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**A NOTE ON RURAL INDUSTRIALIZATION
IN INDIA**

DR. SUDHAKAR GADAM

**GOKHALE INSTITUTE OF POLITICS AND ECONOMICS
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I. INTRODUCTION

Changes in agricultural technologies, agrarian institutions including land reform and the like and increase in irrigation, could no doubt encourage labour absorption in agriculture and related activities. However, no one believes that they will mop up all the current and future additions to the rural labour force occurring each year. It is also not clear whether the new entrants to the labour force, mostly people with more schooling than their parents, want to take up agriculture-related employment, either because of uncertainties or because of low incomes combined with the drudgery of such work or even simply because stemming from the colonial past, such occupations are held in low esteem.

The major consequence of the growing imbalance in the rural labour market in developing countries has been rapid internal migration to urban areas, particularly large cities. Some planners have regarded it as inevitable result of the process of economic development, comparable to what happened in the West during the Industrial Revolution. But it is highly doubtful that this comparison can be made.* This trend of migration has aroused the concern of policy-makers, for a number of reasons, ranging from deteriorating urban

* Myrdal, Gunnar. *Asian Drama: An Enquiry into the Poverty of Nations*. An Abridgement by S.S. King, Allen Lane, The Penguin Press, 1972, p. 242.

environment, urban unemployment to a possible threat to socio-economic and political stability and therefore they are in search of suitable alternative solutions in recent years. The two most obvious alternatives are the diversion to medium and small towns, and the retention of population in the rural areas. To be successful both these alternatives imply the creation of non-agricultural employment and income opportunities that are stable and attractive in rural and small urban centres.

Rural non-farm activities, ranging from manufacturing to trade and services seen already to provide one-fifth or more rural employment in many developing countries. In India it is about one-fifth. By far the most important source of rural non-farm employment is self-employment in small scale activities. In particular, rural small scale industries including handicrafts play a dominant role. In terms of income too, rural non-farm activities make a significant contribution to rural household income. Most developing countries do have a sizable rural non-farm sector, particularly traditional rural industries. For example, 86 per cent of employment in manufacturing in Sierra Leone, 70 per cent in Bangladesh, 63 per cent in Malaysia and 57 per cent in India is estimated to be in the rural areas.*

* Euginna Cherta and Carl Liedholm. Rural Non-farm Employment: A Review of the state of the art, on Rural Development Paper No. 4 (East Lansing, Michigan State University, 1979).

Traditionally, rural small-scale industries in the third world and also in India provided inputs to agriculture and related activities and to rural infrastructural development, processed agricultural outputs for domestic consumption and export, and produced goods and services for local consumption, and handicrafts for urban and foreign markets. Since at least a quarter of the household incomes in rural areas is spent on non-food items, and given that the demand for such items is income elastic, the scope for promoting industries and related activities depends in a significant way on the level and distribution of income in rural areas, among others. Similarly, the opportunities for producing farm inputs, related services depend not only on the level of agricultural development but also on the type of agricultural technologies promoted, cropping patterns and agrarian systems. Another important source of demand is derived from the level and pattern of public expenditures on social and economic overheads in rural areas. With regard to rural handicrafts and related activities, the potential for their expansion obviously depends on market development and promotional measures to attract tourist expenditures and exports. In other words there is considerable scope for expanding the market for rural non-farm goods and services; but it would require a gamut of policies and measures to tap the potential.

It would be naive to believe that demand-oriented policies per se are adequate. Rural non-farm activities in

most developing countries are very small scale and are based on traditional know-how and skills. Since they are not run by entrepreneurs in the usual sense of the term, to promote rural industrialization of this nature also calls for intervention on the supply side to supplement the knowledge and expertise of the people involved. Supply adjustments required to meet changes in demand conditions, technology and consumer tastes are not always easy to bring about owing to certain inherent constraints such as skill capacity, lack of know-how and equipment or credit or owing to lack of supporting institutions and infrastructure facilities in rural areas. The increasing domination of product and factor markets by urban based industries makes it no less difficult for the development of rural small-scale industries and related activities.

It follows from the above that promotion of small industries and related activities in rural areas of developing countries is not an easy task. It implies a transformation of existing rural non-farm activities besides promoting new ones, and also calls for a new orientation in the development strategies followed hitherto.

With this introduction, we will proceed to have a quick look at the rural industrial scene and then we will look into the policies followed and efforts made by the government for the development of rural industries. This will be followed by review of select literature relevant to

diagnosis of the problems and issues involved and then will test out important areas of research in this field and indicate the studies those could be taken up by us in the short and long run followed by a select bibliography on the subject.

II. RURAL INDUSTRIAL SCENE IN INDIA

Before reviewing the government policies towards rural industrialization, let us have an overview of the rural industrial scene in the country. There is hardly any data available on regular of basis on this subject. We would depend upon the Census and National Sample Survey (NSS) data.

The employment in the non-farm sector in the year 1971 was about 15 per cent of the total rural employment; this percentage was about 17 in the 1981 Census. Though there are some problems of comparability of data between 1971 and 1981 Census due to changes in the definitions, the figures can be broadly indicative (Table 1). Thus, the employment in the non-farm sector in the rural areas is quite sizable. If we consider the share of rural in the total non-farm employment it was 44.64 per cent in 1971 and 42.31 per cent in 1981. Thus, there is slight increase in the percentage of workers engaged in non-farm rural sector but the share of rural sector in the total non-farm activities has declined during this decade.

In order to get an idea regarding employment in manufacturing sector the industrial classification of workers in the 1971 Census is useful. The classification followed in 1981 Census being different, there is some difficulty; therefore, we use the data based on 5 per cent sample which gives estimates of workers according to 1971 classification. In this also there is a problem of comparison due to definitional

difference but the comparison of workers in 1971 with main workers in 1981 is still meaningful to make in the absence of other methodology. Table 2 and Table 3 give the 1971 and 1981 data respectively.

Out of about 180 million work force, 17 million or only 9.46 per cent were engaged in secondary activity in the country as a whole in 1971. The percentage in urban areas was around 27.82 and in rural areas meagre 5.50. However, considering it the other way round about 47.83 per cent persons engaged in secondary activity live in villages and of them 58.33 per cent engaged in household sector. Thus, employment-wise, the rural industry sector is quite important.

The position in 1981 is not much different than obtained in 1971. Out of about 222 million main workers, 25 million or 11.30 per cent were engaged in secondary activity in 1981. The percentage of secondary sector employment was 29.62 in urban area and 6.51 in rural area. Though there is improvement in percentage at rural, urban and total level, the increase is very small. The share of rural sector in the employment in secondary activities has slightly declined to 45.70 per cent from 47.83 per cent in 1971. However, there is a substantial increase in the non-household sector from 41.67 per cent in 1971 to 52.72 per cent in 1981. Perhaps non-household manufacturing sector in the villages is ready for take off.

Table 4 gives the data on the establishments as per

Table 1 : Workers Engaged in Farm and Non-Farm Sectors

	('000 persons)		
	Farm*	Non-Farm	Total
1971 Census (Workers)			
Rural	1,25,873 (84.83)	22,502 (15.17)	1,48,375 (100.00)
Urban	4,090 (12.78)	27,909 (87.22)	31,999 (100.00)
Total	1,29,963 (72.05)	50,411 (27.95)	1,80,374 (100.00)
1981 Census (Main Workers)			
Rural	1,47,026 (83.33)	29,408 (16.67)	1,76,434 (100.00)
Urban	5,990 (13.00)	40,093 (87.00)	46,083 (100.00)
Total	1,53,015 (68.77)	69,501 (31.23)	2,22,517 (100.00)

* Livestock, Forestry, etc. (Category No. III in the Census industrial classification of workers) included in the farm sector.

(Horizontal percentages are given in the brackets.)

Table 2 : Workers Engaged in Secondary Sector: 1971 Census

	('000 persons)		
	Manufacturing, Processing, Repairs, Servicing, etc.		Total
	Household	Other than Household	
Rural	4,763 (58.33)	3,402 (41.67)	8,165 (100.00)
Urban	1,589 (17.85)	7,314 (82.15)	8,903 (100.00)
Total	6,352 (37.21)	10,716 (62.79)	17,068 (100.00)

(Horizontal percentages are given in the brackets.)

