: (i) regular employment for the relatively better educated; (ii) casual employment of a daily wage type for the illiterates; and (iii) self-employment opportunity for those who are entrepreneurially oriented. Given the fact that a large number of rural workforce are poor and uneducated, the policy focus of rural industrialisation programmes (RIPs) must be to generate employment opportunities of the latter two kinds. We will see in the later sections of the unit that as a proportion of total employment, the self-employed segment constitute an overwhelming majority. An essential pre-requisite for undertaking an entrepreneurial venture is the ability to mobilise the various resources required for it. The main resources required are: labour (or manpower), credit for investment, raw-materials, machinery and skills to process the raw-materials into a final product, ability to find a suitable market outlet for the products produced, etc. Depending on the scale of these resources used, the nature of undertaking set-up would vary in terms of the operation of the 'enterprise'. Such an operation can either be conducted at the individual household level (i.e. as a 'household industry': HHI) or can be run as a 'non-household industry' at a separate location. The ownership of such a non-HHI can be either on individual proprietorship basis or on a partnership basis. These and many other specific characteristics of the rural industrial sector, have contributed to the development of explicit terminologies over time. We shall familiarise ourselves with the meaning and connotations of some of the important terms below.

Industry: The term 'industry' refers to the production of an economic 'good' or 'service'. The term has an underlying connotation of a scale of production far and beyond the level of household consumption (i.e. own consumption) needs. In other words, at least a part of the production of such an enterprise would be meant for market. Depending on the main or major material used, the industry is distinguished for its type. For instance, the industry could be of food products, textile products, wood products, paper products, etc. Such industries which depend for their raw material on agricultural sector are referred to as *agro-based industries*. Examples of non-agro based industries are: metals, machinery, repair services, etc. There is a system of classification of industries, called National Industrial Classification (NIC), which specifies all the industries falling under a broad industry group. The NIC is revised from time to time to accommodate new industries and groupings. At a broad level (called 1-digit level) the NIC classifies the economy into nine industries viz: (i) agriculture; (ii) mining; (iii) manufacturing; (iv) electricity, water, gas, etc. (together called 'utilities'); (v) construction; (vi) trade; (vii) transportation & communications, storage & warehousing; (viii) finance and banking; and (ix) public administration, personal and other services.

Rural Industry: The main objectives of rural industrialisation strategy/programmes are to generate employment opportunities in rural areas and to curtail the rural to urban migration. This requires that the industries must be either located within the rural areas or in areas from where the benefits of employment can reach the rural people. Thus, a 'rural industry' can be defined to comprise of *enterprises or establishments* which provide employment and income earning avenues to the rural people in any one of the following ways: (i) industries based upon (or depending on) local resources and skills and largely catering to the local demand; (ii) industries based upon a principle input that is available locally ***but linked to resources/markets*** elsewhere; and (iii) industries based in rural locations but neither drawing upon nor depending on local resources (including workers) nor catering to the local market. Rural enterprises may be owned by a government or large private sector organisation or informally organised by local or outside entrepreneurs.

Enterprise vs. Establishment: Two basic yardsticks are employed to distinguish the scale of an industrial undertaking: (i) number of persons employed; and (ii) extent of 'capital' used. An enterprise run without any hired workers (i.e. run entirely by family labour) is designated as 'own account enterprise'. If there is at least one hired labour from outside the family then the enterprise is called as an 'establishment'. Classification of enterprises based on the extent of capital employed are of three types viz. (i) tiny/micro enterprise (with current investment limit of below Rs. 25 lakhs; way back it was only Rs. 1 lakh); (ii) ancillary enterprise (if the invested capital is in the range of Rs. 25-100 lakhs); (iii) small scale industry (SSI) establishment or unit (with capital invested in the range of Rs. 100-500 lakhs). It is thus clear that most of the 'own account enterprises', set up either as a *household enterprise* or as a *non-household enterprise* by a poor rural household can at best fall under the category of tiny/micro units. The other two segments (i.e. ancillary and SSI) would generally be a unit set up within the rural geographical limits, or in its outskirts, by entrepreneurs having the ability to raise larger capital. Such units provide wage-employment opportunity to the rural labour force. The ceiling of investment on these types of enterprises is revised from time to time to make it correspond to the changing price levels. Enterprises are also distinguished based on the production of goods or services i.e. as *manufacturing enterprises or service enterprises*.

