

Rural Industrialization In India

Dr. Akhilesh Dixit

Asst. Professor, I.B.M., C.S.J.M.U. Kanpur

Abstract

Only rapid rural industrialization can help developing countries substantially increase opportunities for employment in the non-agricultural sector, expand the production of inputs needed to increase agricultural output and multiply the number of plants available for processing farm commodities. It can successfully revitalize the rural masses and assist the urban sector too. There is a close relationship between employment generated in rural non-farming activities and the spread of prosperity resulting from agricultural growth.

The value productivity per worker in the secondary and tertiary sectors is much higher than in the primary sector. The shift in occupational structure therefore would be associated with rise in per capita income.

Key words: Industrialization, Rural market, Rural development

INTRODUCTION

Indian economy suffers from high incidence of rural poverty, unemployment and underemployment. The agricultural sector by itself cannot provide productive employment to the growing labor force whose potential needs to be tapped structurally to overcome the economic crisis. The employment elasticity therefore the need for intensifying non-farming activities in rural India. If this is not done, more and more

Indian Rural Market: Opportunity and Challenges in the Global Context (ISBN: 978-93-87662-22-3)

workers will consider migrating to towns and cities, swelling the informal sector both in the rural and urban areas.

Diversification of agriculture through animal husbandry, dairying, forestry, fishery, sericulture etc., would benefit both the landless and the landholders and this should form an important ingredient of any strategy for integrated rural development.

Only rapid rural industrialization can help developing countries substantially increase opportunities for employment in the non-agricultural sector, expand the production of inputs needed to increase agricultural output and multiply the number of plants available for processing farm commodities. It can successfully revitalize the rural masses and assist the urban sector too. There is a close relationship between employment generated in rural non-farming activities and the spread of prosperity resulting from agricultural growth.

The value productivity per worker in the secondary and tertiary sectors is much higher than in the primary sector. The shift in occupational structure therefore would be associated with rise in per capita income. The general pattern of structural transformation in a country should be from agriculture to industry and then to services. But, in India, there has been a faster transition from agriculture to services, with the industry lingering behind.

PROGRESS AND PROBLEMS:

It is necessary to study the progress and problems of small scale and ancillary units. India has 2.2 million units belonging to the small scale Industry SSI category-the largest number in the world. The small scale sector produces as many as 5,000 products in a bigger or smaller

Indian Rural Market: Opportunity and Challenges in the Global Context (ISBN: 978-93-87662-22-3)

way. Between 2000-01 to 2004-05, the small enterprises sector registered continuous growth in the number of units, production, employment and export. During this period, the average annual growth in the number of units was around 4.1 percent and in employment 4.3 percent annually. Further, the annual average growth in production, at current and constant prices was 12.4 per cent and 8.1 percent respectively (*economic Survey 5005-06, p.151*).

The number of small unites increased from 97.15 lakhs in 1999-00 to 123.43 lakhs in 2005-06, and to 133.68 lakhs in 2007-08). Employment rose from 229.10 lakhs persons in 1999-00 to 299.85 lakh persons in 2005-06 and to 322.28 lakh persons in 2007-08.

The contribution of small and medium enterprises (SMEs) to GDP is projected to go up to 22 percent by 2012. Over 60 percent of SMEs are aggressively upgrading themselves technologically to reduce their input costs.

The small scale sector now produces a wide variety of products. Starting from the production of simple consumer goods, this sector has branched out of some of the highly precision-oriented products. It produces goods like leather and leather goods; plastics and rubber products, readymade garments, iron and steel goods, soaps and detergents, safety matches, toothpaste and power, wooden and steel furniture, paints and varnishes, electrical irons, TV cabinets, electrical capacitors, electro-medical equipments air conditioning equipment, bulbs, optical lenses, drugs and pharmaceuticals, machine tools, electric motors, automobile spare parts, confectionary items and razor blades.

As on 31st March 1999, there were 309, 013 sick/weak units consisting of 3,06,221 units in the SSI sector and 2,792 units in the non-SSI sector.

Indian Rural Market: Opportunity and Challenges in the Global Context (ISBN: 978-93-87662-22-3)

Industries having backward and forward linkage with agriculture, irrespective of their size and having a direct bearing on agriculture and rural economic life may be placed in the category of agro based industries. These industries provide the essential inputs and also function as potential outlets for the agricultural output.

