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INDUSTRIALIZATION IN RELATION TO INTEGRATED RURAL DEVELOPMENT:
REVIEW OF POLICIES AND PROGRAMMES IN INDIA ^{1/}

by

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Balanced development of different parts of the country, extension of the benefits of economic progress to the less developed regions and wide-spread diffusion of industry have been amongst the major objectives of India's Five Year Plans and industrial policy. Accordingly, programmes for securing a balanced and coordinated development of the industrial and agricultural economies in each region have continued to form an integral part of the succeeding Plans. Certain special schemes and programmes for the purpose have also been taken up from time to time. For promotion of industries in selected industrially backward districts, schemes for concessional finance and investment and transport subsidies have been in operation for several years. For rural development also, special schemes have been taken up for the benefit of small and marginal farmers, agricultural labour, tribal and other people living in the hilly and drought-prone areas. Recently, a new programme was initiated for Integrated Rural Development (IRD).

2. The principal objective of the new IRD programme was to generate large scale opportunities for employment, including fuller and self-employment, by optimum utilisation of local resources through purposive inputs of science and technology for the benefit of particularly the poor in selected rural areas. It was envisaged that the IRD programmes will consist of schemes for comprehensive agricultural development (including animal husbandry, horticulture, forestry, etc.); development of cottage, village and small scale industries; and promotion of employment opportunities in tertiary sector.

3. The programmes for the development of different small industries as a part of the IRD were formulated within the framework of the existing policies and in the light of the experiences gathered from the implementation of the programmes for the development of these industries in the rural areas. These policies and programmes and the preliminary steps taken for the development of small industries as a part of the IRD programme are briefly reviewed in the paragraphs to follow.

Review of policies and programmes

4. The basic principles governing the Indian Government's approach towards industrial development is embodied in the Industrial Policy Resolution of 1956. The following extracts from the Resolution bring out the role assigned to the village and small industries :

" The Government of India would, in this context, stress the role of cottage and village and small scale industries in the development of the national economy. In relation to some of the problems that need urgent solutions, they offer some distinct advantages. They 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 of 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.

The State has been following a policy of supporting cottage and village and small scale industries by restricting the volume of production in the large scale sector, by differential taxation, or by direct subsidies. While such measures will continue to be taken, whenever necessary, the aim of the State Policy will be to ensure that the decentralised sector acquires sufficient vitality to be self-supporting and its development is integrated with that of large scale industry..... For this, it is essential that the techniques of production should be constantly improved and modernised, the pace of transformation being regulated so as to avoid, as far as possible, technological unemployment..... Many of the activities relating to small scale production will be greatly helped by the organisation of industrial cooperatives.... "

5. The policies relating to industrial development were reviewed early in 1973 in the light of, among other things, the experience

gathered from the implementation of the industrial licensing policy. It was then decided that the Resolution of 1956 referred to earlier should continue to govern the Government's policies for achieving the objectives of growth, social justice and self-reliance in the industrial sphere; other relevant decisions were :

" In the implementation of the licensing policy, Government will ensure that licensing decisions conform to the growth profile of the Plan and that techno-economic and social considerations such as economies of scale, appropriate technology, balanced regional development and development of backward areas are fully reflected. Government's policy will continue to be to encourage competent small and medium entrepreneurs in all industries.

The existing policy of reservation for the small scale sector (involving investment in machinery and equipment up to Rs 1.0 million and in the case of ancillary industries up to Rs 1.5 millions), will be continued. The area of such reservation will be extended consistent with potentialities and performance of the small scale sector."

Within the framework of these policies and decisions, detailed development programmes for different rural and small industries have been formulated and implemented in pursuance of the aims and objectives envisaged under the Five Year Plans.

6. The first three Five Year Plans envisaged, inter alia, formulation of 'common production programmes' for the small and large sectors in suitable industries with a view to providing a degree of preference, or assurance of market, for the rural and small units so as to facilitate both the sectors to make their respective contributions in meeting the total requirements of the community and, thus, develop in a coordinated and balanced manner. The possible elements of a 'common production programme' included reservation of spheres of production, non-expansion of capacity of large scale industry, imposition of a cess on large industry, arrangements for the supply of raw materials, and coordination of facilities for research, training, etc. It was, however, pointed out that the devices for giving effect to the concept of 'common production programme' were

intended ordinarily to afford time and opportunity to the small industries' sector to gain the necessary strength to develop on its own. It was also recognised that in the case of some of the traditional industries, measures for ensuring preferential treatment and assurance of market for their products may have to be continued for a somewhat longer period than in the case of modern small scale industries.