Economic Sectors: An economy is broadly classified into three economic sectors viz. primary, secondary and tertiary sectors. The primary sector refers to all those activities (or enterprises) in which the products are obtained or derived from land and other natural resources like water, animals, etc. Thus, agriculture and allied activities like fisheries, dairy, poultry and mining are examples of primary sector activities. The secondary sector refers to those enterprises in which a new value-added product is *manufactured* by using the raw material from the primary sector. Examples of secondary sector are: all agro-based industries, non-agro based industries, electricity, construction, etc. A major part of secondary sector is also generally referred to as '*manufacturing*'. Thus, 'manufacturing, utilities & construction' together constitute the secondary sector. All other activities like trade, hotels & restaurants, transportation, communications, banking and finance, law & order, judiciary, public administration and personal services come under the tertiary or *service* sector. There are also two other types of dichotomised sectoral distinction: (i) public/private; and (ii) organised/unorganised. The former refers to a government or large private sector undertakings (i.e. a classification based on the ownership of the enterprise) while the latter refers to the nature of organisation by its legal status of registered or unregistered nature. We will elaborate on the sectoral distinction (characterised by stable/unstable type of employment) below.

Household Sector: An yet another type of sectoral classification of an economy is one in which the economy is divided into: the *household sector* and the *non-household sector*. By law, all enterprises need to operate under a system of 'registration' (or 'incorporation'; abbreviated as inc.) by which the system of national accounting is rendered feasible. In enterprises employing number of workers above a specified ceiling, such registration is aimed at protecting the working and service conditions of workers engaged in them. Various Acts like Factories Act, Employee State Insurance Act, Shops & Commercial Establishments Act, etc. are examples of legislations under which registration of enterprises is made compulsory. However, smaller enterprises or establishments having 'nil' or small number of hired workers (specified, for instance, as ten or less if using power or 20 or less if not using power by the Factories Act) are exempted from such compulsory registration. The term 'household sector', therefore, refers to unincorporated (or unregistered) enterprises owned by households. Enterprises falling outside the definitional purview of a household sector (i.e. all incorporated or registered enterprises), belong to the non-household sector. In the Indian context, all household sector enterprises are also referred to as *informal or unorganised sector* enterprises; their counterpart being the formal or organised sector enterprises in which the workers employment conditions are protected by social security provisions like defined wages and service conditions, paid holidays, retirement benefits, etc. The proportion of workers in the total workforce coming under the formal or organised sector is very low in India (about 7 percent). With increased economic development the proportion of workers in the informal sector is expected to come down over time. Of the huge 93 percent workforce coming under the informal/ unorganised sector, a large majority are in agriculture. Besides agriculture, a large proportion of informal/unorganised non-agricultural activities is located in rural areas. Many of the rural industrial activities are informal in nature. All informal and formal non-agricultural activities are referred to rural non-farm sector.

Rural Non-farm Sector vs. Off-farm Sector: The term rural non-farm sector refers to all such activities or enterprises in rural areas which are outside the purview of the farm sector i.e. agriculture and allied. Thus, all activities coming under manufacturing, construction, business, communications, banking & financial, etc. (i.e. all activities coming under the secondary and tertiary/service sector activities) in rural areas are referred to as activities of the rural non-farm sector. The term 'off-farm' is the opposite of the term 'on-farm'. While the on-farm activities refer to the activities up to the stage of cultivation (e.g. tilling, sowing, manuring/pesticiding, irrigating, harvesting), activities which are performed off the farm in the post-harvest season like storage, processing, packaging, marketing, etc. are covered under off-farm activities. Note that off-farm sector is but a sub-set of the larger non-farm sector. It is also important to note that while the growth of farm sector productivity and off-farm sector development constitute a virtuous cycle of mutually supportive development at one level, at the other level, the on/ off-farm-sector activities together provide the much needed catalytic fillip for the growth of the entire rural non-farm sector. There is thus a cyclical effect on the entire process of development in which each sector's growth contributes to the growth of the other.

It is clear from the above that in order to make alternative employment/income opportunities available for workers engaged in agriculture, we need to focus on the development of rural non-farm sector enterprises. To the extent that the majority of agricultural workers are small and marginal farmers, the enterprises would have to be tiny enterprises requiring less capital investment at least in the initial phases. Simultaneous efforts for promoting the establishment of industries requiring higher capital investment, both within and near to the villages, would create employment opportunities having higher skill content. To capitalise on this front, focusing on development of skills by appropriate short term skill development programmes to rural workers are needed. Focusing on meeting the requirement of credit and other facilities for processing, packaging, marketing, etc. would also be simultaneously needed without which the growth of the rural non-farm sector would be severely stifled.