Agro industries do play an important role in modernizing the agricultural sector, in raising the incomes of the farmers and in stepping up agricultural productivity. These industries contribute greatly towards diversification of the rural economy which is the real answer to the twin problems of rural poverty and unemployment. However, over optimization with respect to raw material supply and markets has led to widespread underutilization of capacity in agro industrial investments.

The ancillaries are also facing a number of problems. Capacity utilization is low, ranging from 40 percent to 50 percent. While parent units give priority to diversification, ancillaries are not able to change their modes of production. The parent units should assist ancillaries in the transfer of technology and arrange for supply of quality raw materials so that the end-product comes up to the requisite specifications. Generally, an ancillary depends on parent unit; it may be good for both the parent and the ancillary unit to have alternatives available. The ancillaries should be protected from unscrupulous and unfair competition from the small scale sector-which enjoys subsidies and other incentives.

A RATIONAL APPROACH:

India has realized the importance of rural industrialization. But, various approaches adopted towards rural industrialization have not been quite successful. The rural industrialization programme should be area-

Indian Rural Market: Opportunity and Challenges in the Global Context (ISBN: 978-93-87662-22-3)

specific. The setting up of big units in backward areas is not going to help local people. The Rourkela Steel Plant was set up in a tribal region in Orissa. But, the plant did not help tribal people to improve their financial conditions and day to day living. On the other hand, it created problems for them by destroying their culture and way of life.

If the aims of rural industrialization are to provide full employment through balanced occupational structure, to prevent rural exodus and to improve the structure of income and asset distribution within rural areas, rural industrialization should cover household based industries, agro-based industries and industries aimed to producing consumer goods in demand in rural areas, besides secondary goods and services should be studied in-depth. Underlying the vitality of demand is the question of generation of income and its disposition. Unless we know how much is likely to be generated and the associated pattern of expenditure, demand for rural industries cannot be ascertained. Sustained progress on the rural industrialization front requires policies to strengthen the linkages.

INSTITUTIONAL SUPPORT:

The governmental support to small and rural industries has taken many forms. The reservation of items for production exclusively in the small sector and exclusive purchase from this sector by the government organizations and the price preference for such purchases is one of them.

The Rural Industries Projects (RIP) programme was introduced in 1962-63, initially started in 49 districts, each covering three to five blocks. There programme aimed at the development of entrepreneurs in rural areas, identification of industrial ventures and promotion of extensions services. The Central Government provided 100 per cent grants to meet the establishment cost. Entrepreneurs were given loans having a

Indian Rural Market: Opportunity and Challenges in the Global Context (ISBN: 978-93-87662-22-3)

population of 25,000 or more. The RIP programme was subsequently merged with the DIC programme.

The Government announced the new Industrial Policy in June 1991. In August 1991, the government came out with a new policy- exclusively for the development of SSIs and the tiny sector. The thrust of the policy was directed to the following areas:

- i. Financial support to SSIs;
- ii. Rendering better infrastructural facilities;
- iii. Increased support for better marketing of products of small industries at home and abroad;
- iv. Modernization, technological and quality up-gradation;
- v. Promotion of entrepreneurship in the small scale sector;
- vi. Promotion of the tiny sector;
- vii. Promotion of the handloom sector and other village industries and
- viii. Simplification of rules and procedures for industrial development.

A new category of industry-related service and business enterprises have been introduced. They will be treated at par with SSIs up to investment limit of Rs. 5 lakh in fixed assets excluding land and building.

A significant step in this direction is the decision to allow equity participation by other industrial undertakings in SSIs upto a limit of 24 percent of the equity shareholding. This step is likely to help modernization of, and technological up-gradation in the small scale sector. It would also provide a powerful boost to ancillarisation and sub-contracting leading to expansion of employment opportunities.

Indian Rural Market: Opportunity and Challenges in the Global Context (ISBN: 978-93-87662-22-3)

It has been decided to widen the scope of the National Equity Fund Scheme to cover projects up to Rs. 10 lakh for equity support up to 15 percent of the total equity shareholding. Single window loan scheme has also been enlarged to cover projects up to 20 lakh with a working capital margin upto Rs 10 lakh.

