CHAPTER - II
CONCEPTUAL ISSUES, THEORY
AND POLICY HISTORY
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CONCEPTUAL ISSUES, THEORY & POLICY HISTORY

This chapter deals with conceptual issues of Rural Industries along with theory and policy history of Rural Industrialisation.

Rural industry is a powerful locomotive of rural development. It can play an effective role in socio-economic transformation of rural areas through diversification of occupations and multiplication of income.

2.1 CONCEPTUAL ISSUES

Despite its strategic importance, the term 'rural industry' has been used in India in a vague and indefinite manner. Generally 'rural industry' has been made to mean artisan based traditional industries, running on a household basis. In other words, the term has been used as a synonym for traditional household/cottage industry. But this concept of rural industry is misleading. Only those traditional household/cottage industries should be treated as rural industries which are situated in rural areas. A traditional household/cottage industry situated in an urban area should not be regarded as a rural industry.

In the second place, considering the wider objectives sought to be achieved through a programme of rural industrialisation, "rural industries" should not be taken to connote merely traditional and artisan based industries but a wide range of agro-industries, light engineering industries and consumer goods industries organised on modern lines - whether medium or small scale - whether catering to local market or external one - their chief...
criterion being that they are located in rural surroundings and help exploitation of local, rural resources, natural or human.

The subject of rural industrialisation is a study of location of industries in rural areas. The location of a unit or units is all that should matter, that is, if a unit is located in the rural area, it should be termed as a rural industry. Rural industry should be capable of generating both forward and backward linkages within the area. Of course, these linkages are not the limiting factor to the scope of the rural industries. In fact, many rural industries, which use local materials, have an urban market, and those providing for the local market often use non-local raw materials. Further, it is possible that an industry situated in the rural area neither uses local materials nor caters to the needs of the rural people; nevertheless it may be incorporated in the list of rural industries for rural human resource utilisation and income generation.

On the other hand, a large factory located in rural areas after creating an industrial colony would not be technically a 'rural industry'. Rural Industrialisation implies a wider decentralised growth of industries with as high an employment potential as it is compatible with an efficient technique and the requirements of the process of development. It seeks to transfuse modern industry into the life of the people of a particular locality by emphasising area development and maximisation of local skill and resources.

'Rural Area' means (1) any area classified as village as per the revenue records of the State/Union Territories irrespective of population; and (2) it also includes an area even if classified as town, provided its population does not exceed 20,000 (as per 1991 census).
Thus, any production or processing activity outside the farm - big or small; traditional or modern and organised or unorganised which utilises endowment - man and material - of a village or any other areas may be called a rural industry. Such a non-farm activity may be carried out by a single individual as in the case of rural artisans or the entire family as in the case of weaving community or a group of hired persons as in the case of small scale industries.

The following categories of industry may be suitable for incorporation in the rural industrialisation scheme:

1. Production of agricultural inputs;
2. Processing of agricultural produce;
3. Processing of mineral and natural resources;
4. Production of building materials;
5. Production of consumer goods and basic needs items;
6. Traditional Handicrafts;
7. Handloom;
8. Sericulture;
9. Coir units;
10. Provision of repair and maintenance facilities (including the production of spare parts); and
11. Provision of inputs and services for other local industries (sub-contracting and perhaps ancillary units).

2.2 THEORY

The need for according priority to the development of rural economy in India stems from the fact that a majority of her population resides...
in rural areas where agriculture is the main source of livelihood for a large part of her labour force. The pressure of population on land is therefore already high and increasing and has already resulted in a large supply of labour in rural areas. With vast under-employment in rural areas, constant swelling of the labour market following population explosion, industrial agglomeration creates centre - periphery conflict so that faster movement of capital, labour, entrepreneurship and other resources towards the developed centre or centres pulls down the overall economic growth rate and widens income and other inequalities between the centre and the periphery or the interior regions.

Outflow of both physical and human resources from rural to urban industrial centres lead to marginalisation of the rural economy and regional disparity. The rural economy grows foodgrains for urban population; produces raw materials for metropolitan industrial establishments and supplies workforce for their manufacturing and commercial organisations. The village economy is thus harassed for satisfying the needs of urban population. Thus in the rural economy, poverty perpetuates due to the very system and structure of the economy.

Another dimension of the rural situation in India is the existence of a growing mass of the landless, who constitute over one third of the rural population. Agricultural growth benefits them only to the extent it results in an increase in employment and wages. If such opportunities are not forthcoming, employment avenues in sectors other than agriculture alone can provide them with a source of livelihood.

The social costs of migration in terms of overcrowding and the high maintenance cost of workers, particularly in large urban areas, tend to offset much of the gains in productivity and incomes. Migration adds to the
problem of "urban Chaos", housing, congestion, pollution, vice, etc. and weakens the rural areas further by reducing skilled energetic and ambitious workers, which may lead to loss of rural production. Therefore, the development model based on the mechanism of rural-urban population transfer does not have much validity.

Rural industrialisation serves as an effective means to check all these economic ills perpetuating in rural India. The main advantages of rural industries lie in that they lend themselves for being set up on a decentralised pattern on the basis of area approach, use local manpower, skill and resources and cater to the local demand and market. They are capital light, skill light and import light. They possess the capacity to counter rural exodus and regional disparity. They produce output of short gestation and fight against both inflation and unemployment which the society is largely confronted with.

Rural industrialisation is also dictated by the imperative need to break the dual economic structure of the Indian economy.

According to T.S. Papola, Rural industrialisation may have two approaches, such as: (i) the spatial diversification of industries and (ii) the development of village industries. The first approach is based on the fact that a spatial concentration of industries in large urban centres is not conducive to an equitable pattern of growth, and that; therefore, industries should be spatially diversified into smaller towns, backward areas and villages.

In this context, the significant question, which calls for investigation is how to make the industrially backward areas, including villages, attractive enough for entrepreneurs to locate and to develop industries there. Thus as a part of the problem of industrial location, the
facilities like infrastructure, incentives and concessions assume importance in the analysis of rural industrialisation.

