Chapter - 1

INTRODUCTION

Introduction

Input - Output and Cost - Benefit Analysis

Issues in the Subject

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INTRODUCTION

1.0 INTRODUCTION OF THE SUBJECT OF STUDY

Input-output and cost benefit analysis play a vital role of large and small scale Industries in India, because Input-output analysis identifies the major industries in an economy and the financial flows between them. It indicates the sources of each sector's inputs, whether purchased from other firm in the economy, imported or contributed by labour (household wages and salaries). It also provides a breakdown of each sector's output, with sales to other industries and to final demand (household consumption, government, consumption, capital formation and exports). Thus, by disaggregating the total economy into a number of interacting sectors, Input-output systems provides an effective tool for sectoral analysis.¹

In appraising projects from the national view point the most appropriate and popular method is the cost-benefit analysis. This analysis is the most scientific and useful criterion for project evaluation. It helps the planning authority in making correct investment decisions to achieve optimum resource allocation by maximising the difference between present value of benefits and costs of a project. It involves the enumeration, comparison and evaluation of benefits and costs. Tins implies weighing of the returns against the costs involved in a project. Thus the cost-benefit analysis "purports to describe and quantity the
social advantages and disadvantages of policy in terms of a common monetary unit" its objective function is the establishment of net social benefit. The objective function can be expressed as Net Social Benefits (NSB) = Benefits - Costs, where benefits and costs are measured in terms of 'shadow' or 'accounting' price of inputs and outputs instead of in actual market prices.

1.1.1 Khadi and Village Industries Sector as the Subject of Study

It is now an established fact that the Khadi and village Industries sector has an important role to play in the economy of the country. This sector today claims to have created jobs for more than 6 million people in the rural areas, and its contribution to rural Industrialisation is of great significance.

In the early stages of the planning process, the Khadi and Village Industries commission was assigned a crucial role for the upliftment of the rural poor. Unfortunately due to 'scarcity of funds and other constraints, the sector has not received the primacy and priority it deserved, whereas the large scale industries have shown a faster growth than the KVI sector.

The economic reforms initiated by the Government of India have produced a new dynamism in the economy through liberalisation and globalisation but inspite of all this we must protect small and tiny sector from Multinational Corporations (MNCs), so that unequal are not treated equally in the process of economic development. Too much emphasis on "open economy" may not create conditions for favourable economic growth of the nation. The country is not yet ready to face the implications
of free competition for parties of unequal economic strength. Therefore, in the initial stages of "open economy" the protection of Khadi and village industries is needed. The Central Government must function as the national organisation for taking care of national interests in all matters, so that justice, social, economic and political as envisaged in Indian Constitution can become a reality to all Indian citizens.

1.1.2 Khadi and Village Industries Commission

Gandhiji founded All India Spinners Association in 1925 and All India Village Industries Association in 1934 for the promotion of Khadi and Village Industries. After the independence of India, Khadi and Village Industries Commission (KVIC) is a statutory body created by an Act of Parliament (No.61 of 1956 and as amended by Act No.12 of 1987). It is charged with the planning, promotion, organisation and implementation of programmes for the development of Khadi and other Village Industries in the rural areas in co-ordination with other agencies engaged in rural development wherever necessary. Established in April 1957 it took over the work of former All India Khadi and Village Industries Board.

1.1.3 Objective of KVIC

The broad objectives that the KVIC has got before it are:-

i) the social objective of providing employment; ii) the economic objective of producing salable articles, and iii) the wider objective of creating self-reliance amongst the people and building up of a strong rural community spirit.
1.1.4 Growth of KVIC

The Khadi and Village Industries Commission implements its activities through the following agencies covering 2.50 lakhs villages air over the country.

Through the implementation programme new industries were motivated new entrepreneurs and increased production, sales, employment and earnings of KVIC. The detailed explanation are given below:

In 1955-56 there were only 2 state KVIBs, 242 registered institutions and 60 co-operatives. The number has now increased to 30 state KVIBs, 4,968 registered institution, 30,129 industrial co-operatives and 7.85 lakhs individuals. Besides, there are 15.43 lakhs state outlets in the country. This is a unique national organisation in the country which has its roots in the villages and has organisational linkages.