Table 3 : Main Workers Engaged in Secondary Sector: 1981 Census
('000 persons)

	Manufacturing, Processing, Repairs, Servicing, etc.		Total
	Household	Other than Household	
Rural	5,432 (47.28)	6,058 (52.72)	11,491 (100.00)
Urban	2,278 (16.69)	11,373 (83.31)	13,651 (100.00)
Total	7,710 (30.67)	17,432 (69.33)	25,143 (100.00)

(Horizontal percentages are given in the brackets.)

**Table 4 : Manufacturing, Processing, or Servicing Establishments
by Type, 1971**

	Registered Factories	Unregistered Factories	Household Industries	Total
Rural	35,658 (1.57)	5,45,960 (24.08)	16,85,846 (74.35)	22,67,464 (100.00)
Urban	53,580 (4.41)	7,68,790 (63.19)	3,94,208 (32.40)	12,16,578 (100.00)
Total	89,238 (2.56)	13,14,750 (37.74)	20,80,054 (59.70)	34,84,042 (100.00)

Sources for Tables 1, 2, 3 and 4:

- Census of India, 1971, Series I - India, Part II-A(iii),
Union Primary Census Abstract.
- Census of India, 1971, Series I - India, Part III-B(1),
Establishment Tables.
- Census of India, 1981, Series I - India, Part II B(1),
General Population Tables, Primary Census Abstract.
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General Population Tables, Primary Census Abstract.
- Census of India, 1981, Series I - India, Part II,
Special (5% Sample Tables).

the 1971 Census. It is seen from the data that about 80 per cent household establishments are in the villages and about 40 per cent of each registered and unregistered factories are in rural areas. Of the total rural establishments 74.35 per cent are household, 24.08 per cent are unregistered factories and only 1.57 per cent are registered factories and 65 per cent of the total establishments are in villages.

National Sample Survey Organization conducted a survey of the unregistered sector in manufacturing in the year 1974-75. According to the estimates obtained by this survey about 74 per cent of the enterprises in unregistered sector were in the rural areas and they employed about 71 per cent of the total persons employed in this sector. During the survey data on important variables such as output, capital value added, etc., along with the employment were collected. For the rural sector percentage of workers employed was maximum in textiles products (13.33), it was 12.63 in cotton textiles, 11.95 in food products, 11.62 in other repairing enterprises and 11.47 in wood and cork products. These were the five industries at the top considering employment. In terms of the share of output, food products ranked first with 20 per cent output, then cotton textiles (14.4), edible oil, tea processing, coffee curing, etc. (9.6), textile products (8.7) and wood and cork products (8.3). Again, by considering the share in total value added these industries emerge with high ranks.* This gives some idea of the structure of the industry in rural India.

* 29th Round of National Sample Survey.

III. GOVERNMENT INITIATIVE

A brief account of the Government initiatives in the rural industrialization is necessary before we proceed further. In the First Five Year Plan a number of Boards and Commissions were set up to rehabilitate and develop handicrafts and rural industries. The Khadi and Village Industries Commission (KVIC) was set up in 1953 to revitalize and re-develop basically manual crafts and trades that had long been traditionally carried on in rural communities but had declined. KVIC was supported with the State Boards. The separate Boards were established for the development of handicrafts, sericulture, coir and handloom industry. The basic purpose of various government measures for the development of village industries was to provide encouragement to village artisans to produce goods with improved design and quality through the use of more modern techniques of production. The schemes mainly covered training in various trades, acquainting the craftsmen with improved techniques, supplying raw material and subsidized tools and equipment, and marketing of products. However, rural industrialization was not an important policy objective in the First Plan. Only 1.3 per cent of the First Plan outlay was allocated to village and small scale industries.

In the Second Plan, rural industries were considered an integral component of the national economy. The Rural Industries Project was started in the Second Plan with 26 pilot industrial projects. The village and small industry

received 4.1 per cent outlay in the Second Plan. Decentralization and balanced regional development was emphasized in the Second and Third Plans. The Rural Industries Project was continued and new 49 projects were added. In the Fourth Plan, more concessional finance and liberal aid for industrial decentralization in rural areas was provided. The Rural Industries Project (RIP) was extended to 111 districts. Area Development Programme (ADP) was also adopted from which rural industries located in these areas could also benefit. The RIP programme was subsequently wound up since its progress was not considered sufficiently encouraging. The next step which was planned taking into consideration the experience of RIP, was that of setting up District Industries Centres (DICs) to cover all aspects of rural industrialization. The District Industries Centres were set up with the twin objectives of covering the entire rural hinterland and to provide necessary facilities to an entrepreneur under one roof. They were to cover rural areas in all the districts and carry promotional measures to blocks and clusters of industrial activity.

The Seventh Plan also recognized the importance of village and small industries in terms of employment, output and exports and a number of measures were taken which included R and D efforts; product improvement, etc. A need for dispersing industry away from urban concentration was also emphasized.

The Government has taken several specific measures to take industry to rural areas with a view to provide employment to both unemployed and under-employed as well as to contain migration to urban areas. Industrialization policy^m formulation took into account spatial as well as sectoral aspects. Yet, the rural industrial scene has not shown any perceptible change. The rural industry is mainly household, the traditional sector is predominant, the modern sector contributes less than 10 per cent output and provides employment to even a small percentage. The rural industrial sector has remained relatively stagnant, has made very little impact on the rural scene and has been, by and large, insulated from the overall industrialization process in the country.

IV. REVIEW OF SELECT LITERATURE

It is necessary to look into various reasons for less than satisfactory progress of rural industrialization. It would be useful to draw upon certain relevant studies which went into identifying the bottlenecks. For the sake of simplicity in presentation the two major reports, namely, Report of the Khadi and Village Industries Review Committee (KVIRC) and Evaluation Report of the Rural Industries Projects, would be covered separately and this section would cover other selected material. The above two reports cover majority of reasons behind our slow progress in the field of rural industrialization. There are innumerable articles, books, reports, etc., covering the subject of rural industrialization in India. We have selected only a few of them which we thought would help to understand the subject in its proper perspective in relation to structure, growth and performance of rural industries and also to understand the factors influencing the rural industrial scene.

Relationship with regional resources base

Dr. T.S. Papola analysed the data obtained by the National Sample Survey Organization (NSSO) in the Survey of Self-Employment in Non-agricultural Enterprises (NSS 29th round) conducted during July 1974-June 1975. The NSS estimated a total number of around 6.49 million enterprises and 11.56 million workers in the manufacturing activities in rural India. Papola selected 17 major States accounting for over

99 per cent of enterprises and 10 major industrial categories found significant in most States and accounting for over 80 per cent of total enterprises for his State level analysis.

The composition of enterprises by industrial categories was found to differ significantly among States though all kinds of industries are found in rural areas of practically every State. The variation could not be explained by resource base or demand patterns. For example, food products were found to constitute a significant component of rural industrial structure in most States. But this activity had much higher share in West Bengal and Tamil Nadu than in Punjab and Haryana, which are agriculturally more prosperous States. In spite of a high share in production of oilseeds the States like Andhra Pradesh, Gujarat, Tamil Nadu and Karnataka, enterprises producing edible oil constitute a very small proportion in their rural industrial activity. Textile products accounted for 20 to 30 per cent of enterprises in almost all the States but weaving and spinning of textiles were less important in Gujarat, Maharashtra and Karnataka, the major cotton producing States than in Tamil Nadu, Orissa and Andhra Pradesh. Punjab was the only State with a significantly large share both in cotton production and cotton textile activity in the rural areas. Similar situations were observed in the forest-based industries. However, some exceptional cases of a large proportion of a single group of products in some States were closely related with regional

endowment and demand pattern. But such cases were a few: footwear and leather in Rajasthan and Madhya Pradesh which have a large cattle population; and machinery and machine tools particularly relating to agriculture in Punjab and Haryana, agriculturally most developed States.