The second approach is based on the development of village industries. Village industries, predominantly in the form of traditional craft, have productively engaged a part of the rural population for centuries. These industries are to be reinvigorated by providing them with the necessary protection and patronage.

Both the approaches would bring the industry, employment and incomes nearer to the people in the villages. The employment in rural industries increases the income of the local people who spend a part of their incomes on goods and services, thereby attracting fresh investments in sectors producing them. This in turn provides further employment and income to the local people and sets in motion the chain multiplier effects, which results in exploitation of local resources on a sustained basis and contributes to the development of a multi-sectoral and dynamic rural economy.

The strategy envisaged here involves the rural people not only as labourers but also as entrepreneurs in the process of rural employment and income generation. The growth of rural small industrial units is to be induced primarily through backward and forward production and consumption linkages within the rural space itself minimising the need for a rural-urban migration of labour. This does not however imply viewing villages as closed or isolated economies but as having greater autonomy in generating productive employment opportunities in the context of their development priorities. Vertical linkages may very well be established in the chain process between the rural industries and bigger industrial units located in nearby urban centres/centres.
In the Gandhian sense, rural industrialisation should not merely amount to “industrialisation of rural India”. It should in fact lead to “ruralisation of Indian industries”. This would mean the adoption of a development system and technology suitable to Indian culture and tradition.

Rural industries would not play a secondary role. In other words, rural industries would not merely supplement the large industries, so that large industries would thrive at the cost of rural small scale and cottage industries. Rather there should be proper integration between the two. They would depend and interdepend upon each other, although every attempt should be made to see that the rural industries are viable and stand on their own feet.

2.3 HISTORY

India had a long tradition of artisanal industries. The development of these industries in India can be divided under three broad periods, such as:

2.3.1 Pre-British Period
2.3.2 British Rule
2.3.3 Post-Independence Period.

2.3.1 RURAL INDUSTRIES IN THE PRE-BRITISH PERIOD

During the medieval and ancient historical period, rural artisanal industries prospered almost in an uninterrupted manner. There was product specialisation on the basis of castes, viz, the “Lohars” in blacksmithy; the “Chamars” in leather works; the “Tellis” in oil crushing; the “Kumbhars” in pottery and so on.
These units produced in keeping with the needs and preferences of the local people and of the urban nobility. They had developed both in-land trade as well as exports of the manufactured goods. Some of these goods had earned worldwide reputations. Of course, the major part of the artisanal production was being absorbed in the local areas.

2.3.2. RURAL INDUSTRIES IN THE PERIOD OF BRITISH COLONIAL RULE

Period-I: Exploitation and Decline

The kingpin of the imperialist policy was use of foreign trade as a conduit for what Singer - Prebish termed "double exploitation" of colonial economies and rural artisanal industries in India suffered a decline. The cheap import of raw materials like cotton from India and export of industrial goods like textiles to India started the process of de-industrialisation.

It was strengthened by the discriminatory trade practice against Indian goods and penal actions against weavers and other artisans in the early 19th century. The handloom industries and other industries started declining as the preference of the new elite class turned towards western products, which were cheaper as well as standardised. The rural artisans faced steep competition from the British goods as the costs of raw materials went up due to its large exports.

Period-II: The Gandhian Movement:

It was only since 1921 with spread of nationalist movement under the leadership of Mahatma Gandhi that these artisanal industries notably hand spinning and weaving, received some kind of protection and started growing in the rural areas.
The nationalist movement persuaded people to reject imported goods and to use only indigenous goods. It glorified Indian industries, primarily the handicrafts. Gandhiji has been one of the staunchest supporters of rural industries. He had drawn the attention towards the development of rural industries as a part of the freedom struggle when he urged the Indians to reject not only western products but also western styles.

To, Gandhiji, "Charkha", the "Spinning wheel" was the rural growth pole; but it was far more than that — a symbol of truth and non-violence, the spiritual weapons which he wielded to forge national unity and achieve Independence.

He had the confidence that most of our wants could be supplied from our villages. He was not interested in the development of particular types of industries; he was interested in the development of rural areas and rural masses so that the cities did not exploit them.

Gandhiji had laid great emphasis on "village self-sufficiency". He considered 'Khadi' to be the sun of the village solar system. The planets were the various industries which could support 'Khadi' in return for the heat and substance they derived from it.

Gandhiji sought to give the idea (i.e. Village self-sufficiency) a concrete institutional framework and asked his chosen disciple Dr. Joseph C. Kumarappa to found and lead the All India Village Industries Association (AIVIA) in 1946, a year before India's Independence. Dr. Kumarappa fully realised the crucial importance of new or improved technologies and set about trying to develop appropriate systems embodying various innovations. Attempts were made to upgrade or improve traditional artisanal techniques and some innovative hand-operated or animal-driven machines were
developed and used. Several sectors were identified under this category such as backyard leather tanning, footwear making, oil extraction from oil seeds, soap making, bee-keeping and honey collection, village pottery and other similar traditional trades that conformed with the notion of self-sufficient village communities. In this way, a number of steps were initiated to revive the Khadi and village industries sector. Although the “Swadeshi” movement emphasised the development of indigenous industries, these industries could not benefit to any significant extent.

2.3.3 RURAL INDUSTRIES IN THE POST-INDEPENDENCE PERIOD

After Independence, the Government policy has gone in favour of rural industries. Article 43 of the Indian Constitution pertaining to the Directive Principles of State Policy states that “in particular the state shall endeavour to promote cottage industries on an individual or co-operative basis in rural areas”. The Directive Principles of the constitution lay stress on certain economic and social values, which can be cherished only through the development of rural industries. Therefore, the promotion of these industries has been a major plank of our industrial policy and Five Year Plans. Rural industries have come to be considered as an engine of rural economic prosperity.