To sum up, conceptually, increasing employment opportunities for rural workforce would mean focusing on policy formulation for promoting the setting up of small rural non-farm ventures (of the informal sector type) and establishing supporting infrastructure required for development of off-farm activities. The specific efforts made by the government during the last more than six decades and their impact on rural employment are, thus, the issues to which we shall now turn.

Check Your Progress 1 [answer in about 50 words in the space given]

1) How is the term 'industry' defined in general? What are the three ways in which a 'rural industry' can be defined in particular by virtue of its linkage with resources/markets?

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2) Mention the <u>five</u> different types of sectoral distinctions that characterises the employment scenario of labour surplus economies like India. What are the nine industrial categories classified under the NIC?

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3) What are the three types of classification of industries made by investment size? Which of this needs to be focused upon more and why?

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4) Do you agree that the 'off-farm' sector is a subset of the 'non-farm' sector? Why?

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10.3 POLICIES FOR PROMOTION OF RURAL INDUSTRIES IN INDIA: AN OVERVIEW

At the policy level, as far back as in 1948 i.e. in the first industrial policy resolution (IPR), the government had accorded a distinct place for rural industries. The IPR, 1948 stated that: essential consumer goods like food, clothes, agricultural implements, etc. can be better produced and utilised by the establishment of 'cottage and small scale industries'. Following this, in the first five year plan (1951-56), a sharper distinction was drawn by treating cottage industries as synonymous with 'traditional artisanal crafts'. Under this distinction, cottage industries were perceived to involve *manual operations* carried out primarily through family labour. The plan distinguished small scale industries to comprise of goods and services produced using *mechanised equipment* employing at least some hired labour. Under this description, the role of the cottage industries were primarily meant to cope with the problem of un- and under- employment in rural areas.

The Second IPR and Second and Third Five Year Plans

The Second Industrial Policy Resolution (IPR-1956), clubbed the two segments into one and referred to it as a single entity under the banner 'cottage, village and small scale sector' (say, CVSS sector in brief). The IPR distinguished the large scale sector from the CVSS sector by placing a ceiling on the volume of production and advocating supportive measures like differential taxation and direct subsidies for the CVSS sector. The policy emphasised that the competitive strength of small-scale producers must be improved in order that they become self-supporting in course of time. The Second Five Year Plan (1956-61) also mentioned that a large variety of consumer goods must come forth from the CVSS sector. Many critics pointed out that the lumping of the 'cottage and village' and the 'small-scale' sector indicates a lack of policy focus since the nature of the constraints faced by the two sets of industries were very much different. While the 'cottage industries' and own account enterprises are small establishments employing less than 5 workers, small scale industries are much larger in size and scale of operation. The cottage industries support an overwhelming majority of the total workforce engaged in the rural sector (close to 85-90 percent) and, therefore, their interests should merit particular policy focus. Thus, although the policy emphasis in the Plan was generally on: (i) pushing the process of industrial expansion and dispersal into the rural areas; and (ii) the CVSS sector was expected to gradually upgrade itself from its traditional character to a 'modern-small scale industrial unit', in actual implementation the effect remained marginal. In realisation of this, towards the end of 1950s, an effort to forge a stronger linkage between the agricultural sector and the rural industrialisation efforts was made with the launching of 26 pilot projects in selected community development blocks. The experience of these projects were later extended to constitute a 'rural industries project (RIP) programme' in the Third Five Year Plan (1961-66). The avowed developmental objective was restated as achievement of 'balanced regional development' by a spread of the 'village and small industries' (VSI) sector spread into the length and breadth of the country. With this, while the 'VSI-sector' terminology became a popular official connotation, the anticipated delinking of 'cottage & village industries' from that of the 'small-scale industries sector' (the latter distinguished for its relatively higher capital requirement) to result in a sharper policy focus continued to remain elusive.

Rural Industries and the Backward Area Development Plan (IV & V Plans)

In the Fourth Five Year Plan (1969-74), the efforts of rural industrialisation was integrated with a new project called the 'backward area development programme' (BADP). The programme envisaged the establishment of growth centres in small towns and rural areas to serve as the nuclei for more widespread development. Following the recommendations of Wanchoo and Pande working groups, a programme for providing financial, fiscal and other support services (like raw material supply, store-purchase, price preference, quality control, marketing assistance, etc.) to private entrepreneurs for locating industrial units in backward areas was launched. In addition, the plan extended the RIP programme to 49 towns/districts. The fifth plan (1974-79) broadened the RIP programme to cover all towns with a population of up to 15,000 and reoriented the BADP to operate in towns with more than 15,000 population.

