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# **The Rural Non-Farm Economy in India: Some Policy Issues**

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*The views expressed in this document are solely those of the author  
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## Table of Contents

<b>1</b>	<b>Executive Summary.....</b>	<b>3</b>
1.1	<i>Non-monetary macro-policy framework and laws.....</i>	3
1.2	<i>Government schemes .....</i>	3
1.3	<i>Investment in allied sectors.....</i>	5
1.4	<i>Effectiveness of institutions.....</i>	6
<b>2</b>	<b>Changes in Rural Employment .....</b>	<b>9</b>
2.1	<i>Potential for growth.....</i>	10
<b>3</b>	<b>Evidence from Village Studies .....</b>	<b>11</b>
<b>4</b>	<b>Bureaucratic Controls and the Macro-Policy Framework .....</b>	<b>12</b>
4.1	<i>Essential Commodities (E C) Act.....</i>	12
4.2	<i>Marketing of NTFPs.....</i>	15
4.2.1	<i>Charcoal production from prosopis in Gujarat and Tamil Nadu.....</i>	15
4.2.2	<i>Bamboo workers and forest policy.....</i>	16
4.2.3	<i>Other NTFPs .....</i>	16
4.3	<i>SummingUp .....</i>	18
<b>5</b>	<b>Liberalisation and the Small Rural Sector .....</b>	<b>19</b>
5.1	<i>Reservation of products for small scale sector.....</i>	19
5.2	<i>Lack of protection under labour laws.....</i>	20
5.3	<i>Impact of Industrial Pollution on Rural Communities.....</i>	21
<b>6</b>	<b>Government Run Schemes for the Non-Farm Sector .....</b>	<b>21</b>
6.1	<i>IRDP .....</i>	22
6.2	<i>Skill building programmes.....</i>	23
6.3	<i>Swarnjayanti Gram Swarozgar Yojana (SGSY).....</i>	24
6.4	<i>JRY/EAS/Food for Work/SJRY.....</i>	26
6.5	<i>Khadi .....</i>	27
6.6	<i>Handlooms.....</i>	29
6.7	<i>Government schemes - summing up.....</i>	29
<b>7</b>	<b>Growth in Other Important Sectors .....</b>	<b>31</b>
7.1	<i>Distortions in agricultural policy.....</i>	31
7.2	<i>Neglect of infrastructure.....</i>	34
7.3	<i>Power.....</i>	34
7.4	<i>Road transport.....</i>	36
<b>8</b>	<b>Delivery .....</b>	<b>37</b>
8.1	<i>Panchayats.....</i>	38
<b>9</b>	<b>Summing Up .....</b>	<b>39</b>
<b>10</b>	<b>References .....</b>	<b>42</b>
	<b>Acronyms .....</b>	<b>44</b>

# **The Rural Non-Farm Economy in India – Some Policy Issues**

## **1 Executive Summary**

The annual growth rate of the male workforce in the rural non-farm sector in India was 4.3 per cent during 1977-88 and 2.0 per cent during 1988-2000, whereas in agriculture it was only one per cent during 1977-99. Thus the non-farm sector in India has immense potential to generate new jobs with relatively low direct investments. However its expansion depends upon a number of factors, which are influenced by government policies – directly or indirectly. These are discussed below.

### ***1.1 Non-monetary macro-policy framework and laws***

Trade and industry have always been under tight government control in India. Unfortunately, de-regulation introduced after 1991 has made not touched the rural or the small informal sector, and has largely been confined to the modern manufacturing sector. For instance, marketing of agricultural products is hampered by various regulations passed under the Essential Commodities Act. The controls and restrictions, imposed under the E C Act and other similar laws, are dis-incentives to production and distribution of essential commodities. These have led to a situation where the trading class has to operate at very high margins so as to cope with the uncertainties caused by controls. With the increased agricultural production, it is recommended that all agricultural produce and its products should be deleted from the definition of "essential commodities" of Section 2(a) of E C Act, and all Control Orders relating to or affecting agricultural produce/products should be rescinded. This would reduce the influence of various inspectors and their discretionary activities.

