Chapter 5

Institutional support and Rural Non-Farm Employment

Introduction

The literature on development has debated the relative merits of markets and the State in the efforts at development, often with an ideological proclivity. In this chapter the role of the State and other institutional support for development, specifically in the rural non-farm sector and poverty alleviation is discussed. While reporting findings of all-India studies on the impact assessment of the intervention by Government in poverty alleviation, employment generation and rural industrialisation, data gleaned from the respondents in the primary survey are used to link them organically to throw light on the institutional support.

The role of institutions in developing the rural non-farm sector and thereby facilitating development of rural areas can be analysed in terms of three categories—Government, Non-Governmental organisations and Civil Society. Each has its unique role to play in the development of the non-farm sector. Apart from the ‘demand-pull’ and ‘distress-push’ theories of diversification of rural livelihoods, an ‘institution led’ dimension to the growth of rural non-farm employment exists. It is stated therein that much of the diversification has arisen on account of the deliberate efforts at promoting non-farm activities. While, this is an interesting approach, this does not, ipso facto, constitute a third dimension, as it ought to be subsumed under either demand or supply side.

The increasing importance attached to the livelihoods conceptual framework is an offshoot of the international development best practices. An analysis of the performance of various developing countries under different models of operationalisation do not yield a single set of generalisations regarding what is the best approach. The East Asian success has been analysed in depth and there is no consensus on the dynamics of the process of growth. The process of transformation has been attributed to cultural factors, economic factors with a unique policy of Government patronizing a few industries, lack of democratic rights keeping wages
low, relative egalitarian nature of these societies, other initial conditions, etc. Therefore the claim that right policies have resulted in the success of these economies is not scientific in as much as the counterfactual position the success of such policies elsewhere (South America) does not validate it. In fact, it is apparently incorrect to attempt to validate larger abstractions like policies, by disconnecting them from the operational models.

Development policies to be pursued by Governments and other players have to evolve from multi dimensional analysis of the nature and causes of poverty. New Governance issues have been thrown up in the context of search for the ‘right’ path or policy of development. Macro economic stabilization and structural adjustment have been proposed in mainstream economics as ‘Good Governance’ measures together with a reduced role for State. While it may possibly be a right measure, Governance is actually the process of development that enables and empowers the poor and hence the right policy (ideologically left or right or any mix) is one that has the informed consent of the masses through a process of public debate or deliberation and democratic sanction. In the absence of concrete evidence of universal success, any policy or good governance can only be tested by its democratic nature as other forms of prior validity is unobtainable. Any claim of validity, predictive or reflexive, is to say the least is controversial and as such development as a concept itself has been challenged.

As an alternative to the mainstream paradigms of development, and partly as a result of an increasing disillusionment with the actual record of governments and of the international community, a large number of community-based and non-governmental initiatives have tried to fill the gap. They have demonstrated that their efforts, based on participation by the poor in their own development, can make a real difference to the lives of the poor. Even though such efforts are widely dispersed and often small, collectively they have assumed the character of a civil society movement for an “alternative development”.
While many countries have evidenced high levels of growth, there has been persistence of poverty across the world. Economic growth may be a necessary condition but not a sufficient one for removal of poverty, particularly when the growth does not trickle down or is too little and too late. The larger dimension of development is in effecting structural changes that enables the poor to enjoy the fruits of growth. One of the best-known objectives of development of the world is the Millennium Development Goals that seek to reduce the world’s poor by half by 2015. Towards this goal, a large number of initiatives are being taken at the global institutional level. “Poverty Reduction Strategy Papers” have been prepared on the basis of a comprehensive development framework of these institutions.