The Post-Independence era saw a kind of compromise between the two approaches, representing the views of Gandhi and that of Nehru. The Gandhian approach towards small industry was to protect small producers. It gained much popularity with the national movement. Gandhi had the conception of decentralised village economy, which was reflected in the Khadi and Swadeshi movement 20. The Gandhians wanted the supply of consumer goods to come principally from village and cottage industries, essentially using traditional technology and no wage labour 21.
The Nehruvian view, on the other hand, laid emphasis on modernisation, sophisticated technology and development of heavy industries. Jawaharlal Nehru in his speech stated, "The balanced industrial structure that India hopes to evolve is of three parts or layers: the heavy basic industries which are the necessary underpinning for any developed economy; a vigorous small scale industries, advancing in modern techniques ...... and a progressive rural industries producing largely for the villages and sustaining rural employment and social cohesion".

On the eve of Independence, the overall condition of the Indian economy was predominantly feudal and the majority of the population which depended on agriculture was poverty stricken, with some development of capitalist industries. The agricultural sector was stagnant with low productivity of land and labour because of the predominance tenancy and land concentration. In this situation, rural industrialisation was seen as part of a vibrant rural economy.

One of the established facts has been that the performance of the agricultural sector primarily determines the fortunes of the rural industries. This fact did not receive adequate attention in the Government policies and programmes for a pretty long period of time. Interlinkages between rural industries and other sectors of the economy as was seen in China and Japan, were not in evidence in India. Therefore, measures adopted to encourage the rural and artisanal industries were often ineffective and sometimes counter productive.

Land reforms are of vital importance for rural industrial development. It would unleash productive forces in agriculture raising foodgrain production and the supply of raw materials to the industries. It would also help in raising the purchasing power of the rural people and
thereby demand for manufactured goods. But the coalition of the landlords - rich peasants class and the bourgeoisie effectively barred the land reform measures. In the absence of proper land reform, the state tried to promote rural industries. Due to this and the resulting slow growth of agricultural production, local demand for the products of rural industries did not grow fast and effective interlinkage between rural industries and other sectors of the economy could not be seen in the economy.

Further, for policy purposes, the planning authorities clubbed the cottage industries with modern small industries under the single heading "village and small industries" (VSI). Village industry, thus, did not get any separate treatment in our plans. The term "village industry" was used as a synonym of the traditional handicraft/cottage/household industry located anywhere. Thus, the Gandhian model of rural/village industry for development of rural areas and rural masses was completely ignored in our plans. The advantages meant for village and small scale sector were enjoyed by the big capitalists. The village and small industries (VSI) sector constituted heterogeneous industries requiring different approaches and policies to protect and promote this group. But the industrial policies pursued in India so far adopted a single approach to the VSI sector as a whole without proper discrimination among the constituents of the group. It therefore, led to the decline of the traditional industries and the growth of the modern small industries, as the latter could appropriate the advantages and out compete the former.

2.4 FIVE-YEAR PLANS: INDUSTRIAL POLICIES AND RURAL INDUSTRIES

The industrial policy pronouncement of the Government of India after independence, while fully recognising the role of heavy and basic industries, also assigned the household, cottage and small-scale industrial sector a very prominent place. Some of the main arguments in support of this
line of thinking are: (a) for every rupee of value added in this sector, capital required is roughly one-third of that needed in the large industry; (b) for providing employment to one person, average investment required is approximately six to ten times more in the large scale sector than in the small scale sector, (c) for a large and over populated country like India, only the small scale sector can provide a viable and progressive decentralised sector of economy providing opportunities of work and income all over the country; (d) for it can ensure more equitable distribution of national income and also avoid the hazards of unplanned urbanisation; and (e) as the industrial experience of Japan has proved that small enterprise can in most cases be as productive as the large industrial units, then given the paucity of resources in this country, it is definitely more productive for India to opt for the expansion of this sector rather than the capital intensive large scale sector.

2.4.1 INDUSTRIAL POLICY RESOLUTION, 1948

The specific role of village and small sector was recognised by the Industrial Policy Resolution of 1948. The policy states that "cottage and small scale industries have a very important role in the national economy offering as they do scope for individual, village or co-operative enterprise, and means for rehabilitation of dispersed persons. These industries are particularly suited for the better utilisation of local resources and for the achievement of local self-sufficiency in respect of certain types of essential consumer goods like food, cloth and agricultural implements". So, its approach was largely sectoral oriented and it considered cottage and village industries in isolation of the rest of the economy.

2.4.2 FIRST FIVE YEAR PLAN (1951 - 56)

The policy direction showed by the Industrial Policy, 1948 was given practical shape through the First Five Year Plan. Based on the Harrod-
Domar Model, though it laid more stress on the development of “high growth modern sector”, also assigned agriculture the topmost priority. The Planning Commission also appreciated the crucial role, which the cottage and village industries could play and declared that “the development of village industries should be as much a matter of state action as the increase in agricultural production. Indeed one cannot be separated from the other”.

During the First Five Year Plan, various steps were taken to materialise the above objectives. In this connection, Six All India Boards were established or reconstituted, viz; The All India Handloom Board (Oct. 1952), The All India Handicrafts Board (Nov., 1952), The All India Khadi and Village Industries Board (Feb. 1953), The Small Scale Industries Board (Nov., 1954), The Central Silk Board (April, 1952) and the Coir Board (July, 1954). Four Regional Small Industries Service Institutes were established with branches all over India to provide technical assistance to the rural industries. The Government started imposing cess on large-scale industrial goods to protect the small scale sector. Thus both promotional as well as protective measures were adopted for promoting rural industrialisation.

2.4.3. INDUSTRIAL POLICY RESOLUTION, 1956

The concept of “Socialistic Pattern of Society” was for the first time introduced in an industrial policy pronouncement of the Government of India through the Industrial Policy Resolution of 1956. The resolution stated without mincing words that henceforth the Industrial Policy of India must be governed by ......... the objectives of socialism. Highlighting the role of village and small scale industries, the Policy Resolution stated in specific terms that “They (VSIIs) provide immediate large scale employment; they offer a method of ensuring a more equitable distribution of the national income; and they facilitate an effective mobilisation of resources, capital and
skill which might otherwise remain unutilised. Some of the problems that unplanned urbanisation tends to create will be avoided by the establishment of small centres of industrial production all over the country."  

