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Problems of rural industrialization: A review

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Introduction

Rural industrialization is indubitably a noble idea. While the economic development has gone so far towards capital intensive industrialization, centralization and high degree of unplanned urbanization, very exercise of evolving policies and undertaking efforts towards decentralization and rural industrialization seem to be irrelevant in today's context of liberalization. It is doubtful whether the present Govt. would have political will and purpose rural industrialization and decentralization. In other words, open economy presupposes non-invention of Govt. while successful rural industrialization warrants state intervention. Therefore the issue is how to reconcile these two diametrically opposite view points.

Multiplicity of technologies and reservation of industries

Existence of plurality of technologies in every field is threatening rural industrialization. For example we have hands spinning, as well as power-spinning and hand loom and power loom, weaving. This diversity is found in food processing, building materials, leather goods, soap making carpentry and blacksmithy, paper making, food preservation and processing and so on. Large units that use state-of-the art technology produce goods on a mass scale. This sector is producing goods of necessity to meet the demands of growing population and for satisfying the urge to improve standard of living and quality of life while small scale industries not only produces but also provide employment to a significantly large number of people and create purchasing power in the economy. Ganesan Small scale units in Cuddalore districts proved to be a boon to rural and village artisans in Cuddalore district and it has created 8978 jobs in 1428 units and contributed rupees 10,282 crores worth export during 2005 and 2006. This shows the potential of rural and village industries in fighting poverty and unemployment. There is no question of accepting one and rejecting the other. Both have to be supported and conditions are to be created for their sustained development. While small scale industries as well as large scale industries engage in the production of similar items, a conflict arises as to which industry needs to be supported. The large scale industries contribute to massive production, decrease employment opportunity due to automation and finally lead to unplanned urbanization, ecological and environmental degradation while rural industrialization generates more employment opportunities for the rural masses and brings all its attendant advantages to the rural scenario. So far as India is concerned, rural industrialization cannot be ignored as something irrelevant in today's context. Thus choice of technology is crucial issue.

Large scale industries which use state-of-art technologies may be encouraged in certain productive activities that call for sophisticated technology, e.g., construction, infrastructure industries, shipbuilding, railways, power sector telecom and the like.

Rural industries that use local technology may be encouraged in certain areas where human skill plays predominant role. Rg. Handicrafts, coir, embroidery, carpentry, blacksmithy, pottery etc.

Nature of Employment

As for nature of employment, it is to be decided as to the type of employment suited for promoting rural industrialization. There are several patterns of generating employment in rural areas. They include self-employment, wage employment in industrial units, wage cum self employment and establishment of rural industrial estates. Each of the above method has its own merits and drawback. Alagappan who studied employment pattern in rural industries

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located in Keerapalayampanchayat concluded that wage cum self employment pattern of wage payment proved to be effective. Therefore the pattern of employment generation is to be decided after weighting the relevant factors dominant in each pattern of employment generation.

Organizational Difficulties

Rural population being highly scattered and unorganized, organizing and institutionalizing the activities of rural population and proving work on a regular basis are really challenging task. Either work is to be provided the units to them to be done at their residence or industries are to be started in the rural areas in order to bring them into an organized entity. Some of the efforts undertaken by the Govt. in the past have not made any perceivable impact on the employment generation in rural India. Industrial co-operatives were started with the mission of rural industrialization for different crafts in pursuance of the recommendation of Karve committee 1955, These societies mobilized the scattered rural skill to a certain extent. But it failed in its re-mission. As these societies could not ensure regular employment and provide fair wages, members were withdrawing from the societies. As a result most of the societies remain currently defunct. Another experiment done was formation of multipurpose block level cooperatives by Govt. of Maharashtra. These societies ended up becoming mere credit societies. Mere provision of credit could not promote rural industrialization.