Commercial banks have been asked to meet the credit requirements of the small scale industries in 45 districts all over the country. There is a large concentration of SSI units in these districts. This is being done in accordance with the Nayak Committee's recommendations. Banks have also been instructed that henceforth, for the credit requirements of village industries, tiny industries and other SSI units having aggregate fund-based working capital limit up to Rs. 1 crore from the banking system are to be provided working capital limits-computed on the basis of a minimum of 20 percent of their projected annual turnover of new as well as existing units.

Several new measures have been adopted for improving the efficiency and performance of the small scale units. These include provision of infrastructural support in an integrated manner through Integrated Infrastructure development (IID) Scheme, enhanced technology support for modernisation and quality up gradation through opening of five new tool rooms with Danish and German assistance, enhancing entrepreneurship development generation programmes through Prime Minister's Rozgar Yojana (PMRY) Scheme and enhancing the information and database of the small scale industries sector. (*Economic Survey 1996-97*).

Indian Rural Market: Opportunity and Challenges in the Global Context (ISBN: 978-93-87662-22-3)

FUTURE TASK:

The relatively poor performance of the rural industrial sector can be attributed to the restrictive approach adopted to the problem. The preservation of traditional rural industries is often viewed as an objective in itself, without examining their likely role in the process of overall rural and national development. Thus, protection of small units has become more important than development and modernization of such units. The protective and promotional measures should aim at increasing the growth potential rather than merely consider the survival of rural industries. It has been pointed out that there is a case for providing protection to the small sector through differential taxation rather than reservation.

Besides, various fiscal incentives offered to the small units are often misused. Surely, the objective of such incentives is not to keep the unit 'small' but to help them grow into efficient sized units. If the small units are made clear that incentives like excise concessions will be gradually withdrawn, the units will work towards improving their efficiency and the urge for fragmentation and remaining small will no longer exist.

India's rural industrialization programme should take in to account two things; (i) the pace of non-forming activities in rural areas will be greatly influenced by the trends of agricultural incomes and productivity, and (ii) as the private sector is still predominant, the tendency towards geographical concentration of the industry is strong.

Without a political will or policy support, the rural entrepreneurs and their products may fail to enter the competitive market and avail of the benefits of economic liberalization. Tax relief and exemption from octroi etc., should be liberally given to small producers. The fiscal

Indian Rural Market: Opportunity and Challenges in the Global Context (ISBN: 978-93-87662-22-3)

policy and policies relating to purchase of raw materials, inputs and the subsequent marketing of the products should be so formulated as to favor small entrepreneurs.

The rural industrial sector requires not a generalized thrust as has been the policy so far but specific attention and a specially designed package of programmes conducive to its own characteristics. For any such package to be developed and implemented, there has to be a detailed survey, adequate database and in depth analysis of the market.

In future, an attempt should be made to tap the 'potential' of the rural population form among the children of the traditional artisans and give them intense training and orientation to convert their establishments into real industrial-cum business establishments. Further, the focus of training for self-employment in rural areas should be on motivating and training of the educated youth to become rural entrepreneurs for organizing decentralized production and develop as leaders in their area of business. The emerging entrepreneurs need trained to take up those lines of production which could be best organized, using the available local raw materials, manpower, markets etc. This makes it necessary to develop regular and appropriate training programmes for the rural entrepreneurs to upgrade their present skill and acquire new ones.

The rural artisans who have the potential to contribute to the country's economy, fail to do so, having less access to credit and raw materials. Another problems relates to the size of the market which is small. There are of couse clusters of artisans engaged in specific industries, but their operations are not viable. A strategy based on industry-cum-area development approach leading to vertical and horizontal integration of the programmes can alone sustain the industries in rural areas. This calls

Indian Rural Market: Opportunity and Challenges in the Global Context (ISBN: 978-93-87662-22-3)

for integration of beneficiary-oriented schemes with the overall 'area' development plans to be drawn up after taking the resource endowments into account.

At present, there are different agencies engaged in the technology transfer to rural areas. There is need for coordinating their efforts by evolving a single forum at the national level. It is also felt that there should be an extension agent of DICs at the block or sub-block levels and a technology centre at the district level. Perhaps there is need for an institution at the district level to help rural artisans with financial inputs and strategic marketing.