As in the Industrial Policy Resolution of 1948, the need for promoting industrial co-operatives was once again stressed. The policy declared, "The Principle of Co-operation should be applied wherever possible and a steadily increasing portion of the activities of the private sector should be developed along co-operative lines." Further, the village and small industries had to form the basis of a pyramidal industrial structure. They were viewed as a progressive and efficient decentralised sector closely integrated on the one hand with agriculture and on the other, with large scale industry. This policy recommended to concentrate on measures designed to improve the competitive strength of small scale producers and to follow a policy of supporting cottage, village and small scale industries by restricting the volume of production in the large scale sector.

2.4.4 SECOND FIVE YEAR PLAN (1956 - 61)

The Second Five Year Plan based on Mahalanobis Model laid more emphasis on the development of basic and heavy industries. But it was not done at the cost of the village and small industries sector. In the context of overall development strategy, Mahalanobis saw an important role for small industry in meeting the growing demand for essential consumer goods which can take place at a relatively low investment cost and also in creating a significantly larger increase in employment than would be generated by taking recourse to large scale factory production.

The Planning Commission considered the VSI sector to be of such immense importance that it set up a separate committee in 1955 under the Chairmanship of D.G. Karve to study the problems and suggest programmes
for the development of this vital sector. The Karve Committee laid special emphasis on technical improvement in the sphere of village and traditional industries and called for greater economic decentralisation through out the country. Among other things, the committee very strongly recommended that "whatever the villagers can undertake by way of improved industry in their own village, should be organised on a village basis".

The Second Five Year Plan acted on the recommendation of the Karve Committee. The plan categorically stated, "As the rural industry develops, technical changes will take place in different fields and correspondingly, the pattern of rural industrialisation will also change from simple crafts meeting the elementary needs to small industries based on steadily improving techniques and designed to satisfy the needs of a more advanced character."  

It looked upon rural industries as an integral component of national economy and with the formulation of 26 pilot industrial projects, a special dimension was added to the programme of development of village and small industries.

A notable development during the Second Five Year Plan was the establishment of The Khadi and Village Industries Commission in 1957 as a separate body for the development of Khadi and Village industries. With a view to providing basic overhead facilities like suitable accommodation, technical guidance and common service facilities to the small scale sector, the programme of Industrial Estates was introduced. The Programme of Industrial Extension Service was also developed during this plan.
In the Third Five Year Plan, a programme for intensive development of the village and small scale industries was launched in 1962-63 through selected project areas called Rural Industries Project (RIP). The RIP Programme had a spatial basis; it selected 49 areas, mainly in poor and backward areas, each with three to seven blocks having population of 300 to 500 thousand. Later on 4 more areas, near large scale projects at Bhilai, Durgapur, Ranchi and Bhadrabati were added to the programme in 1965 in order to assess the spread effects. For the first time, it was tried to integrate sectoral policies, i.e., the programmes of various All India Boards, with an area development approach.

In 1966, a committee under the chairmanship of Ashok Mehta was constituted to assess the progress of Khadi and Village industries and to make recommendations to strengthen and expand them. Two significant recommendations were made by the committee- the first to constitute a single comprehensive agency like the Rural Industries Commission for implementing an overall rural industrial development programme and the second to set up Rural Technology Research Institute. The report of the committee was submitted to the Government but nothing emerged out of it.

The programme for the development of small scale and cottage industries during the Third Plan was influenced by the recommendations of the Second International Perspective Planning Team, 1963. Two committees, namely Pande Committee and Wanchoo Committee were appointed to look into the identification of backward areas and to find out specific measures for their development. After long deliberations on the recommendations of the committee, the Government decided to provide an investment subsidy of 10 percent to the identified backward regions.
The Programme of Rural Industries Project (RIP) was continued during the three Annual Plans (1966-69).

2.4.6 FOURTH FIVE YEAR PLAN (1969 - 1974)

During the Fourth Plan, emphasis was laid on area development by means of growth centres approach for rural industrialisation. In addition, a Backward Area Development Programme was formulated from which rural industries located in these areas could benefit. The plan proposed to encourage decentralised growth of industry. Therefore the plan heralded the era of concessional finance and liberal aid for industrial decentralisation in the rural areas. Besides, the plan also laid great emphasis on technical improvement in the village and small industries sector. It clearly recognised the need for providing increasing employment opportunities in the non-farm sector in the rural areas. As a part of the scheme of SFDA and MFAL, a programme called Rural Artisan programme (RAP) was started by the Ministry of Agriculture in 1971-72. The main objective of the programme was to provide all round training to the village artisans in different trades, which would enable them to take up small enterprises and work with improved tools.

2.4.7 FIFTH FIVE YEAR PLAN (1974 -1979)

The Fifth Five Year Plan broadened the RIP programme considerably. The number of RIPs increased from 49 to 111 so as to cover the entire district, except towns with population of more than 15,000. The RIP Programme was to be guided to rural areas, whereas the Backward Area Development Programme would be oriented to urban and other centres of more than 15,000 inhabitants.
2.4.7 INDUSTRIAL POLICY RESOLUTION OF 1977

With the change of the Central Government in 1977 in form of the Janata Party's ascent to power, a new industrial policy was declared in December 1977. This policy was noted for its considerable thrust to the growth of village industries. The policy stated, "whatever can be produced by small and village industries must be so produced". The policy statement further declared that "it is the policy of the Government to see that no worthwhile scheme of small or village industry is given up for want of credit". The list of items reserved for KVIC was expanded from 180 items to more than 800 items. It stressed on the need for strengthening of facilities like product differentiation, quality control, marketing survey, purchase preference, concessional finance and development of appropriate strategy. The policy suggested negative measures for curbing the expansion of urban industrialisation.