Similarly gathering of forest products, which is regulated under rules framed under the Indian Forest Act, involves a very large number of rural people, especially tribals, but low returns to them are directly attributed to policy distortions arising out of state monopolies, which means only the agencies designated by the state have the right to market, process, and store NTFPs. Monopolies reduces the number of legal buyers, chokes the free flow of goods, delays payment to the gatherers, and reduces gatherers' collection and incomes. Moreover, government culture does not encourage efficient business. It is suggested that for marketing NTFPs Government should not have a monopoly, nor create such a monopoly for traders and mills. The solution is to denationalise NTFPs gradually, so as to encourage healthy competition. Encouraging setting up of processing units within the tribal areas is also recommended.

There are several other similar laws and policies that inhibit entrepreneurship and employment. These need to be reviewed and amended.

### ***1.2 Government schemes***

There are several schemes to promote the non-farm sector, mostly initiated by Government of India. There are schemes for creating entrepreneurship through subsidised loans (IRDP, SGSY, PMRY), schemes to provide skills (TRYSEM, ITIs), and to schemes to strengthen the gender component (DWCRA, RMK). Many of these

self-employment schemes have now been merged as SGSY, which is the latest *avatar* of IRDP.

Then there are schemes to provide wage-employment (JRY, EAS, Food for Work, SJRY) on rural works programmes to achieve the twin objective of creation of rural infrastructure and generation of additional income for the rural poor, particularly during the agricultural lean season. The assets so created (roads, culverts) can boost the marketing of rural products, thus indirectly helping the non-farm production and incomes.

Finally, there are schemes for the specific groups of industry, such as khadi handlooms, and handicrafts.

Several evaluations of the scheme for promoting self employment, Integrated Rural Development Programme (IRDP) points: sub-critical investment; unviable projects; lack of technological and institutional capabilities in designing and executing projects utilising local resources and expertise; illiterate and unskilled beneficiaries with no experience in managing an enterprise; indifferent delivery of credit by banks (high transaction cost, complex procedure, corruption, one-time credit, poor recovery); overcrowding of lending in certain projects such as dairy; poor targeting and selection of non-poor; absence of linkage between different components of the IRDP; rising indebtedness; and scale of IRDP outstripped capacity of government and banks to absorb. A disturbing feature of the IRDP in several states has been rising indebtedness of the beneficiaries of IRDP. There is still an under-emphasis on activities which require no fixed assets at all such as a large number of trading, service and even simple processing activities. Besides, the programme for upgrading skills, TRYSEM, was not dovetailed with IRDP. One discovered non-existent training centres and non-payment of stipend in some cases. However, the programme for women, DWCRA did well in some states (AP, Kerala, Gujarat).

Evaluation of the programmes for wage employment points: inadequate employment and thin spread of resources; violation of material-labour (60:40) norms; fudging of muster rolls; schemes implemented universally through contractors who sometimes hired outside labourers at lower wages. Central norms of earmarking, 40 per cent of funds for watershed development and 20 per cent for minor irrigation, have not been followed. Today 60 out of Rs 100 in wage schemes is reserved for wages, but in reality only Rs 10 to 15 actually goes to the poor worker, the rest is illegal income for bureaucracy, contractors and politicians.

As regards these programmes, one would like to make the following recommendations:

- SGSY (IRDP) should be transformed into a micro-finance programme to be run by banks with no subsidy, on the lines of Rashtriya Mahila Kosh.
- Funds should be provided to gram sabhas only when the people contribute a substantial amount, say, 25 percent in normal blocks and 15% in tribal/poor blocks.
- Employment programmes should be replaced by the food for work programme to be run only in areas of distress. In all areas, the focus should be on undertaking productive works and their maintenance, such as rural roads, watershed development, rejuvenation of tanks, afforestation & irrigation.

- Grassroots women's groups and SHGs should be empowered and encouraged to set up new units.
- Special efforts should be made to strengthen the economy of marginal and small farmers, forest produce gatherers, artisans, unskilled workers etc. The poor should not merely benefit from growth generated elsewhere, they should contribute to growth. This would need strengthening of programmes based on the skills and assets that the poor possess, and helping them with credit and market support.