Third experiment was formation of institutions under societies Registration Act 1860. This type of institution was started by Khadi. This entity is currently thriving due to Govt. patronage. Management and workers assume significance in these institutions. Since the societies cannot afford to pay good pay scales, it cannot get a team of talented, experienced and capable administrative staff. Therefore it suffers on administrative front. Paying higher pay scale would result in increasing the final cost of the product and the consequently, the State would have to come forward to support them. Maran has suggested evolution of labour code for unorganized rural workers for improving the living standard of working masses in rural areas. In this background, it is suggested that the unorganized rural work force may be converted into organized force through self-help group. These groups may be financed either directly by banks and institutions or through voluntary or through Non-Govt. organizations.

Technology Gap

While organized industry is fast upgrading its technology. There is no technology up gradation in rural industries. Around 60 per cent of artisans are still carrying on their traditional occupation is a primitive way. National Research and technical institutes have done little for the village industries. Infact there is more urgent need for R & D in rural industrial sector. Otherwise, it is likely to be irrelevant and obsolete.

The efforts of similar nature should be undertaken by Technical Universities Specialised Institutes for different crafts and other Industrial Technical Training Institute and the like. This would help the artisans shed antiquated production practices and embrace modern production practices.

Planning commission ought to earmark adequate funds for promoting research endeavours in rural industrialization. A

mechanism ought to be put in place to fund directly the research endeavours directed towards technical up-gradation of rural and village industries.

Promoting Managerial and Entrepreneurial Skills in Rural Entrepreneurs

Managerial inadequacies are one of the reasons for the failures in decentralized industrial sector. There is a need to equip village artisans and their institutions with new except of entrepreneurship and managerial skills. Proper training is to be arranged for village artisans to develop their managerial and entrepreneurship skills. Banks and development institutions should conduct entrepreneurship courses for students from the rural colleges and for the rural artisans. They need to be enlightened on various skills of management. In other words there groups need to be enlightened on rudiments of entrepreneurship and management of the units. Baljith Singh emphasized the role of higher educational institutions functioning in rural areas in spreading entrepreneurial awareness through establishment of entrepreneurial cell.

New Definition for Small and Village Industries

Several attempts have been made to define village industry. Khadi Village Industries Commission proposed a definition in terms of per capita investment. Skill identity crises persists. The definition given for tiny industry during 1979 could not suit for institutional village industries since the total investments in such units were more but per capita investment were less. Papola favoured re definition of small, medium, cottage and tiny industries.

A clear definition for village industry is to be evolved in the context of globalization. The factors such as per capital investment, eco-friendliness, degree of manual effort involved in making the product, non-conventional energy used, ability to provide work at residence, value-addition, conversion of waste into wealth, level of energy required, high nutrition, purity, flavor, suitability to Indian context, women participation, absence of child labour etc.

Government Role

The Central Govt. took up certain industries like coir, sericulture, handloom, Khadi and handicrafts as central schemes the implementation of which was left to State Govt. In other words, Central Govt. provided funds, fiscal concession and policy support to these industries. The State had to take care of implementation and to ensure infrastructure support like water, electricity, road work shed and communication to units located in rural areas. The State Govt. being passive partners did not evince any interest in promoting these centrally sponsored schemes.

It is suggested that the Union Govt. should take up both funding as well as implementation of the projects for centrally sponsored schemes. Similar should be case for state sponsored schemes.

It is observed that most of the rural industries are starved of financial resources. Range Rao empirically proved the apathy of commercial banks towards rural credits ever since our country followed globalization path. He further stated that the loan waiver is the price paid by the Govt. For the neglect of the rural sectors. The public sector outlays are hardly one per cent and institutional credit is negligible. Therefore it is necessary to continue to provide concessional credit to encourage rural industrialization.

Initially, Indian village industries enjoyed self-sufficiency. However, the gradual increase of machine made cheap consumer goods restricted the growth of rural industries and thus created unemployment. With agriculture having little capacity to absorb surplus labour, the rural population began to migrate to urban areas, affecting social, economic and hygienic aspects adversely. The trend increased with the rapid growth of population and increased availability of machine made products.