For the first time in the industrial history of India, a "tiny sector" was defined with an investment in machinery and equipment up to one lakh rupees and the unit situated in towns with a population of less than 15,000. The policy also suggested the establishment of District Industries Centre (DIC) at the district level to act as a single umbrella agency for providing all assistance for the promotion of small scale and village industries at the pre-investment, investment and post investment stages of production.

In order to facilitate the marketing of products of these industries, the Government was to accord preferential treatment in the purchases by Government Departments. The Industrial Policy of 1977 thus gave a definite shape to the comprehensive rural industrialisation policy in India.
The Draft Five Year Plan of the Janata Government proceeded to give concrete content to the Industrial Policy declaration of 1977. Therefore the draft clearly stated that the village and small industries sector would receive a very high priority. The District Industries Centre programme was initiated in May 1978 on the guidelines of the Industrial Policy Resolution of 1977. The Rural Industries Projects were merged in their respective DICs. By March 1980, 382 DICs were sanctioned.

The RIP programme was for the development of village and small industries in rural areas and towns with more than 15,000 populations were excluded from its purview. On the other hand, the DICs were conceived for the development of the entire village and small industries sector located even in towns. The second point of difference between the two is that RIPs were there only in selected 111 districts; whereas DICs were established in each and every district of the country. Thus from the point of view of development of the village and small industries sector as a whole, the DICs Programme was much broader than the RIP programme, but from the period of view of development of rurally located industries, the RIP programme was more specific.

The Integrated Rural Development Programme (IRDP) was also launched during this plan for rural development and it was decided that programmes for the development of village and cottage industries as well as small scale industries, skill formation and supporting services would be substantially enlarged and strengthened under the IRD Programme. IRDP attempted to provide self-employment in agriculture, animal husbandry, manufacturing, trading, etc. through raising asset endowment of the rural poor. In 1979, TRYSEM (The National Scheme of Training Rural Youth for Self
Employment) was launched by the Ministry of Rural Development. The main thrust of this programme was to equip the rural youth with necessary skills and technology to enable them to take up various occupations of self-employment.

2.4.10 INDUSTRIAL POLICY OF 1980

With the return to power, the Congress (I) party introduced a new industrial policy statement in July 1980. In this policy, no serious attempt was made to break away from the direction given to the industrial policy by the Janata Government. The policy declared, “Government is determined to promote such a form of industrialisation in the country as can generate economic viability in the villages. Promotion of suitable industries in rural areas will be accelerated...... Handloom, handicrafts, Khadi and other village industries will receive greater attention to achieve a faster rate of growth in the villages” 44.

The policy aimed at correcting the regional economic imbalances through dispersal of industries. Another objective of the policy was to promote economic federalism. It was proposed to set up a few nucleus plants in identified industrially backward districts to generate as many ancillaries and small and cottage units as possible. The policy expected that a number of small industries would start growing near the mother plant. The mother plant or the nucleus plant was to assemble the products of the ancillary units around it and it would also produce the inputs required by these units. This process was expected to generate adequate linkages with the local resources. Its aim was also to upgrade the technology of the small units.

2.4.11 SIXTH FIVE YEAR PLAN (1980 - 1985)

Massive programmes were organised during the Sixth Five Year Plan to revitalise and develop the existing traditional as well as modern small
scale industries. The plan document categorically stated that promotion of these industries would "continue to be an important element in the national development strategy" 45. Therefore, in the light of Industrial Policy of 1980, various policy measures were adopted. It was clear that the existing programmes for the promotion of village and small industries which had been based mainly on an "industry" approach had no doubt led to an increase in production and employment, but had not helped in raising it to an appreciable extent, nor had they raised the levels of income of the artisans. Therefore, a strategy based on industry-cum-area development approach leading to vertical and horizontal integration of the programmes was needed to sustain the industries in the rural areas. This called for integration of beneficiary oriented schemes with the overall area development plans to be drawn up after taking the resource endowment into account.

To achieve the above noted objective, it was decided that (in the IRDP, which had been extended to cover all the blocks in the country) out of the 600 families to be covered under the programme in each block every year, 100 families would be through village and cottage industries. It was expected that during the plan period, about 25 lakh families would get assistance in setting up rural industries 46. The Khadi and Village Industries Commission was also made responsible to cover beneficiaries at the rate of 50 families per block per year under the IRDP 47.

The Industrial Policy Resolution of 1980 drew attention to the fact that the DIC Programme had not produced benefits commensurate with the expenditure that had been incurred 48. It was found necessary to restructure the organisational set up of the DIC with a view to strengthening their technological competence.
In order to provide the necessary technical input to rural industries, a Council for Advancement of Rural technology (CART) was formed in 1963. With a view to ensuring an adequate flow of bank finance, the village and small industries sector was recognised as a priority sector and the commercial banks were advised to give special attention to it. The National Bank for Agriculture and Rural Development (NABARD) was set up to provide refinancing facilities against loan and advance to artisans, small scale industries including village and cottage industries, and industrial units in tiny/decentralised sectors.

2.4.12 SEVENTH FIVE YEAR PLAN (1985 - 1990)

The Seventh Five Year Plan continued with almost all the programmes of the previous plan. It gave top importance to the upgradation of technology and modernisation, mainly to improve product quality and to minimise costs. It strengthened the Backward Area Development Programme through special incentives scheme to disperse modern small and medium scale industries in the rural areas. For promotion of rural industrialisation, KVIC was reorganised and professionalised. Research and development efforts were stepped up and the results thereof were transferred to the field level agencies. Housing cum workshed facilities and thrift fund scheme for the benefit of the artisan type units had been considered.