Papola* concludes that the major part of the rural industrial activity in different States has continued mainly as a part of the tradition without necessarily being differentiated on the basis of linkages and integration with the local resources and changing demand patterns. Most of the rural industrial enterprises are carried out as means of family subsistence rather than business, use primarily household labour and have very small size of production and low productivity and income per worker engaged in them.

Rural Industrialization and Agricultural Growth

The study by Papola, which was reported earlier also dealt with relationship between agricultural growth and the performance of industrial activity among different States. Some of the findings are reported here.

The association of agriculture as supplier of raw material and user of the products of rural industrial units (as input) with the structure of rural industries was not

* T.S. Papola. Rural Industrialisation and Agricultural Growth : A Case Study on India in Rural Industrialisation and Employment in Asia, Ed. Rizwanul Islam, International Labour Organization, Asian Employment Programme (ARTEP), New Delhi, 1987.

observed with consistency. But the level of agricultural development in a State, measured in terms of yield per hectare, seemed to affect positively the performance of rural industries. Yield per hectare in production of foodgrains was generally associated with value added per worker in rural enterprises. The causal process involved in such association was not very clear: the raw material argument seemed possible only to a limited extent, looking at the structure of industries; and therefore, one has to look to the demand inducing effect of higher productivity of rural industries. Direct demand for the manufacture and repair of agricultural implements was one route which seemed to work in Punjab and Haryana. Higher demand for timber, bricks, and furniture for improvement in housing and living conditions with a rise in income levels was another mechanism which seemed to be at work in Haryana, Gujarat and Uttar Pradesh. But a more general impact through rise in income, technological possibilities, infrastructural facilities and links with urban areas accompanying agricultural development seemed to be contributing to better performance of rural industries in agriculturally better developed States.

Thus, it was the general development of the area accompanying fast agricultural growth, rather than more local raw material supply and local demand as such, emerged important for improvement in productivity of rural industries. The relationship is, therefore, needed to be seen in dynamic

perspective. The performance of rural industrial enterprises in different States in the middle of 1970s was found to be closely related with the rate at which agricultural growth had been taking place during the period from 1950s to 1970s. It must be noted that faster agricultural growth may not necessarily lead to larger industrial sector in rural areas in terms of the number of enterprises and workers in them, but it is certainly likely to improve the productivity of enterprises and workers in them.

Examination of some of these issues was attempted by Papola on the basis of primary data from rural industrial units in an agriculturally developed and another relatively backward area in the State of Uttar Pradesh. The investigations were carried out in Ballia district of Eastern Uttar Pradesh and Muzaffarnagar of Western Uttar Pradesh. Ballia is agriculturally backward district with substantially lower yield rates of principal crops than in Muzaffarnagar. The study covered 110 industrial units in each of the two districts.

The analysis carried out by Papola of the State level data in the country, district level data in Uttar Pradesh and the field data obtained from the above survey, did not allow any definite generalization regarding the relationship between agricultural development and rural industrialization. He, however, made some general observations by way of hypothesis which seemed plausible on the basis of the data. These are reported below.

(i) In the agriculturally better developed areas, the overall structure is not very different, although two important phenomena have followed agricultural growth. First, processing of agricultural produce seems to be getting reduced in importance in rural areas. Because of the larger volume to be processed, considerations of economies of scale and marketing are working in favour of a shift of food processing activities towards urban areas. Second, rural industrial enterprises increased along with an increase in productivity and income levels or purchasing power of the local population and, in some industries, also due to technological upgradation. A smaller proportion of industries processing agricultural produce in Punjab, Haryana, Gujarat, Rajasthan and Karnataka (i.e. States with faster agricultural growth) than in Bihar, West Bengal and Orissa (with slow growth of agriculture), suggests the trend of the first kind. And high net income per household worker in Punjab, Haryana, Gujarat on the one hand and higher income in traditional and industries like pottery, basketary, shoe-making and black-smithy in Muzaffarnagar than in Ballia suggest the phenomenon of the second kind.

(ii) Rapid agricultural growth has also led to some marginal alteration in the rural industrial structure, by the addition of certain new industries. Coming up of new crushing units in Muzaffarnagar and a large complement of units in the manufacture and particularly repair of machinery,

tools and implements in rural areas of Punjab suggest these tendencies. The new units of this kind seem to have come up primarily as avenues of investment of agricultural surplus.

(iii) The difference between the faster growing agricultural areas and others is primarily in terms of the productivity and income levels in rural industries and only marginally in terms of the composition of industrial products.

(iv) A higher purchasing power with the local rural population makes it possible for industrial units in the developed areas also to find a larger proportion of their buyers from amongst the local households than the units in the agriculturally less developed area. For all these reasons, neither marketing nor procurement of raw material is considered a major problem by entrepreneurs in the agriculturally developed area while these are considered to be the major constraints in their growth by units in other areas.

Thus, the picture of relationship between agricultural growth and rural industries is not very clear. Some evidence Papola obtained in his study regarding agricultural surplus getting invested in rural industrial sector has important policy implication. However, more evidence on this phenomenon could help the policy makers better.

As far the direct linkage between agricultural development and rural non-farm sector is concerned, a study carried out by B. Dasgupta* and others based on the primary data

* B. Dasgupta with Roy Laishley, Henry Lucas, Brian Mitchell, Village Society and Labour Use. Institute of Development Studies, Village Studies Programme, ILO, published by OUP, Delhi, 1977.

available from 133 village surveys covered by various research centres, has useful findings. They observed that the new agricultural technology has merely widened the scope for non-agricultural employment only in the informal sector in village in the shops selling fertilizers and commercial inputs, repair workshops in areas where farm machinery is used and other services like barbers and cobblers, vegetable sellers, where lot of under-employment is known to prevail. But the diversification of such employment avenues in the non-farm sector are limited and do not lead to the development of a dynamic, multi-sectoral economy and progressive society which industrialization alone could be expected to bring about.

Impact of Agro-based industries

The development and expansion of agro-based industries in rural areas has been strongly recommended by many for India. Thakur* advocates emphasis on the growth of agro-based industries in India because (a) the agro-based industries have high potentials and have forward and especially backward linkage effects over a wide front, (b) they are comparatively easy to set up and provide more income and employment per unit of capital investment, (c) they make possible integrated development of agriculture and industry and thereby lay down a solid foundation of large scale

* S.Y. Thakur. Rural Industrialisation in India : Strategy and Approach. DERAP Working Papers, The Chr. Michelsca Institute, Bergen, Norway, 1980.

industrial development. However, there are only a few studies analysing the impact of agro-based industries in this framework. Venkaiah's study gives some insight into these issues.* Venkaiah found that setting up of agro-based industrial units in or near the rural areas, the occupational pattern of rural population has undergone significant changes over a period of time; there has been a shift from agricultural to non-agricultural sector and also it has led to multiple occupations. The workers engage in more than one occupations by taking up agro-based industrial occupation in the non-agricultural season besides their original agricultural occupation. He observed that agro-based industries provided new avenues of employment at relatively small capital cost. Agro-based industries employed a large number of unskilled workers drawn from the farm sector and resulted in reduction of the supply of workers to farm sector. Such mobility of agricultural workers from farm to non-farm sector, resulted in the increase in productivity and also wages in the farm sector. The agro-based industrial units studied by him have set in motion the process of capital formation in the rural areas. According to Venkaiah, the study also substantiated the fact that balanced regional development can be met by evolving a planned industrialization through agro-based industries.

* V. Venkaiah. "Rural Industrialisation Will Go a Long Way," Kurukshetra, Vol. 32, No. 2, October 1983, pp. 51-56.

Experience of industrial estates

Rural industrial estates were designed to promote industrial decentralization and rural industrialization. In India, between 1955 and 1970, 350 industrial estates were established of which 154 were in large urban areas, 110 in small towns and 76 in rural areas.* Studies have shown that industrial estates have met with mixed success, particularly in rural areas. Somasekhara's study is unique in the sense that it is done at two times with a gap of 10 years covering the same set of estates and more or less the same set of units in the survey (1961-62) and resurvey (1971-72). Moreover, he took a matching sample of peer units outside the estates.