In Bihar there are four types of financial institutions, which cater to the financial needs of the State. They are (i) Commercial Banks, (ii) Regional Rural Banks, (iii) Cooperative Banks (iv) Statelevel financial institutions, and (v) national level financial institutions. Cooperatives mainly cater to the credit requirements of agriculture sector, whereas commercial Banks provide credit-facilities for a number of activities, including agricultural and industrial development.

Commercial Banks

Commercial Banks are the backbone of financial sector infrastructure shows the distribution and program of commercial banks in Bihar. It may be noticed from the table that by the end of March, 2007 Bihar had 3698 branches in the State, of which 63.0% were in rural areas, 20.7% in semi-urban areas and 16.3% in urban areas. As regards of

branches, it may be noted from the table that between 2001 and 2014 there was hardly any growth. In fact during 2001-2002 and 2002-2003 the growth rate was negative because of merger of loss making branches with other branches within the same service area.

Credit-Deposit Ratio

It may be observed from that rate of growth of outstanding credit has constantly been on higher side, whereas, deposit growth has remained almost constant. The growth rate of both the credit and deposit in Bihar is lower than the national averages. But what is more important is the application of deposit for the economic development of the State which is measured from Credit Deposit ratio. At times, credit dispensation shrinks also because of poor repayment of outstanding loans. In fact, till 1990, CD Ratio was at the lowest level as compared to other States in the country. However, some improvement was recorded after 2000-01. Ironically even during 2006-07 the ratio was at a very low level (31.1) compared to that of national CD ratio average (75.0). Bankers will have no hesitation to use the deposits for the development of the State, subject to launching of viable economic development projects, smooth law and order situation, and reasonably good loan repayment behavior of borrowers.

Table 1: Credit and Deposits of Commercial Banks in Bihar and India (Rs. in Crores)

		2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
A. Bihar	Credit	5547.2	6547.3 (18%)	7802 (19%)	9667.1 (23.9)	12868.5 (33.1%)	14062	17158
	Deposits	26800.7	29832.5 (11.3%)	32931.6 (10.3%)	36000.0 (9.3%)	41007.4 (13.9%)	46543	56916
	Credit-Deposit Ratio	20.7	21.9	23.7	26.9	31.4	30.2	31.1
B. India	Credit	538433.8	6559931.1	755968.8	880312.0	1152467.9	1517497	1949568
	Deposits	949433.3	1123393.3	1276195.7	1511273.4	1746814.0	2093040	1598822
	Credit-Deposit Ratio	56.7	38.4	59.2	58.2	66.0	72.5	75.0

Source: Economic Survey (2007-08), Finance Department, Bihar Government (p. 138)

As is evident from Table 1 there is a vast mismatch of credit and deposit ratio between Bihar and India which is definitely a matter of concern.

CD Ratio of Bihar, Compared to a few Other States of India

It may be noted that investment is a must for productive economic activities and at present, C D ratio, it will take a long time to reach a substantial investment level. As per the Economic Survey (2006-07) of Bihar Government, during the year 2006-07 per person bank loan stood at Rs 18,000 in the State. Lower level of credit dispensation in Bihar also indicates that credit needs are even now met by private moneylenders at higher rate of interest, which adversely affect the profitability of enterprises. Naturally, this is a serious bottleneck in the industrial development of the State.

Share of Industries in Total Bank Loans

The graph given below shows the percentage share of total loans of commercial Banks for various sectors between the years 2000 to 2005. It may be noted that there has not been very significant change in the relative shares of loans to various sectors.

Share of Industries in Outstanding Loans of Commercial Banks:

During the year 2005-06, of the total loan

agriculture shares 22.7, industries and manufacturing shares 22.2%, personal loans shares 31.8% and trade 14.8%. This does not augur well for the development of agriculture and industry the causes need to be identified and addressed to facilities better credit flow.