NEW INITIATIVES:

In 1967, only 47 items were reserved for small industry. This increased to 180 by June 1976 and to 504 by April 1978. However, the de-reservation process started from April 1997 when 15 items were de-reserved. In May 2002, 85 items were struck off from SSI reserved list. IN 2004-05, 193 items were de-reserved to bring down the total number of reserved items to 506.

In September 2005, the government approved an increase in the subsidy for small scale industries from 12 to 15 percent to make the sector competitive. Along side, it raised the ceiling on loans under the Credit linked Capital subsidy Scheme for modernization and technology up-gradation from Rs. 40 lakh to Rs. 1 crore. The validity period of the scheme has been extended to March 31, 2007. Also, the capital subsidy is to be calculated with reference to the purchase price of plant and machinery instead of the term loan disbursed to the beneficiary.

Indian Rural Market: Opportunity and Challenges in the Global Context (ISBN: 978-93-87662-22-3)

The Government has proposed to take up 100 clusters of traditional industries in the small scale sector for their development over the next 5 years. Among these, 25 clusters will be for khadi, 25 for the coir sector and 50 will be for village industries. The scheme will greatly benefit artisans, weavers, potters and other workers engaged in traditional industry activities.

In pursuance of the announcement of the Finance Minister in the Budget 2005-06, a fund titled 'Scheme of Fund for Regeneration of Traditional Industries (SFURTI)' was approved for the holistic development of traditional clusters.

REFERENCES:

1. Planning Commission, Government of India (1981): sixth Five year Plan 1980-85, p.210.
2. Dennis A. Rondinelli: 'Small Industries in Rural Development: Assessment and Perspective', Productivity (Special Issue on Rural Development), January-March 1979, p. 458.
3. R.V. Rao (1987): Rural Industrialisation in India, Concept Publishing Company, New Delhi, p.78.
4. FAO, Rome (no year): Review and Analysis of Agrarian Reform and Rural Development in the Developing Countries since the mid-1960s, p. 63.
5. Manmohan Singh: 'Indian Economic Planning and World Economy', Valedictory Address at the VIII world Economic Congress in New Delhi on December 5, 1986.
6. K.L. Nanjappa: 'Small Scale Sector: Need to Upgrade Technology', The Economic Times, July 10, 1986.

Indian Rural Market: Opportunity and Challenges in the Global Context (ISBN: 978-93-87662-22-3)

7. Badar Alam Iqbal, Javed Alam Khan and Sibghat Ullah Farooqi: 'Role of Agro Industries in Agricultural Economic', Khadigramdyog, February 1979, pp. 281-282.
8. James G. Brown: 'Improving Agro Industries in Developing Countries', Finance and Development, June 1986, p.43.
9. K.V. Rao: 'Wide Scope for Closer Parent Ancillary Ties', The Hindu, March 6, 1986.
10. Planning Commission, Government of India (1985): The Seventh Five Year Plan 1985-90, Vol. II, p. 101.
11. M.S.S. Vardhan: 'What Ails the Ancillaries', The Hindu, August 27, 1971.
12. Satya Sundram: 'Ancillaries Face Rough Weather', Industrial Times, May 17-30, 1982, pp.35-37.
13. D.B. Gupta: 'Rural Industry in India: Need Policies and Prospects', Kurukshetra, October 1984, p. 14.
14. B. Sudhakara Rao: 'A Pragmatic Approach to Rural Industry Needed', Kurukshetra, December 1984, p.34.
15. Rajula Devi: 'Industrialisation Holds Key to Rural Development', Kurukshetra, December 1984.
16. Vivek Deolankar: 'Role of Rural Industries', The Economic Times, February 1987, p.215.
17. The Economic Times (editorial), November 22, 1985.
18. Manmohan Singh: op.cit.
19. R.N. Kapoor. 'Rural Industrialization: Existing Trends and Future Strategis', Khadigramodyog , November 1986, p.103.
20. S.P.Vishnoi: 'Required An Integrated Approach to Rural Industrialisation', Kurukshetra, October 1984, p.103.
21. C.S.Rao: 'Need to Promote Rural Entrepreneurship', Kurukshetra, December 1984, p.29.