7. The small industries' sector with varying levels of investment, technology, scales of production and different forms of organisation, consists broadly of (i) traditional cottage and village industries, and (ii) modern small scale industries (defined as those having investment in plant and equipment upto Rs 1.0 million and in the case of ancillary industries upto Rs 1.5 millions, excluding investment in land and buildings). As distinguished from modern small scale industries, most traditional cottage and village industries are located in rural areas and small towns, a large number of these industries do not use power-operated equipment and appliances, these involve significantly lower investment and shorter gestation period and provide mostly part-time employment. A significantly large number of persons dependent on traditional rural industries belong to the weaker sections of the society and live below the poverty line. However, like the products of a number of modern small scale industries, certain essential articles required by the masses within the country as well as several other items for exports are also produced by some traditional rural industries.

8. Broadly speaking, the strategy adopted for the development of small industries in the rural areas has been

- (a) to revitalise selected traditional industries already providing employment to a large number of persons in the rural areas, and
- (b) to promote intensive development of traditional as well as modern small scale industries in selected rural areas.

Traditional Rural Industries

9. The principal traditional cottage and village industries already providing employment to a large number of persons in the rural areas are

	<u>Estimated employment</u> (No. millions)
<u>Textile Industry</u>	
- hand-woven cloth made from mill-made yarn (handloom cloth)	7.5
- hand-woven cloth made from hand-spun yarn (khadi cloth)	1.1
Village Industries	1.2*
Sericulture (silk)	3.5
Handicrafts	1.5
Coir Industry	0.5

(* Figure relates to the units in 22 village industries assisted by one organisation)

10. One of the important steps taken during the First Plan period itself was to build up/strengthen the organisational machinery both at the national, State and district levels for the development of these industries and also for execution of the programmes. At the national level, separate all-India Boards were constituted/re-constituted for the development of the handloom industry, khadi and village industries, silk, handicrafts and coir industry. The main functions of these Boards have been to advise the Central Government on the problems of the concerned industries, suggest suitable development programmes and also to implement some schemes (for supplementing the developmental activities of the State Governments) and to review the progress. While the Board for khadi and village industries consisted of mostly non-officials, the Boards for other industries comprised the representatives of the Central and State Governments, associations of concerned industries, voluntary organisations and other knowledgeable persons. Subsequently, a Commission and State Boards for khadi and village industries consisting mostly non-officials, have also been set up

to formulate and execute programmes for these industries through mostly voluntary organisations. Over the years, these Boards have set up their institutions for conducting research, providing training and extension facilities and for undertaking other promotional measures. A separate organisation has also been set up at the national level to assist some of these industries in exports of their products. The State Governments who are responsible for execution of most of the developmental schemes of assistance and facilities have also gradually strengthened their organisations for the purpose, both at the state and the district levels. Most of them have set up corporations for assisting these industries particularly in respect of raw materials and marketing their products within and outside the country.

11. A number of policy and other measures have been taken over the last several years mainly to assist the artisans, craftsmen and others dependent on these rural industries in overcoming their problems relating to improvement of production techniques, training, credit, processing facilities, marketing, etc. Amongst the important policy measures taken for the development of the handloom industry are the reservation of certain varieties of cloth for exclusive production by the industry, levy of differential excise duties and financial assistance to revitalize and expand the handloom weavers' cooperatives. Recently, a number of areas having large concentrations of the handloom weavers have been selected in order to intensify efforts for replacement of the traditional pit-looms by modern frame-looms, to train them in use of improved appliances and new designs, to assist them in obtaining yarn and other essential raw materials and also in processing, marketing a part of their production within and outside the country, etc. The development programmes for all these rural industries have comprised schemes

mainly for improvement of production techniques, research, provision of processing and training facilities, assistance for revitalisation of the potentially viable cooperative societies, establishment of emporia and sales-depots for marketing of their products, etc. Those dependent on these industries are assisted to obtain their credit requirements from the financial institutions. Under a special scheme, loans at low interest rates are advanced by banks to the poorer sections of the society including rural artisans and craftsmen having income upto certain specified limits.