It appeared that the real efficiency of the units as indicated by both technical and economic indicators, in both the Industrial Estates and outside, had declined during the decade. The productivity of labour had gone down. The rates of deterioration were considerably higher in the units in the industrial estates than in their peers outside. Over the decade, the output of the units in the industrial estates had become more capital intensive while in the control blocks the opposite was the case. It showed that the units in the

* N. Somasekhara. *The Efficacy of Industrial Estates in India With Particular Reference to Mysore*. Vikas Publishing House, Delhi, 1975.

industrial estates were not financially viable. Those outside were. On the whole the data of the resurvey endorsed the adverse conclusions about industrial estates reached in the benchmark survey. These were the general results obtained by this empirical study which was quite analytical and systematic. The study also touched on rural industrialization.

Though secondary, rural industrialization was also one of the objectives of the industrial estates. Somasekhara observed that the industrial estate was not an effective instrument to industrializing a rural area irrespective of its entrepreneurial and industrial background. He found that there was no organic relationship between the rural industrial estate and the rural economic system. The raw materials consumed by the units had no relation to the resource endowment of the rural area. The products manufactured were not at all the type required in rural areas. This was all right provided the units generated employment for the local labour. This was also not the case. The skilled and unskilled workers were commuting the distance daily. The only thing that was rural about the rural industrial estates was the land on which they stood.

A programme of Mini Industrial Estates (MIE) was also introduced in order to augment the efforts for rural industrialization. A recent empirical study carried out by

C.R. Jcy* of Kerala experience is worth mentioning. A massive programme of starting one MIE in each panchayat of the State (i.e. about 1,000 MIEs) during 1975-1980 was launched by the Kerala Government but only 109 MIEs were built by the year 1981-82. The performance was reviewed and it was found that the programme was not progressing as envisaged and there was a large scale failure and sickness. The Government, therefore, decided not to take up construction of new MIEs and concentrate on already started MIEs. Joy chose Trichur district for his study since it was industrially average district in the State. There were 10 MIEs in Trichur district with 104 units, of which only 56 were working while 43 were already closed and 5 units were vacant. Joy found that the performance of local resource-based industries or need-based industries was similar. He also found that nearness to town was not important factor affecting the performance of these Mini estates. Factors responsible for poor performance were bad planning, improper identification of products, and usual inefficiencies in government working. He found that the business accuman and proper pre-training of the entrepreneurs had positive impact.

* C.R. Joy. Mini Industrial Estates, Performance and Prospects : A Comparative Analysis of Mini Industrial Estates, Trichur, Kerala. Unpublished dissertation prepared for DDP at the Centre of Development Studies and Activities, Pune, 1989.

A World Bank Paper* on Rural Enterprise and Non-farm Employment (January 1978), drawing upon various studies has observed that the costs of the industrial estates have frequently been high contrary to the basic aim of the approach, utilization levels have been low, and outside industries have frequently not decentralized as expected. That success has not been greater is due, in part, to the fact that, too often, analysis has been lacking of the potential demand for the sites and facilities to be provided. Part of the problem has also been the fact that rural areas have difficulties in obtaining ready access to markets, material supplies and a labour force. Nevertheless, the Paper observed that in appropriate circumstances, the establishment of industrial estates in rural areas and towns constitute one of the instruments to be considered for the promotion of job and earnings opportunities for the rural population and for increasing economic output in rural areas. But the Paper also cautioned that in common with all other instruments, they are neither panacea or they are necessary in all situations. The relevance and efficacy of the approach need to be examined in each case. It further observed that although a degree of rural industrialization may be promoted, many - in fact most - small scale manufacturing, commercial, transport, construction and service

* A World Bank Paper: Rural Enterprise and Non-Farm Employment. Washington, D.C., January 1978.

activities must remain located outside the estates. Hence, even in situations where estates are appropriate, programmes in support of non-farm activities should still be examined for ways to extend over a wider area the other instruments of rural industrialization.

Little, Ian M.D. and others* observed that virtually all studies of Industrial Estates have failed to promote small entrepreneurs and labour intensive small-scale industry in a cost effective manner, but at least the urban estates have been more successful than the rural. "Small industry is a follower rather than a pioneer." Sandesara@ also opined that small industrial units are not particularly good candidates for industrial dispersion.

Relationships between firm level economic variables

Along with household and cottage industries producing traditional and modern products, the modern small scale industry has an important role to play in the rural economy. They are expected to deconcentrate economic power as well as creation of employment. In this context, the working of small scale enterprises needs to be studied. There are a

* Little, Ian M.D. and others. Small Manufacturing Enterprises : A Comparative Analysis of India and Other Economies. World Bank Research Publication. Oxford University Press, 1987.

@ J.C. Sandesara. "Small Industry in India: Evidence and Interpretation," in Indian Planning and Economic Policies. Gujarat Economic Association, Ahmedabad, 1981.

number of studies on small-scale enterprises but the one conducted by Little, Ian M.D. and others for the World Bank* is the latest (1987) and most comprehensive. They sought to evaluate whether smaller enterprises used human and other resources more efficiently than larger ones and also examine whether small firms were more likely than large firms to contribute simultaneously to the growth of both output and employment, and if so, why. The book is primarily about claims made for small-scale enterprises in developing countries. Although the country range was not formally restricted, the book is rather more about small scale enterprises in India than those in other countries. Though the study did not direct its attention towards industrial decentralization or rural industrialization, its findings have a bearing on these subjects since small scale industries are considered useful for industrial decentralization and rural industrialization.

The study was carried out by using secondary data and in addition primary data was collected by taking a sample of about 350 units; the sample covered small, medium and big units so that proper analysis could be carried out. The industries covered by the study were printing, machine tools, shoes, soap and metal casting. A lot of analysis is done using to translog production function. Some of the findings are mentioned here.

* Op.cit.

For capital intensity, the main feature was that variations within size groups were so great that apparent variations between size groups were rarely significant and in none of the industries examined was there a monotonic progression of average capital intensity with size. Only in shoes there was a large significant jump in capital intensity between size groups of less than 50 workers and those with over 100 workers. This corresponded to a difference in technique, influenced by government policies defining the small units, rather than to size as such. In soap, in contrast, a policy protected establishments could be of any size provided it used no power, and there was no relation between size and capital intensity. If one is looking for labour intensity as such, it is to technology that one should look, not size as measured by the workers. For capital productivity the same high variability within size groups was observed, and even the average results were very mixed. Technical efficiency (and total factor productivity) did not vary systematically or significantly with firm size except in machine tool industry, in which the inefficiency of the small size group (5 to 9 workers) was significant compared with that of larger establishments.

The other interesting results arising from an econometric estimation of production functions were that (1) there was no significant evidence of increasing returns to scale across the full size range in any of the five

industries for which tests could be made - that is, printing, machine tools, soap, shoes and metal castings; (2) there was a high partial elasticity of substitution (about 3.0) between skilled and unskilled labour for four industries for which the estimates could be made (printing, machine tools, shoes, and metal casting); (3) there was a high but somewhat lower elasticity of substitution (about 2.0) between capital and skilled labour in the same four industries; and (4) the elasticity of substitution between the capital and unskilled labour was considerably lower - about 1.0 in machine tools and metal casting, and about 0.5 or less in printing and shoes. In all the above analysis the size has been defined by the number of workers. The authors claim that they have found some evidence that if size were defined in terms of some measure of capital used, then the results obtained might be much more reliable, and the small firms thus defined may show up much better.

There was a considerable evidence that many small enterprises, with less than 10 workers, are not often the most labour-intensive and their capital productivity and technical efficiency were very rarely the highest in the whole size range of establishments in the industry.

The authors have, at the end of their report, presented conclusions relevant to policy. We will mention two of them directly relevant to the present note.

The very small should not be looked for their efficient

employment of factors of production. But at the same time they should not be discriminated against. They are there, and still provide the bulk of employment in the lower-income developing countries. Many of the industrialization policies of developing countries, which on other grounds should anyway be changed, in fact discriminate against them. Not only are they there, but they are also the source of most medium size and large private firms. If supply side intervention in favour of small firms is planned, the objective must be to spot potential winners and speed them on their way. Since it is difficult to spot winners at the starting gate, it follows that such intervention is more likely to be successful at a stage when there is already evidence of some success.