Sixth and Seventh Five Year Plans: Greater Focus on Village and Cottage Industries

Although the usage of VSI term continued to be used in an integrated manner, the Sixth and the Seventh Plan periods (1980-85 & 1985-90) introduced a distinction separating the cottage and village industries (CVIs) from the small scale industrial (SSI) units. Empowering the newly constituted District Industries Centres (DICs) introduced in 1978, with the overall responsibility for promoting the VSIs in each districts, the Sixth Plan mentioned that within the small-scale sector, special attention would be given to the 'tiny sector'. In order to drive home this emphasis, a special legislation was introduced for 'cottage and household industries' in order to ensure that these activities get due recognition. It is important to note that while the distinction in policy thrust on tiny units was pointed out as required by many analysts, there is also a view advanced by many others that the emphasis on 'traditional artisanal character' in the CVIs contributed to relegating it to a 'static' status failing to recognise the 'dynamic' side of the CVI units to that extent. The latter view drew support from two well conceived arguments viz. (i) the cyclical dependency of all three economic sectors to mutually draw support by growth and contribution to the all round overall growth of the economy; and (ii) the very need to infuse dynamism to the CVI units by instituting measures to make them technologically upgraded and superior. It is perhaps in realisation of this that the seventh plan (1985-90) emphasised on improving productivity of the entire VSI sector by 'enhancing product quality, achieving cost reduction, and restructuring the product-mix through technology up-gradation and modernisation'. To address the financial constraints of the tiny sector, a special wing was created in the Industrial Development Bank of India (IDBI) to coordinate the entire range of credit facilities offered by various institutions to the 'small and cottage sector'. Further, with a view to check the exodus of artisans to urban areas, the suggestion of setting up a separate commission for 'village industries and artisans' was also hinted in the Seventh Plan document.

Post-Liberalisation, WTO Compulsions and Dilution of Unconditional Policy Support

The New Industrial Policy launched in 1991 brought about drastic changes in the approach to industrial promotion. There was gradual shift from protective and promotional measures towards market orientation and competition. The Eighth Plan (1992-97) began with the background of economic liberalisation initiated a year earlier in 1991. To infuse dynamism to the VSI sector, a new classification of export-oriented units was introduced into the SSI framework. A further distinction between the CVI and the SSI units was made in which many benefits like easier access to institutional finance, priority in government purchase, etc. was extended to the CVI units (i.e. tiny enterprises) on a continuing basis but restricted the same to the SSI units for one-time avail. The focus of subsidised and cheaper institutional credit was also shifted to adequate and timely availability to the SSI units. On the other hand, a legislation on Prompt Payment Act to small and tiny enterprises was enacted to ensure timely payment of bills to the small/tiny enterprises. With a view to forging a stronger linkage between agriculture and industry, a new scheme of integrated infrastructural development for SSI units was introduced. Notwithstanding all these initiatives, there was also an emphasis laid on according due importance to market based signals and demand. Under this, features like: (i) gradual elimination of input/price/marketing subsidies; (ii) reduced dependence on budgetary support; (iii) increased reliance on private initiatives and risk absorbing capabilities; etc. were introduced.

Ninth to Eleventh Plan Periods

In the Ninth Plan (1997-2002), realising the need for increasing the competitive strength of tiny units, in 1999-2000, this class of units was brought under the definition of 'priority lending by the banking sector'. Special financial packages to the 'tiny sector' on a heavily subsidised concessional interest rate of 1 percent, under the aegis of National Small Industries Corporation (NSIC) was introduced. In 2006, the 'Micro, Small and Medium Enterprises Act (MSME Act, 2006)' was passed with the objective of promotion and development, and enhancing the competitiveness of these type of enterprises. The Act aims at providing an institutional framework to address the problems of access to bank credit, access to capital, technology, skill development/upgradation, markets, etc. The Village and Small-scale Industries (VSI) continue to account for substantial proportion of employment in the manufacturing sector. In 2006, own-account enterprises alone accounted for 76.8 percent of employment in the manufacturing sector, but if we add all establishments employing below five hired workers, then the proportion is as high as 86.9 percent of all workers in manufacturing.

