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## A study on development of rural areas through industries in India

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### **Abstract**

India is known as agricultural as well as rural based economy. However, rural society is traditional, conservative and detached from the sources of innovation. In industrialized nations where local economies are integrated components of the national economy and national policies reach citizens in all parts of the nation, it is reasonable to ask weather specific attention should be paid to rural areas, rather than simply relying upon national programs. To reduce the migration rate we need to have a sustainable solution like providing employment opportunities to rural public. Industrial development has greater potential in expansion of economic activities and it will eventually help in development of rural assets along with income generation, development of infrastructure, raising standard of living and per capita income for rural people. Industrialization act as an instrument both of the creating capacity to absorb excess labour power and of catering for the diversification of the market required at the higher stages of economic development. Rural areas are specialised more in agriculture while Industries are located mostly at urban location giving a weak rural-urban linkage which ultimately results in lower pace of development in rural area.

This paper is an attempt to analyze the rural economy, fact about small scale industries need of industrialization and industrial sector and especially its role in the development of rural areas in India.

**Keywords:** Rural Development, Industries, Agriculture, Employment, Industrialization, Economic Development, Infrastructure Development.

### **1. Introduction**

India is characterised as developing economy and still nearly 65% of total Indian population live in rural areas. It would not be wrong to say that India lives in village despite of the fact that their total contribution in total GDP of India is only 18%. But when we look upon the developed structure of India, we can see that there is a wide range of disparities in various respects as the division of economic activities between Urban & Rural areas. Rural areas are specialised more in agriculture while Industries are located mostly at urban location giving a weak rural-urban linkage which ultimately results in lower pace of development in rural area. Industrialization has a major role to play in the economic development of the underdeveloped countries. The gap in per capita income between the developed and underdeveloped countries is largely reflected in the disparity in the structure of their economies; the farmers are largely industrial economies, while in the later production is confined predominately to agriculture.

### **2. Rural Economy sectors**

The economic sectors in the Rural India are broadly classified into three categories. These are Primary, Secondary and Tertiary sectors. The primary sector comprises of Agriculture and its allied activities. The secondary sector refers to the industries existing and functioning in the rural areas where as the tertiary sector refers to the service activities in the rural areas.

The growth of agriculture sector can be examined from important aspects like, land use pattern, distribution of operational holdings, growth in area of crops, growth in yield of principal crops. Agricultural growth rate in Indian GDP had been growing earlier but in the last few years it is constantly declining.

The rural industries sector also aims to cater towns and cities or even export market and also

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earn foreign exchange for the economy. The rural industries sector consists of two broad sub-sectors such as modern small industries and traditional industries. The former covers small industries and the power looms where as the later comprises of khadi, village industries, handloom, sericulture, handicrafts, and coir industry.

The recent economic recession would have negative effect on the overall contribution of the services and industrial sector to the nations GDP. In contrast, the demand for agricultural productivity has been increasing over the years, but has suffered due to lack of investment. Most people invest in land for real estate, while only a very few see it as an asset which can be used for agriculture. Indian agriculture has never been a generally unfavorable prices regime and low value addition causing abandoning of farming and increasing migration from rural areas.

### 3. Status of Indian Rural Economy

When we talk about the rural industries the very first question which comes in our mind is that distinction between the two. The urban industries are characterised by high level of automation and use of heavy machinery with advance technology, huge capital investment and ample amount of financing through various leading big financial institution (both public and private financial institutions). On the other hand rural industries are basically based on Agro-based industries which mostly lack technical specialisation and proper funding unlike urban industries. According to Khadi & Village Industries Commission (KVIC) "Any industries/commission located in rural area, village or town with population of 20,000 and net per capita investment between Rs.3-4Crore plants and machinery is classified as village industries." The major categories of rural industries are: - Mineral Based Industries, Forest Based Industries, Agro-Based Industries, Polymer Base Industries, and Textile Industry

### 4. The Industrial Development during Five Year Plan

The government of India launched the process of industrialization as conscious and deliberate policy of economic growth in early fifties-