1.1.5 The Performance and Growth of KVIC is given in the following Table No. 1.1
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Khadi</td>
<td>V.I.</td>
<td>Total</td>
<td>Khadi</td>
<td>V.I.</td>
</tr>
<tr>
<td>1</td>
<td>Production</td>
<td>11.48</td>
<td>14.50</td>
<td>25.98</td>
<td>24.29</td>
<td>74.58</td>
</tr>
<tr>
<td>2</td>
<td>Growth Rate</td>
<td>8%</td>
<td>14%</td>
<td>14%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>3</td>
<td>Sales</td>
<td>8.30</td>
<td>4.72</td>
<td>13.02</td>
<td>25.01</td>
<td>81.71</td>
</tr>
<tr>
<td>4</td>
<td>Employment</td>
<td>11.56</td>
<td>5.64</td>
<td>17.00</td>
<td>13.35</td>
<td>7.70</td>
</tr>
<tr>
<td>5</td>
<td>Earnings</td>
<td>8.89</td>
<td>3.71</td>
<td>10.60</td>
<td>14.02</td>
<td>11.49</td>
</tr>
<tr>
<td>6</td>
<td>Net Disbursement (Budgetary)</td>
<td>16.27</td>
<td>5.08</td>
<td>21.36</td>
<td>55.14</td>
<td>21.88</td>
</tr>
<tr>
<td>7</td>
<td>Village Covered (Lakhs)</td>
<td>0.15</td>
<td>0.24</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Number of V.I.</td>
<td>10</td>
<td>22</td>
<td>22</td>
<td>22</td>
<td>55</td>
</tr>
</tbody>
</table>
Perusal of the above table reveals that KVIC with its low investment maintained high growth rate in production, employment and per capita earnings KViC provided employment 56.50 lakh persons living in 2.50 lakh villages. It is not possible for other corporate or small sectors.

1.2 Issues in the Khadi and Village Industries

Khadi and Village Industries are facing various problems. Some of them are listed below, a) Non availability of raw materials, b) Lack of skilled and trained labour, c) Inadequate fund, d) Lack of marketing. e) Fluctuation of price, f) Low level technology, g) Less productivity h) Low margin i) Lack of scientific inventory Management j) Lack of trained manpower, k) Application of labour and other laws i) Sales Tax and excise duty and m) Lack of proper research and development."

1.3 Priority of Issues for Khadi and Village industries

Sustainable and economically viable rural employment generation presupposes the development of farmers into successful entrepreneurs. This situation gives way to a number of issues and concerns. These issues with recommended approaches are summed below:

1.3.1. Raw Material

Raw material is to play a vital role in production and production management, because without raw material production cannot be done. It is estimated that the raw material alone account for nearly 70 percent of the ex-factory price of the product in the small-scale sector and most of these village industries have to depend heavily on the open market for the supply of scarce raw material, where the price are more or double the rate
of controlled prices. Large - Scale industries being more organised take away most of the raw materials in their production."

1.3.2 Technology

In KVI, the technique of manufacture is poor and primitive. They use old methods and implements. The technology of spinning on a decentralised scale has been made possible not because of the improvement in the spinning instrument alone but the emphasis that has rightly been laid on the pre - spinning process, like opening the cotton, carding the cotton, drawing the cotton and then making it into silvers. The very compulsions of the situations have made even die-hard of the Khadi world think of utilizing power in the prespinning process. Further addition of rebuilt cards from the mill combined with scutchers has resulted in the production of very good quality yarn in the cottage of the spinners. Here is a technology which is totally different from what is was envisaged by the word ' Khadi ' four decades back. It is a combination of a low capital instrument with superior technological device to make the simple spinning machine function more efficiently and with a higher productivity. The point one should ask is whether this technology is within the comprehension of the group of people who are to be benefited by it centuries ago. Thus, in many places the weaver's handloom is still of the old crude type while the oil ghani shows no change at all." The Ford Foundation team also came to a similar conclusion, when they stated: ' more often than not, age -old methods are being used and seemingly have not been changed for generations. Thus, the production per capita is low, resulting in low earnings and low wages.
1.3.3. Labour

The rural handicrafts and village artisans generally produce goods and services of 'Skill oriented' nature, which may find out their own market among the urban rich and also affluent sections of foreign countries. But many rural industries suffer due to lack of skilled labour. There are certain trades which are family based in India, such as weaving, carpentary, pottery, and other handicrafts.

1.3.4 Marketing

This issue has been traditionally neglected in the government funded and sponsored programmes. Apart from urban areas where the paying capacity for rural products are higher, rural areas will also have to be tapped as market for the products of rural areas. The situation here is that urban products have penetrated the rural areas in a big way, due to high publicity and distribution channel, while the rural products have been neglected due to their high cost and inferior presentation. Warehousing is another problem of rural marketers in rural marketing. So marketing is one of the major issue to KVI.