Despite the global and national efforts at tackling poverty, the problem persists and consequently new concepts and constructs continue to emerge as alternatives within the developmental paradigm. Despite strong economic performance, even the World Bank concurs. South Asia remains among the most impoverished regions in the world. The 1995 World Summit for Social Development calls upon the countries not just to set time-bound goals and targets, but also to reduce substantially overall poverty and eradicate extreme poverty, and to implement national anti-poverty plans to achieve these targets. The structural adjustment programmes underway, places a larger role for markets and reduces the role of the state in spheres other than public goods. This implies an increase in the importance of public action to deal with poverty and vulnerability, which have arisen out of imperfect markets or simply missing markets. The task is indeed daunting in the Asian region, where in the year 1998, about 800 million people, amounting to 67 per cent of the world’s poor, were below the international poverty line of $1 per day per capita at 1993 prices.

The role of Government in the process of developing this sector is crucial. Unfortunately, there is no cohesive attempt at developing this sector in an integrated manner as this sector falls under a ministerial vacuum, between agriculture and industries. Chandrasekar and Jayati Ghosh allude to the importance of Government: “Rather, a significant part of the impetus for growth in non-agricultural activities could come from outside the rural sector, mediated in large part by government expenditure on the provision of extension services, on social service provision and on
employment generation. That is, rural incomes are no longer based on or derived only from agricultural production, but by the specific forms in which the rural areas are being integrated into larger macro-economic decisions regarding expenditure”.

They feel that a larger well-designed expenditure on this sector could have a salutary effect on poverty alleviation. Liberalisation and structural adjustment, being pursued by the Government in pursuit of growth, could result in international competition that displaces small enterprise production. Fiscal consolidation at the cost of poverty-reducing effects would be detrimental to poverty alleviation efforts. They aver that since 1991 government economic strategy has implied further reductions in the employment generation capacity of the organised sector, which has adversely affected rural non-agricultural employment. This is because of the following policies: actual declines in government spending on rural development in the central budgets, as well as declines in the fertiliser subsidy; reduced central government transfers to state governments which have thereby been forced to cut back on their own spending; diminished real expenditure on rural employment and anti-poverty schemes; declines in public infrastructural and energy investments which affect the rural areas; reduced spread and rise in prices of the public distribution system for food; cuts in social expenditure such as on education, health and sanitation; financial liberalization measures which have effectively reduced the availability of rural credit”.

The UNDP document on sustainable livelihoods describe the plight of large numbers of rural women and men who are landless and rely on seasonal and casual labour as their primary source of livelihood. The landless poor working on large agricultural estates are not provided adequate wages, continue to lack proper housing, and are at risk of injury due to unsafe working conditions. Much of the need for employment is temporary and seasonal. Therefore short-term public works programmes can provide a safety net to the landless. There are failures in governance public work’s programmes including leakage problems in targeting the poorest. Such programmes are prone to be captured by local elites who are not, by any means, those in most need of assistance. C Barret and B. Swallow also argue that the poor are trapped in poverty, which needs a proper understanding. They argue that from relatively similar initial conditions, some developing economies have achieved sustained economic progress and accumulation, while others appear to be caught in
poverty traps of under-investment, low productivity and high poverty. These differences in performance cannot be explained by differences in macro-economic policy and governance alone.

In fact the current debate on the role of state and the clamour for rolling it back needs to be discussed eschewing the ideological posturing. Historically, the failure of the markets, in the form of lack of decent and adequate means of livelihoods, necessitated intervention by state. The proliferation of the roles and activities it has assumed may not always reflect either need for it or any manifest reduction in the cost over private provision of identical goods and services. Rent seeking is a term increasingly used to allude to the inefficiencies and malfunctioning of the system of direct provision of goods and services by the Government. There is a well-established framework of classification of goods and services based on externalities that helps facilitate discussing the specifics of the role of state. The three fold classification of goods and services include pure public goods that are to delivered only by the state like defence, law and order etc., followed by congestible goods or club goods that can be provided by the state as some of the benefits flowing therefrom could be internalized and priced and all the others that can be fully charged from the people, which is best left to market. The problem areas are in the second category as much of the general services, economic services and social services that are at present fully in the domain of Government are being disputed.