Over the past five decades a number of specialised institutions and programmes were initiated for the promotion and development of village and small industries. The following are some of the major initiatives in this regard: (i) establishment of Khadi and Village Industries Board, National Small Industries Corporation and Small Industries Services Institute (all in 1956-61); (ii) Integrated Rural Development Programme (1978); (iii) scheme for setting up of Integrated Infrastructural Development (IID) centres (1989-91); (iv) district special employment programme

(1992-93) for employment generation in 71 backward districts in 24 states; (v) national project on village industries (1994) for promoting hand-made paper industry, leather industry and beekeeping industry; (vi) rural employment generation programme (1994-2001) for the development of khadi and village industry; (vii) cluster development programmes for bamboo and cane industry (1998-99); (viii) national programme for rural industrialisation (1999-2000) for promotion of 100 clusters each year; (ix) Prime Minister Rozgar Yojna (2002-03) for promotion of agro rural industries aimed at generating 7.6 lakh employment in two years; and (x) establishment of Small Industries Development Bank of India (SIDBI) and the National Bank for Reconstruction and Development (NABARD) ***to name only a few***, were set up or implemented during the course of fifty years from 1950-2000.

While all these efforts are still continuing, the roots of market based policy support has also firmly taken its due place in the policy atmosphere of post-1991 years. The establishment of WTO in 1995 forced the entire policy thrust of the ninth plan (1997-2002) to be evolved with a focus on instilling a sense of preparedness to meet the impending challenges of having to compete in a regime of 'freer imports' and 'aggressive export drive'.

While the above overview conveys the consistent policy support rendered by the government to promote rural industrialisation for the creation of employment opportunities in the rural areas, it would be of interest to see what empirical evidence is available to gauge the extent of impact of these policies over time.

10.4 IMPACT OF GOVERNMENT POLICY

Data on employment and number of units in manufacturing for the period 1984-85 to 2005-06 (Table 10.1) shows that there is a decline in the full-time employment and the number of units over the 20 year time period. We are focusing particularly on own-account enterprises as it is the growth of 'tiny units' which are expected to provide employment to the relatively more disadvantaged in rural areas. The average employment per unit increased during 1985-2001 but again slid back to its 1985 level in 2006. Prima-facie, therefore, there is no conclusive empirical evidence to suggest that the period 1985-2006 has witnessed any significant change in terms of employment and number of units in the rural areas on account of manufacturing activities in the smallest segment of the VSI sector. In terms of part-time employment, however, there is a consistent increase over the entire period of 1985-2006. This gives evidence for 'tiny units' to have contributed to mitigating under-employment conditions due to rural industrialisation to a certain

Table 10.1: Employment in Own-Account Rural Unorganised Manufacturing

Year	Type of employment (millions)			No. of units (millions)	Average Employment Per Unit (for total employment)
	Full-time	Part-time	Total		
1984-85	18.66	3.25	21.91	13.44	1.63
2000-01	14.87	4.28	19.15	11.06	1.73
2005-06	13.52	4.51	18.02	11.11	1.62

Note: (i) Source: Das, K (2009); (ii) Figures relate to own-account enterprises and for rural areas.

Table 10.2: Percentage Share in Total Bank Credit in Rural Areas: 1996-2007

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Artisans	2.0	2.2	2.0	2.1	1.7	1.3	1.7	1.5	1.5	1.2	1.0	1.1
SSIs	6.6	6.0	5.1	5.6	4.8	4.1	3.0	3.2	3.0	2.6	2.6	2.5

Source: Das K, 2009.

extent. One of the major determinants for the absence of expected progress in rural industrial advancement is the declining access to 'institutional credit' (Table 10.2). The percentage share of bank credit for both 'artisans' and 'SSI units' has witnessed a steady decline over the period 1996-2007. This is despite the fact that in the year 1999-2000 the 'tiny sector' was brought under a special 'priority sector lending' policy. That the situation was equally difficult even for the relatively larger SSI sector (whose ability to conform to the requirements of institutional credit is larger than those of the tiny units) goes to convey the particular hardship faced by the tiny units for their capital needs. The above evidence supports the view that rural industrialisation policies have not worked out as expected in the last quarter of a century and more so during the post-liberalisation period of 1990s. Thus, while the availability of institutional credit has certainly been a limiting factor for the process of rural industrialisation to show results, we should now turn to see what other factors could have contributed to this slow growth? We will take a look at this in the next section below.

Check Your Progress 2 [answer in about 50 words in the space given]

1) How is a 'cottage industry' distinguished from a 'small scale industry'?

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2) What is the alternative view advanced by analysts to justify the lumping of cottage industries with the small scale industries for policy attention? Do you support this view?

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3) In which Plan, for the first time, a clear bifurcation of 'cottage and village industries' from the 'small scale industries' was introduced? What are the <u>three</u> areas in respect of which a major turnaround in the treatment of 'small units' from official policy introduced in the 1990s?

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4) Mention the five major institutions set up and the names of some major programmes implemented by the government to promote rural industries in India between 1951-2000.

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5) What has been a single major constraint faced by the small industrial units in the post-liberalisation period? Which type of employment has increased during this period in the small enterprise sector?