The khadi programme suffers from some basic infirmities. Costs are high and the product at the lower end of the quality range is not able to compete with mill-produced fabric available in the market. Then its dependence on government subsidies is very high. Any change in the rebate policy for khadi upsets the production schedule and output of khadi producers. The sector is not able to avail funds from banks and depends on the budgetary resources for meeting expenses on the staff, etc. Its marketing is not well organised leading to high stock of unsold khadi. Similar problems exist for the artisan sector.

To sum up, the various government sponsored programmes for boosting the non-farm economy so far have achieved marginal success. There were certain structural weaknesses in the approach as these were based on the wrong assumptions that (a) rural enterprises were motivated enough to spontaneously come out of their social and cultural stranglehold on the call of government agencies; and (b) bureaucracy was well equipped to take up the new challenge. The other problem is the multiplicity of schemes and agencies and the absence of any comprehensive coordination and follow-up mechanism. Further, with the emphasis shifting from protective to promotional measures now, technological upgradation, market surveys, producer and design development have become the central themes of development programmes. However, they are not well co-ordinated and routinely administered.

The best course seems to be to merge various programmes and implement them in coordination with a couple of leading professional NGOs in the district, of course, after strengthening the capabilities of the NGOs. NGOs' participation will be mutually advantageous as it will not only ensure better participation of the target groups but also lend quality to the programmes.

### ***1.3 Investment in allied sectors***

Another reason for the limited success of government schemes is the fact that the growth of the non-farm sector is more dependent on either the growth in the agricultural sector that provides backward production and consumption linkages as well as forward linkages through processing of agricultural commodities, or on the general growth in the economy that opens up new markets for rural skills and crafts. However, the index of agricultural production has hardly moved forward since 1996-97. The following policy changes in agriculture are suggested:-

- Agricultural output increased in the 1990s because of higher output support price and input subsidies. Now it must come from higher investments in irrigation, seeds, power and roads. Therefore public investment in irrigation, power and roads should be sufficiently stepped up by reducing subsidies on fertilisers, water and power.

- Canal systems are in poor shape for lack of operations and maintenance outlay. These should be improved by stepping up plan allocations for maintenance, involving users' groups in management, and appropriate pricing of water to cover operation and maintenance costs.
- Minimum Support Prices for foodgrains and other commodities should be reduced as to promote diversification of agriculture, environmental sustainability, and reduction in food subsidies.
- And lastly, eastern and central region (through watershed development) should be the focus of attention during the 10<sup>th</sup> and subsequent Plans.

These measures can put agriculture on higher growth trajectory as well as trigger growth in the non-farm sector too.

Poor progress in the energy-transport infrastructure has always been a major constraint on any effort to achieve a significant acceleration on the growth of the non-farm rural sector. Since these are non-tradable services, the necessary expansion in supply must come from increased domestic production. The quality of these services in terms of both price and reliability are as important as availability. It is well known that we face serious problems on both counts. The lack of adequate infrastructure is particularly acute in rural areas, as well as in poorer and more backward regions of the country. Nearly a quarter of UP's villages still lack all-weather connectivity. Power shortages are endemic, and many businesses resort to using diesel to power their machines, thus pushing up production costs. Small, home-based producers can rarely afford to purchase generators, and the vast majority of the rural families are not even connected to the power grid. Another factor that has become increasingly important is the information and communications systems and other banking and commercial networks, facilitating rural-urban interactions and reducing the information and transaction costs of operating deep within rural areas. The biggest roadblock, almost literally, to the development of both agriculture and village industry in poorer northern states has been the poor quality of local transport infrastructure roads, irrigation services and power. In UP, for instance, inadequate infrastructure in general, and in particular, the decreasing availability and reliability of power supply and water for irrigation have lowered productivity in agriculture and industry, thereby contributing to lower rates of poverty reduction.