A study on implicit subsidies by National Institute of Public Finance and policy (NIPFP)\(^4\) re-classifies such congestible goods into merit and non-merit categories and suggest that all such non-merit goods need to be taken out of the domain of Government. Higher user charges and rolling back non-merit activities are two important measures suggested by them. The criterion of externality, which they had used to determine the merit characteristic of goods and services, are not without its operational difficulties. They also have opined that the exact degree of subsidisation ultimately needs to be determined, service-by-service. Determining the right degree of subsidisation depends on the elasticities of social and private demand, the extent of externalities, the associated cost(supply) functions, and the relative preferences (weights) given by the society to distributional objectives. Therefore there is a convergence of opinion that any policy with regard to the role of state,
howsoever valid it might appear from theory or practice, it needs larger democratic sanction from the ultimate stakeholders, which is the essence of governance.

As detailed earlier, failures of operational models of the hierarchical variety, do not lend legitimacy to the operational model in the opposite spectrum of ideology. It is difficult to evaluate policies directly without reference to operational models and the correction mechanism of any policy should be confined to the paradigm of which the operational model is one component. Almost all such failures in the delivery of public goods and services can be categorised as governance failures. There are two ways of correcting these failures, of which privatizing is one option and the other being reform within the hierarchical model whereby the stakeholders are empowered to correct them. This is possible in a situation where civil society is dense, the hierarchical model is accountable to stakeholders and is operated in a transparent manner.

The specific contexts wherein Government or other institutions can play a role is discussed in the following paragraphs.

Many scholars have enunciated the importance of specialist skills for the participation in the rural non-farm sector but there are not many systematic studies of the impact of vocational training. In fact the dissemination of superior skills is what makes the non-agricultural work dynamic. There are many ways in which such training can be provided. These services can be delivered through private training institutes, Non Governmental Organisations (NGOs) or project-run courses or directly by Government in formal or informal ways. In the absence of an enabling skill, the poor may not be able to participate in rural non-farm employment despite availability. Even after equipping individuals with the skill or training, still the participation in rural non-farm activities may be uncertain, if it involves risk taking and further coping mechanism in the absence of insurance cover. It is also not very clear from the reviews of studies as to the counterfactual position of the entry level skills of all present workers in the dynamic sectors of rural non-farm sector.

The evaluations of vocational education projects that tend to suggest that such interventions are often particularly unsuited in responding to women's livelihood needs. This is because most programs do not provide women with the skills they need
to become employable. Instead, women are more likely to be taught traditional skills for which, even in a growing economy demand is limited. Where vocational education is successful, training is usually addressed not to the general market, but rather to meeting the training needs of specific employers. In turn, of course, this is suggestive of the need for active employer involvement in the training. Vocational education successes have also been marked by a focus on labour demand. He concludes that unless there is a clear demand for labour as indicated by both a growing economy and low price distortions, vocational education would probably not be cost-effective. Indeed, training for specific occupations, especially in stagnant economies, yields relatively unsatisfactory returns on investment.

Availability of roads, telecommunications and electricity often play critical role in access to new rural non-farm activities in rural areas. Availability of strong and competitive trade and small industries hinge upon the provision of hard and soft infrastructure, policies of Government and the nature of the manufacturing process. While dynamic manufacturing process outsourcing has driven the East Asian and Chinese rural non-farm sectors, it is not evident in the Indian case except in certain regions and certain industries. While public investment needs to be stepped up in the provision of hard and soft infrastructure, in view of the relative high costs, plan and maintenance budgetary support, are warranted for creating and maintaining them.