1.3.5 Capital

KVI investment is very less amount when compared to large scale industries. But the scarcity of finance and credit is one of the major obstacles in the development of KVI sector. Credit is obtained at times on a very high rate of interest from the local sources which are exploitative in character. Rural artisans are not interested to invest their money in business, due to lack of awareness on business.
1.4 How the Topic Becomes a Priority Issue

Raw materials, labour, capital are the three major input which determine, the quality and profit of any business. The other two factors are machine and management. The Khadi and Village Industries Sector is already failing the problem of low or negative growth rate and inadequate profit. This is due to non-application of scientific management such as input output analysis, handling of materials, allocation of different, factors in a scientific way to get more profit. To avoid the loss in Khadi and Village Industries Sector due to wrong allocation of factors of production such as materials, labour etc. input output analysis is to be applied. The findings of this will help to increase the productivity and profitability, all thereby the sustainability the Khadi and Village Industries Sector can be enhanced. This is the major reason for giving priority to this issue.

1.5 Concepts in the Study

1.5.1. Input

a) Raw Materials and Their Characteristics

Most of the raw materials consumed in the Khadi and Village Industries are from agriculture sector. Some of them are cotton, cereals, pulses, oil seeds and spices, etc., which are perishable in nature. The cost of the actual consumption of the above raw material for this study is calculated as below.

\[
\text{Cost of raw material} = \text{opening stock} + \text{purchase} - (\text{closing stock} + \text{sales of raw materials}).
\]
b) Labour and its Characteristics

The labour force engaged in the sector are from rural area. They are mostly unskilled or semi skilled. The literacy rate of labour will also be very low. They are engaged either on part-time or full time basis. The supervisory and managerial staff are educated and are employed on full time basis. In this study the labour means all the workers, supervisors, administrative staff and other such persons employed in the institution. The cost of labour includes production wages, salary and allowances to the staff, provident fund and gratuity.

c) Capital and its Characteristics

The major source of capital for these institution is Khadi and Village Industries Commission. However, for the purpose of the study, the capital here includes capital fund, profit, working capital from Khadi and Village Industries Commission and Banks, capital expenditure loan from Khadi and Village Industries Commission and depreciation reserves. Cost of capital is the interest paid for the above capital employed.

1.5.2. Output and Output Characteristics

Output here means finished products which are ready for sales. They may be Khadi, silk, woolen cloth and other products. The Village Industries includes soap, dhal, spices, honey, ayurvedic, foot wear, handicraft, matches, furniture, etc. For the purpose of the study, the value of production is taken as value of output. It is calculated as under:

\[
\text{Value of Production} = \text{opening stock of raw materials} + \text{work in progress} + \text{purchase} + \text{production charges} + \text{actual expenditure for the production} - (\text{closing stock of raw materials} + \text{closing stock of work-in-progress}).
\]
1.5.3. Cost of Input

In this study, major variable cost of raw materials, labour and capital are calculated for computation of total cost of input.

1.5.4. Benefits Described

Measurable Benefits Studied

Profit, employment, wages.

Non-measurable Benefits Analysed

Contribution to the society, contribution to the environment, contribution to the human values and contribution to the nation building.

1.6.0 Input - Output and Cost Benefit Analysis in Khadi and Village Industries

1.6.1 Input - Output Analysis

Input - Output analysis is a quantitative technique for studying the interdependence of production sector in an economy.

Input - Output analysis is a mathematical study of the production sector of an economy taking into account the mutual inter-depency of the various production sectors constituting the economy. It is also known as inter-industry sectoral analysis.\(^{17}\)

It is a tool of economic analysis which enables us

I. to take account of inter-dependence of economic activities.

II. to test the internal bottle necks,
III. to predict the gross output needed in the various sectors of economic activities in order to achieve an objective which maybe any of the following:

a. Maximum profit
b. Maximum rate of growth of national income
c. optimal employment
d. maximization of foreign exchange earnings
e. maximizing of savings.

1.6.2 Uses of Input - Output Analysis in KVI Sector

1. Find out the variation in the percentage of material cost among different institutions and thereby measure the efficiency of the material management.

2. The analysis of share of labour inputs on total production will reveal the employment opportunity created by the institution for a given output.

3. The calculation of share of capital inputs on total production will give an idea of increasing its uses of funds in working capital or fixed capital in KVI Institutions.

Totally the input-output analysis measure the strength and weakness of the inter industry of KVI sectors.

1.6.3 Cost Benefit - Analysis

Cost benefit analysis generally in governmental planning and budgeting, the attempt to measure in monatary terms the benefit of a
proposed project and compare them with its costs. A project having a high benefit-cost ratio may take priority over others with lower ratios."