Regional Rural Banks

There are five Regional Rural Banks in Bihar, namely 'Madhya Bihar Kshetriya Gramin Bank, (sponsored by Punjab National Bank), Bihar Kshetriya Gramin Bank (sponsored by UCO Bank), Samastipur Kshetriya Gramin Bank (sponsored by SBI), Uttar Bihar Gramin Bank (sponsored by Central Bank of India) and Koshi Kshetriya Gramin Bank (sponsored by Central Bank of India), Except Uttar Bihar Gramin Bank, whose CD ratio is 34.37 as on 30.09.06, all other Gramin Banks have CD ratio at more than 40, ranging from 44 to 59, which is much better than those of commercial Banks in Bihar.

Cooperative Banks

Bihar has a large network of cooperative institutions. Cooperatives in general have suffered because of lack of proper management and political interference. Bihar State Cooperative Bank, Central Cooperative Banks, and Primary Agriculture Cooperative Societies are functioning in the State and they provide credit facility. But it is unfortunate

that due to poor recovery of loans the percentage of their NPA is very high. As per the data available, the recovery rate was 9.1% during 2000, 6.4% in 2001, 11.7% in 2002, and 20% in 2003. The NPA as percentage of their total advances as on September 30, 2002 was recorded as 41.57% much higher than commercial Banks. Similarly, recovery of loan of central cooperative Banks, as percentage of demand was 29% in 2002 and 24% in 2003. Recovery performance is highly unsatisfactory even in the loans dispersed by Primary Agricultural Cooperative Societies and Land Development Banks. With the result, the cooperative structure is in a bad shape and its dwindling credit delivery capability calls for recapitalization and liberalization for increasing their profitability and overall performance.

Credit-flow Thorough Self-Help Groups (SHGs)

Micro-credit through SHGs can significant contribution in poverty eradication. SHGs are small and cohesive group, less bureaucratic, more participative, thoroughly decentralized and effective in a large number of cases. It is mostly because they easily cater to the basic needs of their members, ensure better credit utilization and prompt loan repayments due to peer pressure. In principle, lending through SHGs leads to reduction of transaction cost. But in spite of all this, the performance of SHGs-Bank Linkage in Bihar is poor. Performance of commercial banks also is not very encouraging in their respect with exception to RRBs which have slightly better record than other

institutions.

Financial Institutions

The national level institutions are IDBA, IFCI & ICICI which provide financial assistance to medium & large industries and IDFC and SIDBI, which cater to the financial needs of the infrastructure sector and small sector. All these institutions also undertake promotional & development activities. Besides them, there are specialized financial institutions, such as EXIM Bank and NABARD. NABARD plays a major role in increasing credit flow for the development of agriculture, small industries, rural & cottage industries, handicrafts and other rural crafts

The state level financial institutions, operating in Bihar are BSFC (Bihar State Finance Corporation) BSIDC (Bihar State Industrial Development Corporation) BISICO (Bihar State Investment and Credit Corporation) and BPRFC (Bihar Panchayati Raj Finance Corporation). These institutions have to improve its functioning to contribute effectively.

However, there is a noticeable lack of both width and depth in the financial interventions, particularly for the rural segment of the State. There is also a lack of communication amongst them. In order to promote rural industrialization and seek higher coverage throughout Bihar, there is a need to enlarge the scope of financial interventions, from the point of view of 'entrepreneurial development in rural Bihar.