India has engineered a large increase in commercial bank loans to the small sector. In terms of loanable funds, a high proportion has gone to the upper half of the sector, and probably as much as half to the firms that are medium size in terms of employment (more than 50 workers). This does not go against over analysis of credit markets, which suggests that it may be a mistake for formal lending institutions to try to penetrate far into the jungle of very small firms. But there is also some pressure on banks to lend to the very small, and the number of small loans is very large. As yet the overt record of defaults is quite low and compares favourably with that of other developing

countries, but there is a question as to whether undue pressure is being put on bank costs (profits have been falling).

Relationships among important variables in rural industries

A regional level study conducted by Dr. T.S. Papola* is one of a few systematic empirical studies analysing relationships among economic variables at unit level in rural industries. In the absence of such information, certain assumptions are made about the various aspects of these industries; and often such assumptions have been treated as if they hold good for different industries in different areas. The purpose of this study by Papola was to gather and analyse information relating to rural industrial units with a view to verifying some of these propositions. The study is based on the data collected from about 390 units in a few selected blocks in the Varanasi and Gorakhpur districts of Eastern Uttar Pradesh. The findings of this study may have limited validity since the region covered is a specially backward one and has certain special characteristics of its own. The conclusions of this study are presented below.

(1) A discussion of rural industries and rural industrialization generally tends to concentrate mainly on the traditional village crafts and activities ancillary to

* T.S. Papola. Rural Industrialization: Approaches and Potential. Himalaya Publishing House, 1982.

agriculture. The study revealed that no doubt the traditional village industries and crafts continue to engage a major part of the rural industrial work force; a number of industrial activities which were not traditionally part of the rural scene have started playing a significant role in the generations of employment and incomes in rural areas. The emerging pattern of the industries and their relative performance, therefore, indicate that rural industrialization may be a relatively more effective means for the generation of growth and employment in rural areas by utilizing the potential of new industries and of the traditional ones.

(2) The non-traditional industries also seemed to be capable of breaking the caste-industry nexus and reducing the rigidities of social stratification in rural areas. Their entrepreneurs come from a wider cross section of the society, while the caste industry identification has been more or less complete in the traditional industries. No doubt, even non-traditional industries exhibit concentration by social groups; though to a smaller extent than the traditional industries; but such concentration is primarily based on class distinction in terms of ownership of resources, rather than on the traditional caste-occupation association.

(3) Most rural industries, however, had a limited capacity for generating even a subsistence income for those engaged in them, had not shown a very encouraging record of growth in the recent past. The problem was particularly

acute in traditional industries. Among the industries covered in the study, almost all the traditional industries - pottery, bamboo basketry, leather, toys, rope and bidi making - were hardly able to meet the criterion of providing minimum subsistence to the households engaged in them. Only blacksmithy, carpentry and handloom had shown a good promise with enough value added per worker to provide subsistence income for the workers and their dependents. The new industries - wiremeshing, lamp-shade and hub-brush manufacturing - met the criterion easily; and food and oil products, the two old industries but run on modern lines and on a larger scale, were the only ones which had brought prosperity and affluence to their entrepreneurs.

(4) The basic reason for their low income generating capacity lay in their tiny size in terms of their physical volume of output. Most units were run on a household basis, and provided full employment for all the available household workers; but technology and resources used in production enabled them to produce only a small output. They are able to sell their output at a price which yields a reasonable margin to revenue over costs; but the total quantum of production itself was too small to yield a sufficiently high income to households. The industries which had relatively high turnover per unit were able to generate a higher income per worker, irrespective of the number of persons employed and the number of mandays of employment generated. Apart

from oil mills and food products, wiremeshing, hub-brush making, lampshade manufacture, blacksmithy and carpentry were found in this category.

(5) Growth performance even of industries showing better income potential had not been very encouraging. Only in hub-brush and carpentry had most units registered a growth in volume of output.

(6) Employment in industries, which were not necessarily linked with rural resources and needs, had generally yielded better incomes than those which were closely linked with the rural economy.

The main purpose of this section was to bring together the findings regarding some of the important aspects so that the issues involved are seen in proper perspective. Each of the studies referred to in this section has a number of recommendations made in regard to rural industrialization. The recommendations have been made in innumerable other studies also though most of the times without supporting analysis of evidence. The recommendations have a wide range and it was not planned to be reported here. However, before closing this section we would like to present views of Gunnar Myrdall on rural industrialization as presented by him in Asian Drama.

Gunnar Myrdall on Rural Industrialization

Myrdall* has discussed important constraints that

* Op.cit.

operate in industrialization process and labour utilization in the South Asian countries including India. For example, he observed that while educated demonstrate a high degree of geographical mobility as between urban areas, their functional mobility is negligible. They are looking for non-manual work and are not prepared to accept work that 'soils their hands'. Even those who have merely acquired some degree of literacy by going through primary school or who have dropped out of secondary school consider themselves educated and exempt from any obligation to work with their hands. From a rational planning point of view, these attitudes towards manual work are obviously highly detrimental to development. Industrial progress is hampered by the lack of skilled workers who can calculate and work according to written instructions and work sketches. It is observed that ordinary workers in the Western countries are more educated than most of those called 'educated' in South Asia. The number of unemployed is increasing steadily since independence. Any programme of reducing unemployment among educated gets concentrated on creating more jobs of the type the educated persons will accept, that is, non-manual jobs. The issues involved in status and attitude of the educated extend far beyond the economic waste; these groups are getting alienated from their countrymen and from the real problems of their nations. These attitudinal constraints are important to understand and the planners have to take proper cognizance of them.

On the efficiency of the labour, he observed that Western industrial experience was never complicated by the special factors that inhibit efficient utilization of labour in much of South Asia. Caste, religious and ethnic stratifications impose artificial rigidities on occupational mobility in urban areas as well as in tradition-bound villages. Another factor, the occupational distribution of workers helps explain the low average levels of productivity. The share of those engaged in services and commerce is exceedingly large compared with those in manufacturing. He brought out the contrast between the West and the South Asia showing that the net effect of these institutional and attitudinal contrasts has been to suppress growth in output per head. In this economic environment in which labour is ill-rewarded, both leisure and waste are encouraged. About these factors Woytinsky* writes: "... the main source of India's weakness lies in the human factor : Not a lack of innate abilities or technical skill in the people, but a lack of initiative of interest in improving their economic status, of respect for labour ...". These constraints are still present in the Indian context and while attempting any innovative planning for industrialization in general and rural industrialization in particular they are to be taken into consideration. The role of voluntary organizations in this context may be vital.

* W.S. Woytinsky. India : The Awakening Giant.

Dr. V.K.R.V. Rao, recognizing the lack of motivation, wrote* as follows in respect of poverty alleviation programmes in India: "While broadly speaking poverty is the result of lack of assets and of employment based on these assets, or employment on wage basis, it is also necessary to ask whether those who are employed have any assets or are in a position to take full productive advantage of assets if they are given assets, or if they are able to undertake productive efficiency-based work if there is wage employment. In my opinion, the missing link in the programme of alleviation of poverty is motivation and skill of the poor whose poverty is now being sought to be removed."

Myrdall further observed that the conditions prevailing in South Asian countries are much different than those prevailing in the West a century-and-a-half ago. The conditions there were more favourable to strong and effective side effects. Therefore, the employment and other side effects of new industries would be limited in these countries and not comparable to the then West. He further states that social situations in these countries are much different and like it can happen in West - the economic stimuli for expansion will not be automatically accompanied by favourable behavioural responses. Thinking in terms of relationships between aggregate supply and aggregate demand is less relevant and

* V.K.R.V. Rao. "Alleviating Rural Poverty, But How?" Kurukshetra, Vol. XXXII, No. 1, October 1983, pp. 5-7.

Keynesian models cannot be applied to these economies. Policy interventions must be directed to specific bottlenecks in individual sectors of the economy.

In spite of these limitations, he suggests that the South Asian countries should not give up their industrialization drive, on the contrary, since it will have effect only gradually these countries should industrialize as soon as possible.