The second five year plan programme for industrialization was based on the industrial Policy Resolution of 1956 which envisaged a big expansion of the public sector, total investment in industries was rupees 1,180 crores, i.e.; 27 percent of the total investment during the Second plan. There was also rapid expansion of machine-building industries for use in agriculture and transport. In the context of the village and small industries Substantial progress was recorded. About 60 industrial estates comprising 1,000 small factories were set up. Third plan call for maximum rate of investment to strengthen the industry, power and transportation and hasten the process of industrial and technological change. The key role in industrial development programme was for the public sector. The fourth plan intended to complete industrial projects undertaken in the third plan. During the fourth plan the actual outlay on organized industry was of the order of rupees 2,700 crores in the public sector. Fifth plan was proposed to emphasis on the rapid growth of core sector industries by giving high priority to steel, coal and machine building. The actual industrial growth rate was the order of 5.3 percent against the targeted annual growth rate of 8.1 percent. A review of the progress of the industrial growth

during the sixth plan reveals that as against the target of 7 percent growth in industrial productions but the actual growth was only 5.5 percent. In the seventh plan Special emphasis had been given to the 'sunrise industries' such as telecommunication, computers, ceramic composites and bio- technology during seventh plan. During eighth five year plan t, the private sector has come off and has developed considerable, entrepreneurial, managerial, technological, financial and marketing strengths. Ninth plan targeted a growth rate of 8 percent of industry but realized growth rate was only 5 percent which was even lower than the growth rate of 7.3 percent realized in the eighth plan. In this way it may be stated that the ninth plan was failure. Tenth plan reveals that the total allocation to industry in the public sector was rupees 44,695 crores at 2001-02 prices Many five year plans come and go but the problem still persist. Rural sector is suffering from unemployment, low saving, lower standard of living with high rate of rural to urban migration because of which the total amount of cultivable land are shrinking and cities are becoming over populated. Villages are converting into the city by acquiring rural land by the real state. Due to which agriculture is contributing less in GDP. If the government consent moves in the favour of development of rural industries then the spirit of entrepreneur can also be boosted by the new business employment opportunity.

### 5. Fact about Small- Scale Enterprises

In the industrial policy resolution of 1948 and 1956, the small sector was given special role for creating additional employment with low capital investment. All small scale enterprises, however, had capital investment of less than Rupee 5 lakhs. During 1997, on the recommendation of *Abid Hussain Committee*, the government has raised the investment limit on plant and machinery for small units and ancillaries from Rupee 60-75 lakhs to Rupee 3 crores and that for tiny units from Rupee 5 lakhs to Rupee 25 Lakhs. With effect from October 2, 2006, not only the three categories have been clearly defined (micro or tiny enterprises would cover all enterprises with investment in plant and machinery of less than 25 lakhs) for small enterprises with investment between Rupee 25 lakhs and Rupee 5 crores and for medium enterprises with investment between Rupee 5 crores and Rupee 10 crores, but a comprehensive act called the Micro, Small and Medium Enterprises Development Act, 2006 came in to force. A common classification is between traditional small industries and modern small industries is that a traditional small Industries include khadi and handloom, village industries, handicrafts etc. while the modern small scale industries include like television sets, various engineering products etc. As we know very well in India more than 50 percent population lives in rural area and occupation is farming. Poverty, unequal distribution of income, unemployment, traditional form of farming, conservativeness, no hope of innovation etc. are the main feature of rural areas in India. Undoubtly, above features shows pessimistic scene of rural areas in India. Although small scale industries are like a backbone of India's economy yet these enterprises have been the subject of controversy in the past and in the present. The Industrial Policy Revolution of 1956 puts forth four arguments in favour of small enterprises.

## 6. Need for Rural Industrialization

Near about 65% of the total population of India live in rural areas with an average monthly income of \$42 per Month (\$504 Per year), rural India have very low disposable income (2002). Most of the rural has minimal storage space and no-refrigeration with average literacy rate of 58.9% and people between 15-25 years of age group are nearly 48% of total rural demographic structure. Despite of this fact major portion of these human resource remain underutilised or unutilised and neglected which have resulted in high rate of rural unemployment and higher rural-urban migration. In path of achieving economic excellence policy maker tend to forget about the sustainable development of Indian economy i.e. the rural sector. It's not that till now nothing has been done but whatever has been done till now has not been very fruitful. Rural sector is suffering from unemployment, low saving, lower standard of living with high rate of rural to urban migration because of which the total amount of cultivable land are shrinking and cities are becoming over populated. Villages are converting into the city by acquiring rural land by the real state. Due to which agriculture is contributing less in GDP. If the government consent moves in the favour of development of rural industries then the spirit of entrepreneur can also be boosted by the new business employment opportunity.

## 7. Role of Industrialization in the Sustainable Development of Rural Areas

Sustainable development is generally discussed in terms of environmental consideration, but from a rural community perspective, sustainable development must address how the people of the community generate the income to maintain their rural lifestyle. Another major problem of rural area is that rural poor include large number of the landless as well as tenants or share croppers with precarious land tenure arrangements. Rural non-farm activities such as village industries, farm equipment, repair shops, carpentry and produce marketing are a vital element in any programme to develop the rural areas that is to supply services and inputs which are essential for increasing agriculture productivity.