In this plan period, the Government had started extending basic support in terms of functional assistance like marketing, ancillaryisation, credit flow, supply of raw material and critical inputs, technology, training, etc. This plan envisaged discouraging the setting up of industries in and around urban agglomerations and providing the package of incentives to attract industries into backward regions.
2.4.13 INDUSTRIAL POLICY OF 1991

The New Industrial Policy of 1991, as a part of the New Economic Policy, 1991 of the Congress Government, was a very dynamic policy. It almost brought about a break from the past, and it was hailed as "bright, bold and imaginative". But it did not announce anything specific for the village and small scale industries.

Soon after that, on 6th of August 1991, a special industrial policy for "small, tiny and village Enterprises" was tabled in the Parliament. The distinction of this policy with the earlier one was its shift away from the basic framework. Till then, all the industrial policies in India were within the policy frame of the Industrial Policy resolution of 1956. The changes whatsoever made thereafter were all within the limit and access of this policy. The policy called for efforts to debureaucratise and deregulate the industrialisation process in India. The new policy substantially delicensed the industrial sector. The policy also recognised activities like services and the business enterprises as part of tiny industries. Unlike the small-scale sector, the tiny sector is to be eligible for continuing supports from the Government.

This policy proposed to set up an integrated development thrust for the handicraft sector and to promote handloom for providing employment and improving the quality of life in rural areas. In order to provide access to capital market, other industrial undertakings were allowed 24 percent equity participation in SSIs. It also announced setting up of a Technology development Cell in SIDO, which would assist in improving productivity and competitiveness of the producers of the small sector. A new scheme of integrated infrastructural development for SSIs were implemented with the active participation of the State Governments and financial institutions.
During this plan, it was suggested to make a review of the Government Policy towards small scale industry. Numerous state measures such as reservations, subsidies, etc. seemed to be half-hearted. Most of the benefits had been cornered by relatively modern, more capital intensive units; whereas their efficiency had not increased proportionately. So it was to be ensured that the concessions meant for the traditional labour intensive industries were not abused by others.

The plan therefore prepared a positive programme of assistance and promotion of specific industries. The craftsmen should increase their productivity. They should be provided with cheap credit and raw materials along with technical and marketing assistance. The Government appointed the Nayak Committee to examine the problems of credit sickness and other related issues in small scale sector. The committee submitted its report in September 1992.

The Reserve Bank of India announced a special package of measures to ensure adequate and timely supply of credit to the small scale sector. It declared to set up effective grievance redressal machinery within each bank, which could be approached by the small scale industries in case of difficulties. Further the Government undertook various initiatives, such as introduction of 24 percent equity participation, interest on delayed payments, abolition of the restricted list in the small scale sector and simplification of registration procedures. A new scheme of Integrated Infrastructural Development was launched to strengthen infrastructural facilities in 50 centres in rural and backward areas. A concessional rate of excise duty available for units with a turnover of Rs.30 lakh to Rs.75 lakh per annum was extended to non-registered sector also. In 1994, a Quality Certification Scheme was implemented to improve the quality standards of VSI products. The
Government also formulated a scheme to train small entrepreneurs and managerial assistants to improve the managerial efficiency of the sector.

In Post liberalisation scenario, the small industry sector was to face global competition and therefore inherent strengths ought to be suitably moulded to adapt to the changed circumstances through upgradation of technology and by forging closer ties between domestic and foreign enterprises.

However, the attitude of the state regarding the VSI had changed drastically from being employment oriented towards greater efficiency and economic viability oriented. A number of manufacturing items reserved for VSI were withdrawn. Along with this, several incentives and subsidies that had been introduced in the previous plans were gradually reduced or withdrawn. Further this plan exposed the VSI to the competition from large industries, not only in those activities which were previously reserved, but also in the unreserved items.

2.4.15 NINTH FIVE YEAR PLAN (1997 - 2002)

During the Ninth Plan, the Government announced, the National programme for Rural Industrialisation with a mission to set up 100 rural clusters every year. The Ministry of Agro and Rural Industries (ARI) was set up in September 2001 with the objective of integrating efforts for the development of agro and rural industries. The Ministry is the nodal agency for co-ordination and development of KVI, tiny and micro enterprises in both urban and rural areas as well as the implementation of the PMRY.

Considering the problem of providing collateral security as a major bottleneck to the flow of bank credit to every small unit, the Government of
India implemented a new Credit Insurance Scheme. The Reserve Bank of India instructed the banks to dispense with collateral requirement for loans upto Rs. 1 lakh and subsequently, this limit was further increased to Rs. 5 lakh.

To co-ordinate the latest development with regard to the World Trade Organisation (WTO), a cell was set up in the office of Development Commissioner (D.C.) of SSI to disseminate information to SSI Associations and the small industrial units regarding recent developments, prepare policies for SSIs in tune with the WTO agreements and organise WTO sensitisation seminars and workshops. The SSI associations were encouraged to develop and operate Testing Laboratories and one time capital grant of 50 percent was given on reimbursement basis to such associations. The Government increased the coverage of ongoing Integrated Infrastructural Development (IID) Scheme to progressively cover all areas in the country. As many as 749 items were reserved for manufacture in the small scale sector. All undertakings other than the small scale industrial undertakings engaged in the manufacture of items from the reserved list are required to obtain an industrial license and undertake an export obligation of 50 percent of the annual production. Of course, this condition of licensing is not applicable to those undertakings operating under 100 percent Export Oriented Undertaking Scheme, or the Export Processing Zone (EPZ) or the Special Economic Zone (SEZ) Scheme.