While discussing the crafts and small scale industry, Myrdall appreciated India's achievements. As a general sceneries in the South Asian countries, he write the following:

The preservation and promotion of cottage industry and a similar policy towards agriculture implies that the underdeveloped countries of South Asia for a long time to come will have two distinct economic sectors: a small, but gradually growing, fully modernised sector of large scale and small scale manufacturing enterprises and a vastly larger sector that will use labour intensive techniques not too different from the traditional ones and continue to give work to the larger part of the rapidly increasing labour force. Since modernized industry will economise on labour and the labour force will continue to grow rapidly, this pattern will have to be accepted, not as a transitional but as one that will prevail for many decades.

Myrdall considers modern large scale enterprises to have much less spread effect than the modern small scale

enterprise and therefore in his view it is imperative to induce urban small sector enterprises to modernize as fast as possible. According to his frame, the primary function of the most progressive small-scale enterprises should be, not to create a maximum amount of employment, but to expand their operation and thus speed up industrialization. He finally says that to accept the idea that agriculture and the crafts and often small-scale enterprise as well must remain technologically backward, and to confine planning efforts to building up enclaves of large-scale industry, is to invite failure on a grand scale.

V. KHADI AND VILLAGE INDUSTRIES COMMISSION

A Historical Review

Originally Gandhiji conceived khadi as the best instrument for giving concrete expression to the 'Swadeshi' spirit and making effective the boycott of foreign goods in general and foreign cloth in particular. Khadi was also expected to provide an opportunity to every man, woman and child for cultivating self discipline and self sacrifice as part of the non-cooperation movement. For ensuring coordinated development of khadi throughout the country, Gandhiji set up in 1923, the All India Khadi Board with branches in all provinces. This organization was an integral part of Indian National Congress and worked under its direction and supervision. In 1925, an autonomous organization called All India Spinners Association (AISA) of Akhil Bharat Charakha Sangh was formed which was operationally independent of the Congress.

Gandhiji turned his attention to village industries in thirties and All India Village Industries Association (AIVIA) was established in 1935. Around 1948 AISA and AIVIA were merged together and Akhil Bharat Sarva Seva Sangh was formed. After independence the khadi and village industries programmes became important at government level. The First Five Year Plan said, 'village industries have a central place in the rural development programme and their development should be as much a matter of state's concern as the increase

in agriculture production. In accordance with the recommendations of the Planning Commission, the Government of India set up All India Khadi and Village Industries Board in January, 1953.

It was later decided that the Board should be replaced by a statutory body and in the year 1957 the Khadi and Village Industries Commission (KVIC) came into being. Besides khadi, initially 10 village industries were named in the Schedule. Subsequently, 16 village industries were added to the Schedule, one in 1959, one in 1962, ten in 1965 and one each in 1978, 1979, 1980 and 1984, thus bringing the total to 26 industries by 1984. At the state level Khadi and Village Industries Boards were set up, in order to receive grants and loans from the Commission and thereby assist the development of the scheduled industries.

Special Schemes Implemented

The All India Khadi and Village Industries Board initiated in 1954 some experiments in integrated rural development on Sarvodaya principles. They were under the caption intensive Area Scheme. The scheme was coordinated by the Commission till 1963-64. The initiation of the scheme was in response to the call of the Prime Minister. This idea was to try out a new approach through the Gandhians side by side with the community development approach. The scheme was intended to guide the village community to formulate its own programmes

in a comprehensive manner unfettered by any preconceived notions or limitation and not to give readymade programmes. Although the Scheme envisaged all round development, including agriculture and social service, the Commission had no separate funds for these non-industrial purposes and had to depend on public contribution and the assistance from other Government departments. The Intensive Area Scheme was evaluated by a Committee headed by Dr. VKRV Rao in 1962. It found that out of 121 areas, 48 were abandoned due to unsatisfactory working. The Committee also found that the activities in most areas were confined to one or two villages, that the scheme suffered for lack of resources, particularly for non-industrial activities outside the jurisdiction of KVIC, that delays in sanction and release of funds by KVIC affected the programme. The Committee also opined that the KVI Commission's attitude to technological changes and use of power should have been more pragmatic in the interest of the higher productivity.

Later in 1966, the Estimates Committee of the Parliament drew attention to the unimpressive results of the scheme and advised the Government to evolve an 'overall and well co-ordinated plan of rural industrialization'. It added that in view of the 'ideological reservations and inhibitions' the KVIC is not a suitable organization for implementing the programme of rural industrialization covering all rural industries and all rural areas. The Estimates Committee also said that the IAS was outside the scope of the Commission. In

view of this and also the unsatisfactory results in its implementation, KVIC decided to discontinue the Intensive Area Scheme in 1963-64. In the meantime the Commission had initiated Integral Development Programme in April 1961 which was basically on the lines of Intensive Area Scheme with some modifications. In 1963-64 the IAS was discontinued. The IDP also could not be pursued on the lines visualised in April 1961.

A limited IDP programme was launched in 1966-67, with the objective, inter-alia of developing new organizations or encouraging existing local institutions for promoting KVI activities as a part of helping the process of integrated development of selected areas. This limited approach of IDP of KVIC envisaged building up of institutional infrastructure in areas where KVIC activities are relatively weak or absent. This programme is, sometimes, referred to as 'Gram Ekai'. In 1986-87, this was being implemented in 14 states by 57 institutions and agencies.

Linkage between KVIC and other RD programmes

Plan after plan the KVIC more or less continued to operate within the four corners of its statute except for expansion of its list of industries as mentioned earlier. The feeble exercise initiated in the Second Five Year Plan and continued in the Third Five Year Plan to integrate Khadi and Village Industries with the larger programme of rural development came to an abrupt end with the abandonment of Community

Development Programme. Although great concern was expressed in the Fourth and the Fifth Plans at the rising unemployment in rural areas and special programmes like Crash Scheme For Rural Employment (CSRE) and Drought Prone Areas Programme (DPAP) were introduced, they remained continued to land based activities oriented to agriculture. KVIC with its charter for skill based activities oriented to artisans was, by and large, not drawn into these special employment programmes.

Recently with the initiation of Integrated Rural Development Programme (IRDP) which is beneficiary oriented anti-poverty programme for creating self employment, there are some efforts to involve the KVIC and the State Khadi and Village Industries Boards and the District Industries Centres. The ISB (Industries Services and Business) component is emphasized in the IRDP with specific targets. About 20 per cent families assisted are supposed to be in ISB sector; the percentage for industry is about 8. The District Level Officer of the State KVIB has been included as the Manager-in-charge of village industries in some states. But a great deal has still to be done to make the links strong, useful and effective.

An attempt by the KVI Commission to link their activities with the government may be mentioned here. The Commission initiated a programme called Artisan Employment Guarantee Scheme popularly known as Balutedars Block Level Multi-Purpose Cooperative Scheme. The main object of this scheme was to cover

as large a number of artisans as possible with the help of the available field agencies and to arrest their displacement from the existing crafts. The scheme was to ensure adequate earnings on the one hand and provision of employment on the other. In 1971-72, KVIC approached State Governments requesting them to formulate detailed schemes for providing fuller employment to artisans in khadi and village industries. However, only the Maharashtra State KVI Board took steps for its implementation and registered 294 block level multipurpose cooperatives. The Reserve Bank of India agreed to provide refinancing facilities, KVIC provided loan assistance to member artisans, the State Government agreed to meet establishment cost of multipurpose cooperative societies and also contributed to share capital. The KVIC extended interest subsidy scheme to the borrowing of block level society.

Through other schemes such as Tribal Sub-Plan, Special Component Plan for Scheduled Castes and the Special Women's Programmes, the funds flew to village industries through channels outside the control of KVIC. In all these cases, KVIC and the State KVI Boards are often required to provide the necessary support although the proper organisational arrangements have been evolved by the concerned agencies for ensuring the necessary degree of coordination.

Outlay and Employment Generated

It is interesting to note that as flow of funds through

other channels for setting up village industries has been increasing, the allocation to the KVIC have been declining in terms of percent of the total public sector outlay. The percentage was 0.8 in the First Plan, it was more than doubled to 1.8 in the Second Plan and then steadily declined to 0.3 per cent in the Sixth and the Seventh Plans.