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10.5 RURAL NON-FARM SECTOR

We have seen in section 10.2 that the growth of non-farm sector is a natural corollary in the course of a successful development of rural industrialisation. Literature on rural non-farm sector's growth identifies many factors as pre-conditions for its successful growth. Two of the main factors are: (i) adequate basic physical and economic infrastructure like good transportation, adequate power, storage and banking facilities, etc.; and (ii) a well developed synergic relationship between the farm and non-farm sector in the rural areas with the larger industrial economy outside the local economy. The Indian economy in particular, and the entire South-Asian economy in general, is identified for major weaknesses on both these fronts. The literature is abundant with the success stories of China for having not only succeeded in both the above fronts but also for having had a clear focus on technology up-gradation and skill formation. The Indian conditions place the country largely in the first stage of rural non-farm (RNF) sector take-off except for some prosperous states. What characterises the three stages in this respect is outlined below.

10.5.1 The Three Stages of Growth

In the **first stage** of transformation, the RNF-sector tends to:

- have a production or expenditure linkage with agriculture with farming directly employing a large share of the rural population;
- the RNF activities tend to be centred nearer to towns/cities with little dependence on rural-urban backward-forward linkages;
- the RNF activities would be mainly home-based;

- the small scale production of non-tradable goods (i.e. goods that are mainly sold locally) are produced in the village hinterlands rather than in rural areas itself; and
- in terms of farm/non-farm linkages, agriculture tends to depend on: (i) local supplies of farm inputs and services and (ii) local processing and distribution of farm products, usually carried out by small to medium size firms employing hired workers in the range of 1-10 like in the Indian context.

In the **second stage** of transformation, the RNF-sector tends to be characterised by:

- a tendency towards a greater mix of situations like activities based on linkages with agriculture as well as on others like mining, tourism, etc.;
- the share of rural population depending on agriculture would be markedly on the decline as compared to the first stage of RNF transformation;
- a greater degree of rural-urban links acts as the basis for RNF employment with nascent sub-contracting of rural enterprises by urban businesses like light durables in the case of clothes;
- a rapid rise in the labour force commuting between the country-side and rural-towns;
- a rapid growth of agro-industrial units both of small-medium scale as also large scale establishments; and
- co-existence of small-scale labour-intensive production enterprises alongside relatively capital-intensive establishments producing the same output in rural and semi-urban locales.

In the **third stage** of transformation, the RNF-sector tends to be characterised by:

- intensification of the characteristics that differentiate the second stage from the first;
- a greater degree of rural-urban linkage manifested by sub-contracting arrangements and increased labour commuting;
- expansion of sub-contracting beyond light durables to medium durables like vehicle parts;
- substantial RNF employment arising outside linkages with agriculture; and
- rapid agro-industrialisation based on commercial agricultural practices/ principles.

As mentioned earlier, South Asia and Africa are said to be in the first stage of RNF transformation, Latin America in the second stage of transformation, and East Asia in the third stage of RNF transformation.

10.5.2 The Two Associated Hypotheses

There are two hypotheses advanced on the conditions required for the optimum realisation of the results of rural industrialisation process. While one lays emphasis on technology induced agricultural growth, the other identifies the pull-factor of labour surplus regions to attract capital with its resultant development of the off/non-farm sectors.

The Johnston-Mellor Hypothesis

Mellor (1978) advanced a hypothesis based on the agriculture-led growth of the non-farm sector. He pointed out that rural diversification would be an outcome of technology-induced growth in the agricultural sector. The presence of production-consumption linkages of agriculture with the non-farm sector (in terms of inputs of fertilizer, seeds, herbicides, pumps, sprayers, equipment and repair services, etc.), would contribute to increased agricultural output stimulating, in turn, milling and processing activities. Growing farm incomes, on the other hand, would give rise to increased consumption linkages for basic consumer goods which over time would spread over to non-food items. In a further improvement of this approach, Johnston-Mellor later associated the high-land productivity to result in greater demand for off-farm goods and services both in rural areas and smaller towns. The growth of farm productivity and off-farm activity would thus constitute a virtuous cycle of mutually supported development. The case of Punjab and other states which experienced the green revolution growth were cited as examples of this type of growth evidenced in India. The Mellor hypothesis would hold good under two necessary assumptions viz. (i) close linkage between agriculture and non-agriculture have set-in in areas of the village and/or closer to the village; and (ii) impending conditions for the non-farm sector to take-off exist in those areas.