Much of the rural non-farm sector comprises of the informal sector activities (Own account enterprises) that require entrepreneurial ability, information on markets for products, sourcing of inputs and the prices across the markets. Government through its own technical departments and through NGOs interface has been providing a lot of general and special training programmes. However, in the contexts of poor who are mostly landless workers, and with very little non-agricultural tradition and mere entrepreneurial training programme would not suffice in their ascent out of poverty and other enabling conditions need to be in place. However, it could be of benefit to the non-poor with some assets and safety net who are marginally above poverty line.

It has also been argued that health and nutrition also impedes in the participation by poor, often compounded by their own illiteracy, and access to health
services. While basic health care services in terms of sub-centres, primary health centres, community health centres and district hospitals are more or less in place in rural areas, evaluation of health care delivery speaks of a mixed bag of success and failures. The fact that there is some loss of income to the poor on account of ill-health and they also incur some expenditure in the process of health requires stakeholder orientation in health care delivery.

While the labour productivity as a ratio of value added per unit of labour is very low in the rural non-farm sector relative to urban counterparts, much of this is attributable to the existing levels of technology. The productivity is low on account of complementing factors of production also being low - like capital employed, quality of inputs etc. In order to match the productivity levels, it is necessary to evolve appropriate intermediate technology capable of using more units of labour per unit of output, reflecting the comparative advantages in labour. Most technological choices are determined by labour saving requirements, as is the relative advantage in the industrialised countries. As a lot of funds are required in research and development, the technological solutions made available would have to be state funded to create choices that favour more or appropriate labour inputs, without cost escalations. The relatively low quality (Z goods) that is available in the informal sector could be improvised to take on the urban counterparts in productivity terms if larger attention is focussed in research on such technology.

The dynamic sub-contracting of manufacturing process that is in evidence in East Asia thrives on the mutual trust agreements. In India, such process has not been paid due attention by the corporate sector. The auto part and components markets are an exception. In fact the process of equalisation of wages and productivity could take place between urban industrial manufacturing and its rural agent if such arrangements can be replicated here. A lot of initiative is required to be taken by the Corporates to take advantage of the process of sub-contracting, as such flexible specialisation enhances competitiveness of the industry in an increasingly globalised economic environment.

The other areas that call for institutional attention are the redistributive polices of the state, availability of credit, enabling access to rural non-farm employment for the poor and provision of social safety nets. One of the most important stylised facts
of the discourse on diversification is that in the contexts of backward regions of India, it is the landlessness that constitutes the most severe handicap on the poor household. Redistributive policies need sharper focus on empowerment of the poor in the initiatives that are meant for them. It has often been remarked that much of the redistributive income transfers in the name of poor are cornered by relatively non-poor. There is a need for creating associations of the poor to enable them to reap the benefit of the policies that are designed for them. The role of NGOs is critical in this endeavour and not in direct delivery of services. Government, in active collaboration with associations of beneficiaries need to ensure that credit is available at cheaper rates and a minimal insurance mechanism is put in place for recovery failures.

While rural non-farm employment enabled transformation of rural societies have been made possible elsewhere, for the poor to participate and benefit out of it, a lot of work at the level of households need to be done to raise their personal vision. Attitudes to education, skills and levels of motivation for achieving a higher livelihood need to be developed, particularly by NGOs through creation of voluntary associations of poor. There is a need to develop role models of successes by targeted approaches. Government can play a supporting role by way of schemes funding such efforts at creation of voluntary associations enabling vision. This is necessary because much of the governance failures arise from the lack of civil society associations for the poor.

Despite breakdown of patron-client and other feudal relationships, the lack of vibrant civil society organisations and the continuance or overhang of the caste and other inequitable structures, are a cause for serious concern. The state often needs to promote civil society organisations, as the individuals are incapable of organizing themselves. The absence of such voluntarism and if the individual are left to negotiate on their own, a tyranny of what Tocqueville saw as a large and benevolent state that hovered over society resulting in paternalistic controls. Low levels of social capital lead to a number of political dysfunctions, which have been extensively documented. Following Tocqueville's analysis of France, many observers have noted how administrative centralisation has led to an excessively rigid and unresponsive political system, one that can be changed only through anti-systemic upsurges. Low levels of social capital have been linked to inefficient local government in southern Italy, as well as to the region's pervasive corruption. In many Latin American societies, a
narrow radius of trust produces a two-tier moral system, with good behaviour reserved for family and personal friends, and a decidedly lower standard of behaviour in the public sphere.