In 2001-02, a new scheme named Market Development Assistance Scheme was launched exclusively for the small sector. The Government during this plan, thus, took a number of measures in order to enhance the productivity, efficiency and competitiveness of the small scale sector.
During the Tenth Five Year Plan, the Government have been encouraging and supporting the village and small scale industries through various policies like infrastructural development, technology up-gradation, preferential access to credit, preferential purchase policy, etc. On the recommendation of the Study Group under the Chairmanship of Dr. S.P. Gupta, a number of measures have been announced by the Government such as enhancement of Excise Duty exemption limit for the SSI units from Rs.50 lakh to Rs.100 lakh of annual production; increase in composite loan limit to Rs.25 lakh; coverage of loans upto Rs.25 lakh under Credit Guarantee Fund Scheme; increase in project cost limit under the National Equity Fund Scheme to Rs.50 lakh; credit linked capital subsidy at 12 percent of the cost of technological up-gradation of VSI units for modernisation; enhancement of investment limit to Rs.500 lakh for hi-tech and export oriented sectors; setting up of Technology Bank for the VSI sector by strengthening the existing Technology Bureau for Small Enterprises (TBSE) of SIDBI; One time capital grant of 50 percent to SSI Association for setting up international level of Testing Laboratories for the SSI units; conduct of Third Census on SSI; and extension of Integrated Infrastructure Development Centre (IIDC) Scheme to all areas.

Since May 2004, Self Help Groups (SHGs) have been considered for assistance under the scheme of PMRY. The KVIC has been instructed to focus on traditional artisan based activities and to widen the programme at the grass root level. An IT-based data bank of KVIC assisted units has been created to facilitate research and information flow across the KVIC establishments. The KVIC has been given the status of Export Promotion Council. Initiatives have been taken by the Government to enhance India’s share of handicrafts in the global market and to preserve the cultural heritage through documentation
and R & D. The Government has adopted an integrated artisan-centric approach for the promotion of handicraft sector. Likewise, the handloom sector is provided better access to inputs like hank yarn, dyes and chemicals at reasonable prices, designs and credit. Steps have been taken to create website by marketing company with KVIC, D.C. (Handicrafts), Co-operatives, CAPART, NABARD, SIDBI, etc. Common brand building programme for brands like Indian Handicrafts, Sarvodaya, Khadi, etc. are taken up. Initiatives have been taken to provide sufficient orders to the SSI sector by enabling units to supply 25 to 30 percent of the Government purchases through statutory marketing arrangements.

Rather than having multiple programmes, each having a spread over a large area, the Tenth Plan emphasised on the micro development programmes at specific clusters.

After the declaration of New Economic Policy, 1991 and with the implementation of structural adjustment programme together with stabilisation policy, the VSI sector has been badly affected. Further, raising the upper limit of the scale of SSI aggravated competition between the SSI and some of the traditional small industries. Later on, globalisation added to the miseries of the VSI not only by exposing them to the competition from foreign products, but also from domestic large industries. In effect, the traditional small enterprises, modern small scale enterprises, large enterprises and foreign enterprises compete in the same market. Obviously, the numerically predominant traditional enterprises would suffer a decline.

It has already been pointed out that the village industries have been clubbed together with the small scale industries. Table 2.1 depicts the plan-wise allocation of the Central Government in favour of Village and Small Scale Industries.
From the public sector investment for fostering the village and small scale industries (VSI) during the plan era as shown in Table 2.1, it is clear that in absolute terms, the investment in village and small industries sector has increased from plan to plan. But its proportionate share in industrial and total plan outlays has gone down from nearly 43.30 percent and 2.1 percent in the first plan to 13.21 and 1.3 in the 10th Plan respectively. The outlays in village and small industries sector have dwindled during the plan period.

**TABLE 2.1**

**PLANWISE ALLOCATION FOR VILLAGE & SMALL SCALE INDUSTRIES**

(Rs. in crore)

| Sl. No | Plan            | Outlay for VSI | Outlay | VSI as the | VSI as the |
|-------|----------------|---------------|--------| %age of     | %age of    |
|       |                |               | Industrial Sector | Total Plan | Industry Outlay | total plan outlay |
| 1     | First (1951-56)| 42            | 97     | 1,960       | 43.30       | 2.1              |
| 2     | Second (1956-61)| 187           | 1,125  | 4,672       | 16.62       | 4.0              |
| 3     | Third (1961-66)| 241           | 1,967  | 8,577       | 12.25       | 2.8              |
| 4     | Fourth (1969-74)| 243           | 3,107  | 15,779      | 7.82        | 1.5              |
| 5     | Fifth (1974-79)| 592           | 9,581  | 39,426      | 6.18        | 1.5              |
| 6     | Sixth (1980-85)| 1,980         | 17,290 | 1,09,646    | 11.45       | 1.8              |
| 7     | Seventh (1985-90)| 2,753        | 22,461 | 1,80,000    | 12.26       | 1.5              |
| 8     | Eighth (1992-97)| 6,334         | 46,922 | 4,34,100    | 13.50       | 1.46             |
| 9     | Ninth (1997-2002)| 8,772         | 55,253 | 5,41,207*   | 15.88       | 1.6              |
| 10    | Tenth (2002-2007)| 11,398       | 86,258 | 8,93,183    | 13.21       | 1.3              |

**Source:**


* Figure relates to Ninth Plan Realisation, Source: India’s Five Year Plans Complete Documents - First FYP (1951-56) to Tenth FYP (2002-07), Planning Commission 53, Government of India, Academic Foundation, New Delhi,P.87.
From the 8th Plan periods, a major change that took place in the VSI sector was to redefine the Agro and Rural Industries Sector and this sector was taken out of the purview of VSI Sector. But in order to facilitate comparison of data on outlays earmarked in different plan periods, we have attempted to club the Agro and Rural Industries sector under VSI sector (only for computation of data on outlays) as done before.

2.5 TWO ASIAN CASE MODELS

Evidence for the East Asian success stories of rural industrialisation in China, Japan, Taiwan, etc does suggest the existence of a fast growing agriculture characterised by extensive land reforms as a major source of demand for rural industrial products. There was at the same time a high sustained growth rate of industry which generated considerable impulses for the growth of rural industries through the device of ancillarisation.