The Foster-Rosensweig Hypothesis

Foster and Rosensweig (2004) developed an alternative hypothesis distinguishing the traded and non-traded types of off-farm activities. While the latter could be an off-shoot of the development of the local economy, the traded part need not necessarily be tied to local development. The development of business activity in the rural areas could be an outcome of capital invested from outside the local economy seeking out surplus labour available at cheaper wages. Thus low-wage regions with low land productivity would attract such investment leading to off-farm development of a pull-effect kind. The proportion of off-farm employment would be higher in such areas attributable to outside capital infusion rather than the local area based capital through higher savings as a result of higher technology led farm incomes as in the case of Mellor's typified growth. A basic distinction between the Johnston-Mellor hypothesis and Foster-Rosensweig alternative is that, while in the former case there would be implication for higher rural wages/income, in the latter case no particular prediction of the wage-income effect could be made per se as the same would depend upon other factors of labour market dimension.

The impact of Green Revolution in India was felt only in some states with a number of other states having been left outside its influence. In view of this, the validity of Johnston-Mellor hypothesis which has been cited in case of more prosperous agriculture-technology based regions like Punjab, is not evidenced in other places. This also gives clue to the reason behind the uneven spread of rural industrialisation growth/benefits in India. Nonetheless, these hypotheses provide a perspect on different conditions under which a fillip to growth of the non/off-farm sector is obtained.

10.6 STRATEGY FOR FUTURE POLICY

From the foregoing account, the future policy for promoting the dynamism of the 'tiny or micro and medium size units' (as the small scale units with higher capital infusion are considered nearly akin to modern urban enterprises) should focus on the following.

1) Worldwide the ***cluster approach*** of promoting small enterprises or establishments have been followed. In India, this experiment was made with a focus on sectoral approach. This is said to have failed to account for the regional or spatial constraints. This situation needs to be rectified by infusing the technological dynamism required for transforming the 'production clusters' into 'innovation clusters'. The formation of clusters would help rural artisans in removing many of their size and scale-specific bottlenecks.

2) One of the key aspects of supporting innovation in business and production is to ensure the supply of ***electricity*** to the enterprises. This single intervention, lacking drastically in the Indian context, is agued to hold the promise of enabling enterprises to improve their productivity.

3) From a regional development perspective, the technological capability of a cluster would be greatly determined by the spatial endowments like social, physical and economic infrastructure. In many cases, either the systems of innovation are poorly developed or do not exist at all. Public training institutions like ITIs are not of great help in imparting training suitable to rural industrial enterprises. The ***institutions, rules and governance structures need drastic redesigning***.

4) The ***synergy*** required in linking the research in specialised institutions and universities to suit the technological aspects of rural industrialisation needs to be ***established***. In this context, the relevance of '***one village one product***' (as has been successfully implemented in Japan and Thailand) with suitable assistance extended in ***networking for product promotion and marketing needs to be considered***.

5) The rural industry is a huge heterogeneous conglomerate of a variety of products, scale of operation, market coverage, etc. There are a large number of artisanal sectors, all tiny units, with flexibility and capacity to customise to local demand. The strongest argument for sustained development of rural industrialisation is the promotion of local demand potential. A number of artisanal/tiny enterprises are ***excluded*** from the benefit of many schemes launched owing to absence of proper coordination between service providers and technology suppliers. A ***flexible and inclusive approach*** can help sustain by ***fostering a symbiotic relationship between the farm and non-farm sectors.***

6) There exists a ***major disconnect*** between technology being generated and its access by the rural enterprises. Efforts at broad-basing adoption of technology developed by rural technology institutes (RTIs) have been both limited and poorly planned/executed. Rural industrialisation policies must be ***strategically implemented*** not only to infuse an innovative ethos in the production sphere but also to achieve ***broad-base skills for productivity improvement***.

7) The subject of rural industrialisation is administered by many government departments/ministries like: ministry of industries, department of agriculture and rural industries, ministry of rural development, department of food processing industries, etc. The lack of proper coordination among these *institutions* leads to the tardy progress of rural industrialisation in the country. It is, therefore, important to focus upon ***establishing proper co-ordination between different functionaries*** meant to promote rural industrialisation in the country.

Check Your Progress 3 [answer in about 50 words in the space given]

1) What are the two main factors identified as pre-conditions required to be fulfilled for the successful growth of the rural non-farm sector (RNFS)?

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2) In which stage of growth do you say is the Indian RNFS at the current time point?

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3) What was the basic tenet on which Johnston-Mellor postulated their hypothesis of RNFS's growth? What was the alternative proposed by Foster-Rosensweig? Which of these two has been evidenced to have prevailed in the Indian conditions and why?