Rural industrialization means encouraging location of large and small scale units away from urban areas or planned shifting of units from urban areas to rural areas. Under rural industrialization concept, the state should encourage industrialization in rural areas on a massive scale. Although small scale industries as well as large scale industries engaged in the production of similar items. A conflict arises as to which industry needs to be supported, the large scale industries contributed to massive production, decrease employment opportunities due to automation and finally lead to unplanned urbanization, ecological and environmental degradation while rural industrialization generate more employment opportunities for the rural masses and bring all its attendant advantages to the rural scenario.

## 8. Government Policies for Promoting Rural Economy:

The government of India has given utmost importance for the growth of rural industries through five year plans and industrial policies because of their high employment intensity. Since employment is a means to achieve growth with social justice, a number of programmes and schemes have been designed and implemented for their

development. Central government plays a leading role in certain programmes and state govt. act as an implementing agency of central govt. in certain schemes state govt. play a leading role while institutional financing agencies dominate in some states. From the union budget estimates of government, we can analyze the amount of contribution; government is giving to promote the growth of rural economy. Following table and graph represent the budget estimates of government for the agriculture & allied activities and rural development.

**8.1 Fiscal Policy:** Fiscal Policy is to bring about an increase in investment in both old and new industries sectors and to discourage speculative investment in unproductive activities and increase the productivity of the various factors of production engaged in secondary sector. Tax concessions are designed to influence those responsible for decision about investment, whether in new or expanding enterprises or private or institutional investors.

**8.2 Credit Policy:** In most underdeveloped countries, especially those in which deliberate efforts have been made to accelerate the rate of economic advance, the probability of excess credit resulting in inflation is generally far greater than that of shortage of credit.

**8.3 Balance of Payment Policy:** The process of establishing a new industry in an underdeveloped country almost inevitably involves the use of foreign exchange. In the absence of foreign assistance the rate of industrialization is limited in the first instance by the size of the current balance of payment surplus, which determines the resources available for financing imports capital goods.

## 9. Conclusion

The earlier economic policy has affected the growth of the rural industrial economy; still there is a greater opportunity in India to development of rural economy. India is a country of villages; its major population lives in rural areas. Promoting the development of rural industries not only helps in the economic development but also in improving the livelihood of rural people, alleviating poverty, etc. However, the government has realised the importance of rural industrialisation and trying to developments such objective by implementing various development schemes and plans. The government should give more attention on the machinery of implementation of such schemes. Providing adequate funds for such programmes are not the only solution, the delivery system must also be effective. As discussed earlier, the Rural industries has huge potential in employment generation and income creation in rural area, thus, in the current scenario all round economic development of rural economy and industries can be an effective tool to overcome the underdevelopment of rural areas and industries.

At last of the paper it can be conclude that although there are many dimensions for the development of rural areas through industrialization, yet these dimension and opportunities could be chalk out only with the help of more government assistant. Besides this, there are already a lot of schemes for the growth of SSIs, but main hindrance is not well implementation of the policies and schemes in a proper way. This is the fact that, we achieved a lot till

independence but not in the proportion of population, when growth of SSIs would be equal or more than the growth of population. Surely we would achieve a healthy and problem free economy after independence.

#### 10. Suggestion

Government of India is providing a lot of funds for promoting rural economy and industry. The above studies suggest that availability of funds is not the only factor for rural development. The major factor seems to be the potential of the funding Ministries/State Governments to formulate appropriate schemes and the delivery system to properly utilize funds and successfully move the schemes into desired outcomes. To achieve growth, rural areas need productive activities which produce rural exports: goods and services that can be traded outside rural areas. A clear cut policy for rural industrialization is to be evolved which should address the likely pitfalls in the road to rural industrialization. Special efforts should be made to strengthen the economy of marginal and small farmers, artisans, unskilled workers etc., so that they can also contribute to growth. This would need strengthening of programmes based on skills and assets that the poor possess, and helping them with credit and market support. There is also a need of developing awareness among rural peoples about development programmes of government. There is no technology up gradation in rural industries. Around 60 percent of artisans are still carrying on their traditional occupation in primitive way. Although, there has been done lot of work for providing suitable technology to the rural industries, still there is a more urgent need for R&D in rural industrial sector. To encourage rural industrialization, it is necessary to continue to provide concessional credit to the rural entrepreneurs.

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