On the employment side, khadi and village industries, under the KVIC coverage provided employment to 9.64 lakhs persons in 1955-56, it increased substantially and reached a figure of 23.94 lakhs in 1960-61, 27.72 lakhs in 1965-66 and then started declining. It was as low as 14.94 in 1977-78, and remained more or less the same in 1978-79, rose to 16.13 in 1979-80 and then to 24.64 in the year 1984-85. After twenty-four years, it is more or less at the same level. However, the percentage of full time employed persons to all employed persons rose steadily over this period from 7.16 in 1955-56 to 32.94 in the year 1984-85.

The growth and decline of employment is also worth seeing by examining separately the employment in the khadi sector and village industries sector. The employment in khadi sector had ups and downs but that in the village industries sector was comparatively stable and increasing steadily. The following Table gives this data. The main reasons for sharp decline after 1965-66 in employment in khadi sector is attributed to inordinate delay in introduction of six and twelve spindle New Model Charkha (NMC) in place of old four spindle Ambar charkhas

withdrawn earlier thereby creating a technology gap, drop in the number of traditional spinners and disappearance of Vastra Swavalambi. However, the progress in the later period was limited.

The percentage share of employment in village industries rose substantially from 31.85 per cent in 1955-56 to 65.56 per cent in 1984-85. This indicates potential for development of village industries. The Review Committee made a special reference to many witnesses averred before them that the potential of village industries is vast and remains untapped and that KVIC would do well to devote greater attention to village industries and take urgent steps for their promotion.

Main Issues Before KVIC

Having seen the general progress of KVIC, let us look into the problems and difficulties in the working of the KVIC as have been identified by the Khadi and Village Industries Review Committee. Since the report of this Committee was published in February 1987 the diagnosis made by the Committee is currently relevant. From this comprehensive review of the KVIC by the Review Committee the following important points emerge.

Marketing

1) The employment potential of the KVI programme cannot be realised in full if its inputs and outputs are strictly

limited to locally available raw materials and local markets respectively. While those should be utilised to the maximum there is need for a flexible attitude towards wider markets.

ii) It is now obvious that some of the traditional products in the village industry do not have enough demand and many of the products are dependent upon ideological buyers but there is also evidence to show that a new class is emerging, which is attracted by the price, the fashion of the day, convenience and other factors. It should be the endeavour of the KVIC to encourage both classes of buyers by studying their behaviour patterns and servicing them properly. This is true not only of urban buyers but also of rural buyers. KVIC should adopt what may be called a 'market approach' to the problems of raw material supply, technology, training of artisans, research of consumer behaviour, packaging processing, pricing, etc. In this respect, the report points out that despite the establishment of Directorate of Marketing not much has been achieved in this field. A number of marketing studies were commissioned by the KVIC but no serious follow up action was taken on the study reports.

Technology

Another important issue before the commission is the development and transfer of technology which alone can ensure productivity and wage at satisfactory levels. It is not enough to say that the KVIC sector provides the much needed non-farm

employment. Such employment must carry a reasonable wage which is possible only when the artisan is able to achieve productivity of a higher order and produce a quality product, by adopting a suitable technology for the purpose. The committee appreciated the efforts made by the commission in this respect but observed that in the recent past there has been very significant achievements by the R and D organisations maintained or assisted by the KVIC. The committee pointed out that a number of technological developments achieved were not transferred to field on ideological grounds and due to rigid organisational culture. It was, therefore, observed that there was need to provide leadership and guidance in the commission at the highest level for the performance of this important function of technology development and transfer.

Jurisdiction

There were a number of views put forward to the commission in respect of jurisdiction of KVIC such as removing village industries from the purview of KVIC and creating a separate commission for village industries, combining village industries and handicrafts in one commission, expanding the list of industries under KVIC and changing definition of 'rural industry'. The committee examined this issue thoroughly and opined that the infrastructure and the band of constructive workers that these institutions have built up over the years in almost all the districts and their rapport with the villagers

in their jurisdiction are assets that should not be lightly set aside and recommended continuance of the juxtaposition of khadi and village industries in the same organisation and taking sufficient precaution to see that the persons nominated on the commission do have empathy and ability for developing village industries. The committee disapproved of classification of village industries into traditional and modern small sector and observed that the village artisan were ready to adopt themselves to modern designs, new materials and modern processes and it was time for KVIC to initiate steps towards modernisation and help the artisans and their units to attain a higher scale of operation in due course through marketing support and other necessary assistance. The development being a continuous process such dichotomy would not help.

On the other hand the committee recommended the following definition of village industries to widen the KVIC coverage : village industry (including khadi) shall mean an industry located in a place with a population not exceeding 10,000 (or such other figure as may be prescribed from time to time), which produces goods or services, with or without power, and in which the fixed capital investment per head of artisan/worker does not exceed Rs. 30,000, or such other sum as may be prescribed from time to time.

State KVI Boards

The Review Committee examined in depth the working of

various State Boards and observed that the following were common defects in the working of these Boards.

- (1) frequent changes in the composition of Boards
- (2) frequent changes in the Chief Executive Officer and Financial Adviser
- (3) non-availability of technical staff and improper recruitment of staff and junior functionaries
- (4) absence of any in-services training
- (5) absence of statistical cell and machinery to monitor the programme
- (6) inadequate delegation of powers to various functionaries
- (7) deficiencies in maintenance of accounts and lack of financial discipline.

The Committee recommended a number of measures to remove the above defects and also for improving overall working of the State Boards. Among them the major suggestion is that the KVC should end the present practice of dealing with a large number of institutions directly and involve the State Boards more. KVIC should reduce their involvement in routine type of work such as budgeting and funding these organisations so that it can devote to more important function such as planning and programming, research and development, training, marketing and monitoring of the programme. Briefly, the Committee emphasised much greater role for the State Boards. In order that the State KVI Boards be able to shoulder the new responsibilities the Committee has recommended restructuring the

composition of the Boards. Another important suggestion was in respect of registration powers. In some states like Assam, Kerala, Punjab and Tamilnadu, the Chief Executive Officer of the Board and his subordinates are vested with the powers of the Registrar of Cooperative Societies in respect of Khadi and Village Industries Cooperatives. The Review Committee advised that the remaining States should follow this example. In addition there are a number of administrative reforms suggested by the Committee in the State Boards.

The Committee also recommended that the State Governments should decide to make use of the State Boards for coordinating all programmes falling within KVI Sector. It made a number of suggestions in order that the State Board's relation between the State Government on the one hand and the KVIC on the other are always harmonious and give no cause for complaint.

Other recommendations

The Review Committee made detailed recommendations on various aspects of the working of the KVIC and KVIBs such as financial system and procedures, science and technology, training, marketing and information system and monitoring. It further gave specific suggestion for Khadi and village industries separately.

Since marketing is one of the important bottlenecks of the KVIC and KVIBs, it would be useful to look into the recommendations of the Committee in this matter. The Committee

recommended creation of separate corporation for this purpose. The Committee said that since the previous attempts to make suitable adjustments within the present administrative set up have failed, it would be advisable to make a clear break and create a separate corporation. The Committee observed that the Directorate of Marketing (KVIC) was in no position to devote attention to marketing policy and planning or for that matter any work other than of a routine nature. Three departments, namely Commercial Operations, Marketing Services and Marketing Planning are proposed for the Corporation. The Committee proposed that this Corporation should take up all the functions related to marketing including marketing research, market intelligence, supply of raw materials and also export promotion.

RURAL INDUSTRIES PROJECT

The decision to start the Rural Industries Projects (RIPs) as a centrally sponsored scheme was taken in pursuance of the recommendations of a high level Rural Industries Planning Committee which was constituted by the Planning Commission in 1962, to review the progress of industries in rural areas, to advise on problems of policy and planning, and to recommend programmes for intensive development of village and small industries in rural areas including co-ordinated area and regional plans of development and pilot projects. Accordingly, 45 project areas were selected during 1962-63 in consultation with the States and Union Territories. These Projects for intensive development of village and small industries were expected to assist in evolving effective techniques, methods and programmes which could be extended progressively to other areas having large incidence of unemployment and underemployment, and to illustrate how different kinds of industries could be best integrated, and varying levels of techniques developed for improving the economy of selected areas. Each Project was to be allotted central funds, in addition to those available to the States and Union Territories under their plans and for the programmes of the All India Boards for different small industries.