1.6.4. Cost Benefit Analysis in KVI Sector

The Institutions of KVI are not strictly following the methods of scientific management, which is very much needed for growth and survival of any industrial units. The present study is expected to deal with a part of the scientific analysis of cost benefit analysis like investment and employment, employment and wages. The investment made in the KVI sector not only created employment to rural poor who are mostly unskilled and otherwise, but also unemployed. Unemployed mass, especially in the age group of 18 to 35, generally indulge anti-social activities. The money invested in KVI sector, indirectly help in promoting peaceful society besides other measurable benefits like production, wages, profit etc.

Further, KVI adopt simple machine, and tools, processing locally available agro-based materials, and cause no harm to environment as other big leather, cement chemical industries do. Moreover, it helps the environment by collecting the oil seeds, medicinal plants, waste paper, cloth etc for using the same as raw materials. Considering the above direct and indirect benefits from KVI, the cost incurred is very insignificant. This analysis will give an idea to the policymaker to allot more fund to KVI sector and thereby more employment can be generated.
1.7 Importance of the Topic in Meeting the Societal Needs

1.7.1. Poverty Alleviation in India

India is one of the oldest civilisations in the world, kaleidoscopic in variety and rich in cultural heritage. It has achieved multi-faced socio-economic progress during the last 50 years of Independence. India had become self-sufficient in the year 1985 in agricultural production and is now the tenth most industrialised country in the world. Nearly three-fourths of India's population, i.e., 74.3 percent still live in villages and therefore, realisation of the dream of desired socio-economic development of India depends upon the development of villages.

Agriculture alone cannot sustain a high economy like that of India. The industrial development is essential to ensure the supply of goods and services required for improving the quality of life and providing opportunities for employment. However, industrialisation requires heavy capital investments. When there is plenty of labour available, it is unfair to go for capital intensive industries. Further, it will create unemployment problems in the rural area. The productivity of the Mass can only be realised through small scale, tiny, cottage and village industries in Indian villages.

1.7.2 KVI as a Poverty Alleviator

In the present circumstances of the country which has a vast manpower end comparatively little land and other natural resources, it could only be the KVI sector, which requires little or nominal capital, that could prove the needed employment and not the capital intensive mechanised industry which would only add to unemployment and
concentrate wealth in the hands of a few. Thus it is KVI which will eradicate poverty.

The development of KVI sector has acquired even more relevance today on account of:

i. Growing population pressure in rural area;
ii. Rapid expansion of the labour force especially among the marginal farmers and landless agricultural labourers;
iii. Inadequate opportunities for non-agricultural work;
iv. Limitations of the organised sector in absorbing the labour face;
v. The prevalences of substantial under-employment in the economy and;
vi. the need and the capacity for creating employment opportunities at or near the place of residence/1

Hence the growth of rural industry has a vital place in the scheme of rural development, as it has the following advantage especially in rural India.

1. It is immediately practicable because:

   a) it does not require any capital or costly implements to put it into operation. But the raw material and the implements for working can be cheaply and locally obtained.

   b) It does not require any higher degree of skill or intelligence than the ignorant and poverty-stricken masses of India possess.
ci. It requires so little physical exertion that even little children and old men can practise it and so contribute their mite to the family fund.

d) It does not require the ground to be prepared for its introduction afresh, as the spinning tradition is still among the people.

li. It is universal and permanent. As next to food, yarn alone can be sure of always commanding an unlimited and ready market at the very doorsteps of the worker and thus ensures a steady regular income to the impoverished agriculturist.

iii. It is independent of monsoon conditions and so can be carried on even during famine times.

iv. It is not opposed to the religious or social susceptibilities of the people.

v. It provides a most perfect ready means of fighting famine.

vi. It carries work to the very cottage of the peasant and thus prevents the disintegration of the family under economic distress.

vii. It can also restore some of the benefits of the village communities of India which were ruined.
viii. Its revival would give a fillip to a host of cognate and allied village-occupations and thus rescue the villages from the state of decay into which they have fallen.

ix. It alone can ensure the equitable distribution of wealth among the millions of inhabitants of India.

x. It alone effectively solve the problems of unemployment not only the partial unemployment of agriculturist, but of the educated youth aimlessly wandering in search of occupation.

1.8. Relevance of the Study to the National Objectives and Nation Building Activities

Major findings of this study may be followed by the KVI units, which may result in

- increasing the productivity
- reducing the cost of production
- increasing net profit
- increasing employment opportunities
- increase percapita earnings.

The above benefits of KVI sector may indirectly help the nation to reduce unemployment in rural area and to have peaceful, pollution free society. Thus KVI Sector help the nation to march on the road of progress.
End Notes


5. Rural Employment Generation Programme, *KVIC Margin Money Scheme*, KVIC and TNKVE - Chennai - 1999 P.1