12. As a result of these policy measures, schemes for providing assistance and facilities in different forms, progressively larger outlays made for these schemes under each succeeding Plan along with increased flow of institutional credit, most of these industries have made appreciable progress. Although data are not available regarding the progress in respect of the extent of fuller and additional employment, increase in the level of earnings, etc., the available figures relating to production and exports are given below :

	<u>1960-61</u>	<u>1970-71</u>	<u>1975-76</u>
<u>Production</u>			
(1) Handloom cloth* (million metres)	1,900	2,280	2,370
(2) Khadi cloth (million metres)	53.8	56.7	61.4
(3) Raw silk (million kgs.)	1.7	2.9	3.0
<u>Exports (Rs-million)</u>			
(4) Cotton handloom fabrics and wgs.	50.14	123.97	428.6
(5) Silk fabrics and wasts	13.7	100.6	175.2
(6) Handicrafts	96.9	803.0	2,343.8
(7) Coir products	86.7	138.7	193.5

(* estimated)

Small Industries' development in Selected Rural Areas :

13. In addition to the development programmes reviewed above, a Centrally-sponsored scheme of the Rural Industries Projects was

initiated in 1962 in 45 selected rural areas with different socio-economic conditions. Each selected area covered a population of about 300,000 to 500,000 persons, excluding towns having a population of more than 15,000 (the population limit has recently been raised to 25,000). The main objective of the scheme was to maximise employment opportunities in non-agricultural sector through intensive development of cottage, village and modern small scale industries, including small processing industries based on agriculture. These Projects were expected also to assist in evolving effective techniques, methods and programmes which could be extended progressively to other areas having large incidence of unemployment and under-employment. The programmes for the Projects were formulated on the basis of rapid industrial potential surveys of these areas. Each Project area was allotted some funds by the Centre, in addition to those available to the State Governments under their Plans for the development of these industries. The programmes for the Project areas consist of schemes for appointment of extension staff, provision of margin money and credit, training, common service facilities, etc. In some Project areas, schemes for setting up small industrial estates were also taken up.

14. The scheme was extended in 1965 to 4 more selected rural areas, close to certain large public sector undertakings. Subsequently, 5 new Projects were started in selected areas. The scheme was further extended in 1971 to another 57 selected areas. Thus, there are at present 111 such Projects.

15. The physical progress of the scheme has been evaluated from time to time and the programmes have been modified in the light of the findings. Some idea of the physical progress of the scheme since 1962-63 can be had from the following figures :

	1972-73	1973-74	1974-75
	<u>(Cumulative)</u>		
(1) Units assisted (nos.)	37,278	48,206	63,578
(2) Investment (Rs-millions)			
- Fixed	156.3	246.7	389.2
- Working	194.2	254.0	363.4
	<u>350.5</u>	<u>500.7</u>	<u>752.6</u>
(3) Gross value of production during the year (Rs-million)	502.7	702.7	964.3
(4) Employment generated (No.--'000)	163.5	207.1	284.2

(* Including about Rs 120 millions of institutional finance)

16. A Rural Artisans' Programme is also in operation for some time in about 40 of these Projects. Under the Programme, training facilities are provided to the existing rural artisans for upgrading their skills and to the others in suitable trades, depending on the local and regional needs. The trained artisans are assisted in obtaining the necessary tools and appliances so as to enable them to start cottage and small industrial units. A number of the Project areas have also been selected as industrially backward and, as such, are eligible for certain financial and fiscal incentives for promotion of industries.

Industrialisation in relation to IRD

17. As mentioned earlier, the IRD programme was initiated recently. For the present, the administrative responsibility for the programme has been entrusted to the Department of Rural Development in the Ministry of Agriculture & Irrigation. So far, 20 districts have been selected for the programme from those which are economically backward but have considerable development potential, which have large incidence of rural unemployment and under-employment, which have certain basic infra-structure facilities and in which scientific and technological institutions have already been working or are in close proximity.