To the above 45 Projects, 4 more Projects were added in 1965 which were selected around large scale projects of

Durgapur, Bhilai, Bhadrawati and Ranchi, making a total of 49 RIPs.

The progress of RIPs was reviewed by an Evaluation Study Group which was set up by the Rural Industries Planning Committee in October 1965. It submitted its report in December 1967. In 1966, the Programme Evaluation Organisation of the Planning Commission also undertook an evaluation of the programme which comprised case studies of 8 selected projects in different states. According to this Evaluation Report (December 1968), the gaps in the working of the programme were in no way an indication that the projects were working unsatisfactorily. It was also observed that the projects being still very young were going through teething troubles relating to supply of raw materials, availability of entrepreneurial talents, problems of marketing and of administrative and financial matters.

In December 1970, RIP programme was reviewed, by the Rural Industries Planning Committee. In the light of the recommendations of the Committee, it was subsequently agreed that (i) all the 49 projects may continue and also cover schemes for training and common service facilities and their areas may be extended to the entire districts (excluding towns having population exceeding 15000); (ii) 6 new projects may be started (including 5 in the areas selected for the Rural Electricity Corporation Projects); (iii) preliminary

steps may be taken for 57 new projects in the selected industrially backward districts during the Fifth Plan and (v) the progress of the programme may be evaluated by the Programme Evaluation Organization.

The second evaluation study was started in 1974 and final report was published in 1978. This evaluation exercise involved intensive studies in as many as 26 projects. An important feature of this study was that a complete census of units/artisans was undertaken in the villages and towns which were sampled on the basis of the criteria laid down. This gave a comprehensive sample coverage of 47 per cent units in these 26 projects. As a result very valuable data have been collected on the total picture obtaining in these areas.

Since RIP was important programme for the development of rural industries it would not be out of place to note important finding of the evaluation study. Main objectives of this evaluation were (a) how the programme has been planned and administered, (b) how much the various components of the programme have contributed to the achievement of the broad objectives of the programme and (c) to what extent have the various components of the programme benefited the local people.

Major Findings of the Evaluation Study

(1) The surveys conducted by the Project staff used

a generalised proforma which did not permit of a satisfactory appreciation of the local economy or of the potentialities of the regions covered by the Projects. The units, which actually came up, bore no relation to the so called 'potential', as brought out by the surveys.

(2) There was inadequate commitment of the State Governments to the Programme, as evinced from (a) the frequent changes in project officers as well as technical officers, (b) lack of the required direction from higher levels, due to inadequate appreciation of the fact that the real objective of these projects was to develop a methodology for generating patterns of rural industrialisation, appropriate to the special features of different localities, (c) lack of integration of this Programme with the activities of other agencies in the field of small and village industries, and (d) inadequate and inaccurate monitoring/feedback systems between the field and the policy making/funding levels of administration.

(3) Several components of the RIP strategy registered only a marginal impact; for example, there was general lack of success of schemes for technical assistance, with only about 6% of the units in Project areas having reported any operational contact with the Project authorities, or for training, provision of raw materials, marketing support, etc. A large part of the promotional expenditure proved to be

unproductive. The only major element which created an impact was the loaning programme, which benefited about 19% of the total units which found in existence.

(4) Establishment and promotional costs per job varied from Project to Project, over an extremely wide range. While 6 out of the 26 projects surveyed reported average costs on this account at less than Rs. 3000 per job, as many as 9 projects reported costs of Rs. 10,000 or more per job.

(5) A significant part of the funds was disbursed in towns with population more than 15000, which areas were specifically excluded from the area of operation of the RIPs.

(6) A negligible amount of the financial assistance disbursed went to rural artisans.

(7) Except for sporadic attempts, in one or the other Projects there is neither a discernible role nor any expertise being built up by the RIPs in helping to solve the marketing problems of the industrial units or the artisans.

Major Recommendations

The study made useful recommendations regarding the methodology for conducting industrial potential surveys and for working out plans suitable to the local situations. It recommended preparation of 2-3 year Plan of Actions with clear indication of the roles of RIP, KVIC and State KVIBs

and Boards for handicrafts and handlooms. The following was also recommended

(i) The RIPs should particularly concentrate on those activities which are not locally covered by other agencies.

(ii) A much greater degree of guidance in design, technology improvement, quality control may be achieved by intensifying the contact between the Project authorities and the actual recipients of the funds.

(iii) devoting much more attention to marketing.

(iv) extending the scope of RIP to entire district rather than covering 3-5 blocks as earlier.

The study also recommended that a policy decision regarding exclusion of loans with population more than 15000 was necessary. It observed that despite the ban a large part of RIP funds found their way to the larger towns indicating it to be the easier option. However, the report emphasised a fact that the inclusion of the loans of population size larger than 15000 was not consistent with the RIP objective of encouraging the growth of small and village industries in typically rural locations.

VII. RESEARCH AREAS IDENTIFIED

A number of research areas are identified while preparing this note. These are listed below. In each of these areas, a number of research studies could be taken up. These areas are identified as general potential research areas in the rural industrialization and not necessarily the areas to be taken up at the cell.

As far as our short term interests are concerned, we would be interested in the areas at Sr. Nos. 1, 2, 3, 4, 10, 11 and 15.

1. Regional economic studies to understand the structure and functioning of the existing units, their capital, employment, productivity and interrelationships of various economic variables. Also the profitability of the existing small scale units, their saving potential and the extent to which surplus is reinvested in business, etc.
2. Demand studies for a number of selected rural industry products sold outside the producing rural areas in order to have realistic assessment to guide the productwise policies for promotion or otherwise.
3. To identify the emerging pattern of local demand for non-farm goods and services in rural areas and compare it with a traditional pattern of supply.

It will be important to trace the origin of such changes in demand pattern; and to assess the extent to which such changes in demand are actually met by rural producers themselves and by the urban based industrial sector. In addition, it will be necessary to identify the constraints which inhibit the rural industrial enterprises from fully responding to the changing demand pattern.

4. Examination of the nature and extent of backward and forward linkages and assessment of their implication for the promotion of rural household, cottage and small scale industries. Since such linkages determine the scope of rural industrialization, ways and means of strengthening them must be investigated.
5. Studies on finance and credit for rural industries and identification of factors behind the success or failure of financial operation.
6. Comparative advantage of promoting rural versus urban industries where they both produce the same products.
7. Rural infrastructure particularly roads and electricity are considered to have profound influence on the growth of rural industries. Studies on the impact of such infrastructure on rural industrialization would be useful.
8. Research on sub-contracting and ancillarization in order to examine the possibilities of modern products

to take the form of more and more divided production process in simpler and simpler forms to be organized in rural areas and going in for assembly on large scale which may be undertaken in urban areas.

9. Evaluation type studies of certain on-going programmes and schemes that have not been adequately studied earlier in order to diagnose the bottlenecks and arrive at policy recommendations.
10. Studies regarding the efforts of voluntary agencies in rural industrialization specially where non-traditional products are successfully introduced.
11. Specific product studies such as pottery at Khurja where the industry has neither local resource base nor local market. Such studies should cover historical background of emergence of these activities at the places at which they have emerged, process of development and expansion, broad dimensions of the activity, marketing organization and also role of institutional finance.
12. Studies related to entrepreneurship: the factors containing the supply of entrepreneurs or their motivation.
13. Studies to investigate the alternative technologies that are suited for prevailing skill levels and scale of operations in rural areas and to identify

scope for technology adoption and diffusion necessitated by changes in consumer tastes, competition from urban products and the like.

14. Review of various growth centre approaches adopted in India, their impact. Analysis of factors responsible for making a particular place a growth centre without the programme for making it a growth centre.
15. The data base regarding rural industries is rather weak. Developing a good data base is very essential for planning and policy making.

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