Table 2: Distribution of Commercial Banks Branches offices in Bihar (March end)

Year	Distribution (% Age)			Total	Growth Rate (%)
	Rural	Semi-Urban	Urban		
2001	69.3	18.5	12.2	3620	1.49
2002	69.1	18.5	12.4	3616	-0.11
2003	69.1	18.6	12.3	3609	-0.19
2004	68.7	18.9	12.4	3618	0.25
2005	68.0	18.9	13.1	3646	0.77
2006	61.6	20.6	15.8	3675	0.80
2007	63.0	20.7	16.3	3698	0.63

Source: Economic Survey (2007-08), Finance Department, Bihar Government (p. 137)

It is clear from Table 2 that the branches of commercial banks are shrinking a rural areas where as it is expanding in semi-urban as well as urban areas. This clearly shows that the dream of rural industrialization cannot be achieved under such conditions.

Issues related to rural Industrialisation in Bihar

Poor Formal Education System

Inadequacy in skill and entrepreneurship development is the key constraint to rural industrialization. This is due to poor formal education. During the last more than a decade, literacy has grown but at a sluggish rate as compared to India as a whole. As per the SES, 2002-03, dropout in schools from primary to secondary classes has been recorded between about 62% and 86% both in the cases of boys and girls, which are much higher than all India averages. Pupil- teacher ratio was also very high (73 to 80), and single classroom and single teacher schools still continued to be the features of primary school system. If one compares the proportion of students enrolled in higher education, the situation in Bihar is not much different from national average. Similarly, in professional education also the performance of Bihar is much poor as compared to all India level.

Lack of Vocational Training Institute

State of vocational education is virtually non-existent in Bihar. However, there are 58 Industrial Institutes (ITIs) and Industrial Training centres (ITCs). Of the ITIs, seven ITIs are exclusively for women, and the seating capacity of all the ITIs is reported to be 14,968. In terms of population coverage, there is one ITI per 10 lakh population, where as in comparison it is 2 lakh in U.P., 5 lakh in Punjab and much higher in other States. Other technical educational institutions, such as Polytechnics, Engineering Colleges, Medical Colleges, Dental Colleges, Pharmacy educational institutions, as well as Information Technology based educational centres are also inadequate and prevailing quality is poor. This requires urgent attention of the Government.

Absence of Adequate Rural Infrastructure

Due to absence of adequate rural infrastructure, people find it difficult to use the two-ways communication through on - line service for crop information, purchases of Agri-inputs, consumer durable, and sale of rural produce at reasonable prices. Farm information online marketing support adds momentum for rural industrialization so that products may be accessible from rural economic clusters- all over India.

Most of the dealers have direct touch with the local farmers; these farmers need awareness about pests, disease, fertilizers, seeds, and appropriate technology. For these information farmers mostly depends on local dealers. The total surface length of roads per lakh of population is only 43.89 Kms as opposed to national average of 151.27 Km (1999-2000). Although 32 percent of the villages in the State are connected by roads but due the lack of maintenance, it is reported that most of the village roads provide only seasonal connectivity. Rural electrification scene to promote rural industries scene is not so encouraging. There are 39015 villages in Bihar, and only about 50% of the villages were electrified till the year 2006.

Table 3: Accessibility of Villages by Roads in Bihar and India

Type of Villages	% Age of Village accessible by roads	
	India	Bihar
Villages with population < 1000	37.4	27.7
Villages with population 100–1500	75.9	53.2
Villages with population > 15000	91.7	70.6
All Villages	47.9	36.1

Source: Basic Road Statistic of India, MM. of Shipping, Road Transport and Highways, Government of India (2004)

It is clear from table 3 that accessibility of villages by roads in Bihar is much lessens than India. Therefore, there is a need of more rural roads in Bihar for the development of rural industrialization.

Inadequate Processing & Marketing Channels:

Climatologically and edaphically influenced factors allow for cultivation of a variety of crops. However, farmers get discouraged as they do not get remunerative price for their products. It is a common understanding that the comparative advantage in production is lost because of the inadequate marketing and processing facilities. In Maharashtra, 40% of the produce is used for processing whereas it is less than 2% in Bihar. A good number of Agricultural Market Yards (53) and agricultural marketing in general are still unorganized in Bihar. About 50 percent of farmers sell their agricultural produce in villages to itinerant traders. Most farmers, particularly small and marginal farmers do not have required quantum of surplus to hire a transport vehicle for carrying out their produce to regulated markets or places where they can get reasonable price.