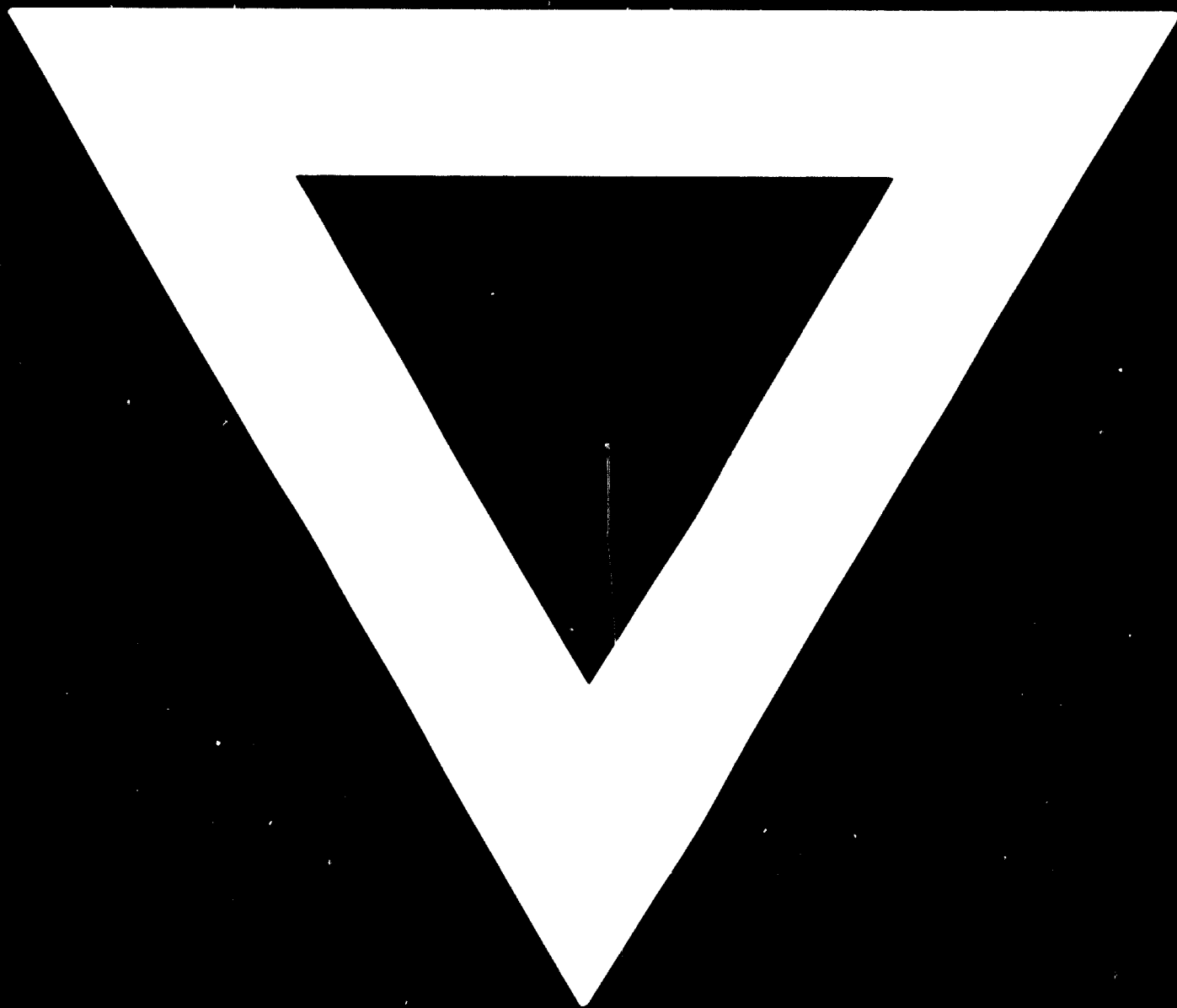
18. Detailed inventories of the local resources of some selected districts have already been prepared, mostly by the local agricultural universities. This exercise in respect of a few districts has been followed by malady-remedy analysis in consultation with the concerned authorities at the district and the State levels with a view to formulate suitable programmes and schemes. Thereafter, these programmes and schemes were considered further by a high-level Central Coordination Committee on Rural Development and Employment, which was set up by the Planning Commission. However, the IRD and most of the other Plan programmes are now being reviewed in connection with the formulation of the next Five Year Plan, commencing from 1978-79.

19. It is at present envisaged that the primary objective of the next Plan would be removal of unemployment and substantial under-employment within approximately ten years, provision of certain basic services to the 40 % of the population in the lowest income group over the same period and a significant reduction in the present disparities of income and wealth. It is also envisaged that the strategy for rural development would entail greater emphasis on planning from below and the association of voluntary agencies. Programmes for increased agricultural productivity and stimulation of household and small scale industrial production are proposed to be incorporated into a total area project. Detailed development programmes for development including rural development are expected to be finalised over the next few months. Meanwhile, a study of the eight industries has been taken up in order to analyse the technologies and suggest the most suitable mix for development in the large, small and cottage sectors and also the policy instruments

for achieving the desired balance. It may be mentioned that with a view to encouraging companies to involve themselves in the work of rural welfare and up-lift, it has recently been decided that the expenditure incurred by them on approved programmes of rural development will be allowed to be deducted in computing their taxable profits.



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