In societies, where Government has a major and decisive say in all matters to the exclusion of social groups, that is in the absence of strong civil society, rent-seeking has led to degeneration in public management. In fact, in such situations interest groups tend to emerge which distorts policy and public action outcomes to the detriment of ultimate stakeholders. Non Governmental Organisations (NGOs) and other groups, which clamour for public space, to the extent they are not voluntary associations, are not a part of civil society. They could, however, be useful in providing an enabling role in the public sphere.

One of the manifest weaknesses of the social capital concept is in its measurement, which eludes consensus. One way to measure it could be a headcount of the individuals and groups in a society and the other way is to measure the networks based on trust and reciprocity. One of the primary sources of conflict in liberal democratic politics is the tension between the competing values of individualism and community. De Tocqueville was most concerned with the problem of tyranny and emphasises on many occasions how crucial a vibrant civil society is in curbing this threat. He argued that any dominant authority, whether it is a monarch, an elected president, an aristocracy or a democratic majority, would abuse its power. Individual citizens must retain the "habit of self government" via involvement in community groups, he said if tyranny is to be avoided. "A strong civil society, a deep-rooted understanding of democracy at all levels, from the government down to rural families, and a decentralized government system. At target group level, attitude and motivation are important factors for development and often difficult to influence."

One of the major schemes that affect the poor households across the country is the Targeted Public Distribution System (TPDS) that seeks to ensure access of food to the poor. Successive evaluations of the schemes had indicated that where awareness and participation were pronounced, the scheme was relatively successful in terms of offtake and distribution of foodgrains. Associations of the poor could play a major role in the process of selection of beneficiaries, ensuring quality delivery and overcoming many ills of the present system with more transparency and public
accountability in the hierarchical model of delivery. Elite capture of the schemes meant for poor is a well-documented fact flowing from the body of literature on the subject. The process of democratic decentralisation can be meaningful if the voluntary associations of the poor are involved in the identification and execution of schemes meant for their welfare. It is thus a responsibility of the benevolent and truly democratic state to try and operationalise civil society organisations by pilot efforts at public-private partnership in the process of delivery of schemes.

Much of the poverty and vulnerabilities associated with it, are at least in the given contexts, arising from seasonal and co-variate risk factors like drought etc. The absence of a social safety net for the poor accentuates their vulnerabilities. A well-designed food-for-work scheme or an employment assurance scheme or guarantee scheme with a self-targeting mechanism of selection needs to be put in place as basic safety nets that would help the poor who are vulnerable to such seasonal factors. By suitable design of scheme in terms of area-wise numerical caps, lower than normal wages and a selection process that is transparent and involve the associations of the poor will help overcome the moral hazard problem of capture by non-poor.

The relatively few success stories in development, the collapse of the great socialist state, rent seeking and the governance failures have influenced the present internationally accepted role of State as a facilitator rather than a provider. However, the failure of particular operationalisation of planning does not, *ipso facto* validate the market centric approaches to development. The only lesson that is starkly manifest in the failures is governance. Convergence of opinion across spectrum on provision of social safety net by the State exists. Elimination of poverty through assured employment is one such safety net that has the potential to transform the economy. The question of diversification that arises out of distress is facilitated by the absence of safety nets. The low value additions to labour in many of the rural non-farm employment are not reflective of market outcomes or productivity of labour, but a situation of distress that compels them to participate and reflects absence of choice. It is essential to design a safety net that would guard against moral hazard problem and at the same time provide succour against vulnerability to market.
Notes and references

1 www.worldbank.org