2.5.1 CHINA'S TOTALITARIAN SYSTEM

It would be relevant here to quote international expert Jon Sigurdson on rural industrialisation in China:

"Rural Industry in China is not defined on the basis of size but as any local industry run by county, commune or brigade. The enterprise may be collectively owned, jointly financed by the state and collective units, or wholly owned by the state but under local management...... Rural Industry in China forms one part of the small scale industrial sector which is basically made up of two different parts, of which the other is the urban small scale industrial sector. The sophistication and scope of industrial activities are dependent on the level of education, economic development, natural resource endowment, nearness to ideas and new information. Consequently, it is realistic to differentiate between rural industry in city-near locations and rural
industry in rural areas proper. The former seems to have much more in common with urban-based small scale industry than is the case for the rest of rural industry" (Jon Sigurdson, 1975).

China is unique among centrally planned economies in successfully launching industrial development over 25 years by giving primacy to the use of local natural and human resources for local economic, social and cultural development and for reinvesting within the local area the surpluses so generated and at the same time effectively integrating rural development with modernisation in the urban sector. China has thereby achieved not only a substantial improvement in living standards of the people but an egalitarian society as well. India has much to learn from the Chinese example of successful rural development through a less-dogmatic and down-to-earth approach to rural industrialisation.

The creation of communes and brigades, the nodal agencies for rural development, by the Chinese authorities was a fundamental innovation and it formed the basis of rural industrialisation. These local bodies were given a large measure of freedom to develop local industries. Rural industrialisation, in certain aspects, adhered to a national master plan where broad principles were laid down. The master plan included provisions for what regions should set up what types of industries, as well as approximate timing for establishing certain types of industrial activities. Decentralisation of industries at the communes and brigades level received emphasis.

The rural industries of China also established linkages with the large scale enterprises and R&D (Research and Development) institutes of the cities and the latter supplied technological inputs and training to the workers of the former. Emphasis was thus laid on mutual co-ordination and linkages between the large and the small scale industries.
China started its developmental efforts after the 1949 revolution when 90 percent of its population was rural, with fundamental and widespread land reform. Land reforms enabled the peasants and agricultural labourers to stay on land; also the artisans and small traders were not displaced from their occupations. The rural population, particularly the poor, were brought into the mainstream of rural development through systematic efforts of the state. The fast growth of agriculture (as a result of land reform) increased purchasing power of the masses. A vast reserve of skilled workers, a highly effective system of skill formation and a scientific outlook of the masses formed the bases of the rapid growth of rural industries not only in the pre-1978 (period of major economic reforms) period but also in the post-reform period.

From this discussion, it is clear that industrial decentralisation is most successful where land reforms have been successful and where agricultural development was spectacular. Land reforms not only facilitated agricultural growth but also removed various feudal ties obstructing the development of production forces. The agricultural development is of particular importance to rural industrialisation as it helped in terms of providing markets as well as raw materials to the industries. The failure to accomplish land reforms severely restricted the development of rural industries in India. The impressive growth of rural industries in China in the post reform period (i.e. after 1978) was no doubt due to encouragement given to private initiatives and a host of liberalisation in the sphere of production and market exchange.

Spark Programme

The Spark Programme was approved by the Chinese Government in 1986 for the promotion of rural economic development by relying on
science and technology (S & T). The programme has supported a great number of technical projects based on rural resources. This has meant small investments and quick results. It has advanced appropriate technologies by establishing a group of S and T- based demonstration enterprises for the healthy development of township enterprises along with village enterprises. Communist party cadres were trained by the laboratory scientists and engineers to demonstrate those technologies to the villagers of the province or commune and to convince them that the village enterprises based on those technologies would be commercially profitable. Over 1986 to 2001, the Spark programme conducted 1,20,000 demonstration projects of which 11,300 were at the national level covering more than 85 percent of cities and counties.

The Spark programme fosters new type of industrialisation in rural areas, speeds up the commercialisation of S and T results, supports the leading enterprises and promotes the development of rural industrialisation process across the board. This programme promotes the integration of S and T progress with rural township construction by realising the interaction of “rural urbanisation” and “agricultural industrialisation”, thereby absorbing the redundant labour force and keeping them productive and contended on the land59. This programme is also building an information platform to narrow down the digital divide between cities and the countryside. This has encouraged and supported rural enterprises to compete in both domestic and international markets.

2.5.2 JAPAN’S MARKET ECONOMY

The spectacular come-back of Japan after World War II offers sufficient reasons to look at that country’s industrial policy with inquisitive interest. The west pattern of industrialisation was not followed in Japan and the growth of both rural industries and factory industries became an integral
part of industrialisation. Some of the rural industries formed symbiotic relations with the factory industries and both grew simultaneously. Small enterprises adopted techniques developed in the factory sector. The large enterprises often took active part in promoting small enterprises and assisted them in marketing, finance, technological guidance and so on. The subcontracting or putting out system, which was integrated with the large modern industries enabled a fast growth of output in the small scale sector without loss of quality and any significant rise in cost.

The other vital factors underlying the fast growth of Japanese industries were: (i) the vital role played by the state in providing initial investible capital, formation of skilled labour and technology imports and upgradation; (ii) Creation of vast reserve of cheap labour who could not be employed in agriculture; (iii) the emergence of family combines which amassed large capital through a combination of large scale manufacturing, trading and banking and then invested in modern manufacturing; etc.

Japanese industries were highly decentralised among small and medium producers and dispersed in the villages and suburbs. The producers, of course, were not operating independently in the local areas. On the contrary, they were very much integrated with and controlled by highly centralised monopoly capital. This marks the basic difference from Chinese decentralisation of industries.

Further, the nature of state intervention in the two country - China and Japan- cases is quite different. While in Japan, the state regulated the process of industrialisation without getting directly involved in the setting up of industries; in China, till the late 1970s, the state played an active role in the setting up of rural industries. The Chinese Government adopted a decentralised strategy and formed communes, which became self-sufficient.
units and produced most of the goods and services for the local requirements. These communes also manufacture all the necessary tools, implements and machineries, fertilisers and construction materials by making use of primarily locally available resources.

In China, as in Japan, the existence of a long tradition of rural crafts helped the rapid development of decentralised industries.
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