Low Level of Credit Availability

Enlarged investment is considered to be the key to productive economic activities. At present, the level is very low in the State. The CD ratio in the State is repeatedly very low (i.e. 35%) in comparison to India's average of 60%. It will take a long time to reach a substantial investment level. As per the Economic Survey (2006-2007) of Bihar Government, during the year 2004-2005 per person bank loan stood at Rs 1575 in Bihar, whereas, it was Rs 5048 in M.P, Rs 27589 in Maharashtra, Rs 3204 in U.P and Rs 7425 in West Bengal. Lower level of credit dispensation in Bihar also indicates that credit needs are even now met by private moneylenders at higher rates of interest, which adversely affect the profitability of enterprises. Naturally, this is a serious bottleneck in the industrialization process of the State.

Poor Implementation of Government Schemes

Large numbers of central and state government schemes are not effectively functional and fully utilized by local potential users for the related objectives. A number of important programmes of self employment in rural areas for youth, women and other weaker section are not adequately implemented nor fund targeted for specific sector remain unutilized or unused.

After discussing rural industrialization of divided Bihar in retrospect and prospect, it is essential to analyse the problems of rural industrialization for a coherent plan of future action. The general factors inhibiting the rural industrialization in the divided Bihar are the following: lack of political will, lack of innovation, inadequate motivations, inadequate entrepreneurship and inadequate technology, poor human development, inadequate transport and communication, poor training, system, lack of power, lack of infrastructure and rapid growth of population etc. However, rural industrialization in Bihar is facing many set of problems, but for the sake of convenience we can group them as follows:

- Infrastructure problems
- Financial problems
- Administration problems
- Demographic problems
- Political problems

Infrastructure is the wheel of economic activities. Development of infrastructure facilities serves as the catalyst for economic developments. Many economics such as, Hirschman, G. Myrdal. W.W. Rostow, Resenstein Rodan and the Indian economist V.K.R.V. Rao and Prof. Amartya Sent had firm faith in the link between infrastructure and development. Economic development to great extent depends on both physical and social infrastructure. Physical infrastructure in case of roads, railways, electricity etc. have hardly made any contribution to industrial development of Bihar. Upto March 2001, Bihar had 13,412.80 km. Upto 1999-2000 the share of Bihar in states total expenditure is only 3.13% on transport and communication. Literacy rate in 37.52% only and rural literacy is only 32.94% while for all India it is 52.5% and 44.69% respectively. Per capita consumption of electricity was as low as 133.7 kwh. In 1994 as compared to 320.1 kwh in the country. Thus, Bihar is far behind the rest of the country in respect of infrastructure development. Low level of infrastructure holds back the development of rural industrialization.

Conclusion

To sum up, even after more than fifty years of independence, rural industries continued to be an insignificant and inefficient activity in the rural areas of Bihar. To break the vicious circle of poverty, unemployment and inequality, rural industrialization is essential. In Bihar the condition of traditional rural industries is pitiable. Bihar has vast untapped reserves of creativity and spirit of adventure and enterprise. People of Bihar are second to none when it comes to sustained hard work and desire to save Bihar is not devoid of talent, skill, merit and knowledge. There is no doubt that the new Bihar has tremendous scope for the development of rural industries. It is the need of the hour that all effort should be made in developing rural industries in New Bihar.

Following steps in this direction are necessary. Development of agro-based industries adequate finance and sale promotion, facilities for training personnel of rural industries, proper supply of adequate and suitable raw materials, developing markets for products, establishment and industrial co-operatives, improvement in production methods and implements, production of superior quality and new designs of goods, entrepreneurship development, rural electrification, development of infrastructural facilities, provision for adequate credit and above all better law and order situation with a strong political will.

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