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4) In the evidenced instances of the applicability of Johnston-Mellor's hypothesis on the RNFS growth in India, what kind of explanation do you find for the lack of progress achieved in India's rural industrialisation policy?

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5) Do you agree that the implementation of rural industrialisation policy in India has not been as much 'inclusive' in its character as it ought to have been? What in your opinion should now be done to rectify this error in the coming years?

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10.7 LET US SUM UP

Prevalence of extensive underemployment in Indian agriculture has been well recognised and to alleviate this condition a number of measures were initiated to promote rural non-farm employment activities. The importance of active government support to promote rural development through specific industrialisation policies and programmes has been recognised since the late 1940s. The heterogeneity in the rural sector has, however, been such that in actual implementation many 'tiny' or 'micro' units (which cater to nearly 86 percent of total employment in manufacturing) has been excluded from effectively benefiting from the many schemes and programmes. The pressures of competition requiring the smaller establishments to scale up their product quality and demands has rendered many rural industrial units ever more vulnerable to forces external to their reach or control. The unit has highlighted the various constraints faced by the unorganised units. An alternative policy strategy needing a drastic reorientation from the hitherto applied practices is the need of the hour. Following a cluster approach with emphasis on development and transfer of suitable technology to the tiny/medium units, developing a synergy in the functioning of service providers and tiny units, broad-basing of skills for productivity improvement, an inclusive approach based on sensitive official support, etc. are all important elements of such an alternative strategy.

10.8 KEY WORDS

Rural Artisans : Comprise of handicrafts and handloom operators. Connotated to operate on traditional skills and family labour and employing low capital. Equivalent of 'own-account enterprises' and smaller establishments employing small number of hired workers (less than 5) called 'non-directory establishments' in the official terminology.

Rural Non-Farm Sector (RNFS) : Encompasses all non-agricultural activities like: mining & quarrying, household and non-household manufacturing, processing, repairing, construction, trade and commerce, transport and other services in villages and rural towns undertaken by enterprises varying in size from household own-account enterprises to factories.

Fast Moving Consumer Goods (FMCG)	:	These refer to products like: toilet soaps, pickles, honey, etc. for which there is a huge domestic demand and most of which can be (and are being) manufactured in tiny and small enterprises/units in rural areas.
Village Industries	:	Any industry located in a rural area producing goods or rendering service with or without using power, in which fixed capital investment (i.e. investment in plants & machinery, land, building, etc.) per head of an artisan or worker does not exceed a certain ceiling specified.
Khadi and Village Industry	:	Industries meant to promote local-resource based products and traditional crafts in rural areas. A rural area is any area classified as village as per revenue records of the state irrespective of population. This also includes those areas which are classified as towns but whose population does not exceed 20,000.
Food Parks	:	These are set up by the Ministry of Food Processing in different parts of the country to provide capital-intensive common facilities such as cold storage, warehouses, quality control laboratories, effluent treatment plants, etc. to the adjoining processing units.

10.9 SOME USEFUL REFERENCES

Chadha G. K., and Sahu, P. P. (2005), "Rural Industrialisation in India: A Critical Assessment of Policy Perspectives", in *Rural Transformation in India: The Role of Non-Farm Sector* ed. by Rohini Nayyar and Alakh N. Sharma, Institute of Human Development, New Delhi, pp. 395-414.

Das, Keshab (2009), "Broad-basing Rural Industrialisation in India: Approaches and Challenges", Working Paper (SIID-01/2009), Gujarat Institute of Development Research, Ahmedabad.

Mazumdar Dipak & Sarkar Sandip (2008), Globalization, Local Markets and Inequality in India, Routledge Studies in the Growth Economies of India, NY. pp. 154-156.

10.10 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) See section 10.2 and answer.
2) Primary/secondary/tertiary; organised/unorganised; household/non-household; public/private; non-farm/off-farm; For nine industrial categories, see section 10.2, para on 'industry' and answer.
3) See section 10.2 and answer.
4) See section 10.2 and answer.

Check Your Progress 2

1) See section 10.3, para on I/II Plan period and answer.

2) See section 10.3, para on VI/VII Plan period and answer.

3) See section 10.3, para on VI/VII Plan period and VIII Plan Period and answer.

4) See section 10.3, para on IX/X/XI Plan period and answer.

5) See section 10.4 and answer.

Check Your Progress 3

1) See section 10.5 and answer.

2) See section 10.5.1 (last para) and answer.

3) See section 10.5.2 and answer.

4) See section 10.5.2 (last para) and answer.

5) See section 10.6 and answer.