#### ***1.4 Effectiveness of institutions***

Delivery of programmes and developing sound infrastructure will need good governance and sound administration. Weak governance, manifesting itself in poor service delivery, excessive regulation, and uncoordinated and wasteful public expenditure, is seen as one of the key factors impinging on growth and development. Even for the village panchayats, the ordinary village people think that they have not benefited to the extent of funds provided by government. Corruption is singled out as the most important cause for the ineffective functioning of these institutions. Control which is exercised by the sarpanch and Block Level officials over the village panchayats and gram sabhas (which rarely meet) has not only buttressed corruption, but it has also led to pessimism that villagers at their own level cannot change and improve performance because of heavy dependence on elected functionaries and Block officials. The present system is, therefore, seen as to have actually reinforced dominance and unequal access to power, besides rendering the villagers helpless and

alienated. The major lessons emerging from the first round of Devolution in the wake of the 73<sup>rd</sup>/74<sup>th</sup> Amendment are as follows:

- ❖ Finance Commission and other development funds for local bodies should not be given to the states unless effective powers are transferred to them. Stringent cuts should be imposed on them in Central Assistance and other development funds.
- ❖ Provide PRIs with revenue raising powers of their own in order to reduce their excessive dependence on the State and Central Governments. Today the PRIs hesitate to levy and collect taxes, as they prefer the soft option of receiving grants from GoI. This must be discouraged and the local bodies be encouraged to raise local resources for development and then receive matching grants from the Centre. The more dependent a PRI is on the mass of its citizens for financial resources, the more likely it is to use scarce material resources to promote human development and reduce poverty. External funds with no commitment to raise internal funds make PRIs irresponsible and corrupt.
- ❖ Strengthen accountability of the local bodies, their standing committees and its representatives. Help to evolve a code of conduct for the newly elected members. Make rules and procedures simple and transparent. Strengthen financial management and audit procedures with the objective of *facilitating* the tasks to be performed by the elected functionaries drawn from all walks of life.
- ❖ Constitution should be amended to enable the states, if they so wish, to abolish either the district or the block level tier of the panchayats, and retain only one out of these two, in addition to the village tier, which has the highest potential for direct democracy and participation through the institution of the gram sabha.

With a view to bring about greater transparency in the functioning of PRIs and to ensure proper utilisation of funds, there is need to put in place a system of 'social audit'. Under this system, it should be ensured that all concerned have the information about the release of funds by DRDAs / Zilla Parishads to Blocks / Panchayats through press notes and similar information is given to the general public by the implementing departments when they receive funds. Gram Panchayats must display on their notice board information about the works executed, their value, employment generated, payments made along with the list of beneficiaries. This information must be verified in a meeting of the Gram Sabha. Payments made by the executing agencies for the materials should also be similarly made public for any one to verify.

Effective panchayats/user groups would also require effective district and block level administration, hence reforms for better governance cannot be ignored otherwise the elected leaders would also perceive the state being an 'open treasury'.

The way forward is clear. India needs to find better ways to empower its poorest citizens and bring them into decision-making at all levels. In addition to ensuring that the recently created Panchayati Raj Institutions (PRIs) include the poor fully as decision makers, India needs to transform its public sector so that the conduct of the police, the courts, and the bureaucracy in general is transparent and accountable to citizens at all levels. In addition, administrative and staffing reforms are needed within the civil service - to reduce fragmentation e.g. by streamlining and combining departments and sub-departments with similar functions, and to improve overall productivity and staffing and skills mix. Complementary reforms are needed at the sectoral level to improve regulation and service delivery in the areas that matter most for the non-farm economy – agriculture, power, roads and enterprise development.

To sum up, three main factors determine whether the non-farm sector can grow and work to reduce poverty. First, ensuring high rates of growth and surpluses in the agriculture sector will stimulate growth in the rural non-agriculture sector due to multiple and strong production and consumption linkages. Second, there is a need for adequate social and physical infrastructure to ensure the conditions for broad-based growth and good investment opportunities. And third, policies and spending patterns must be put in place to ensure that the rural non-farm sector has the capacity to adjust and modernise in response to conditions brought about by globalisation, increasing competition, and changing demands from consumers.



## 2 Changes in Rural Employment

The rural and village non-farm sector in India has immense potential to generate new jobs with relatively low direct investments, by utilising local skills and resources or by meeting local demands by adoption of simple techniques. Development of this sector would also prevent migration of rural population to urban areas in search of employment and reduce the pressure of increasing urbanisation. This paper describes the policy constraints due to which the non-farm sector has not been able to achieve its full potential.

The proportion of male workers in rural India engaged in the primary sector has been steadily declining from 80.7 per cent in 1977-78 to 74.6 per cent in 1987-88 and to 71.4 per cent in 1999-2000. Simultaneously, the proportion of their employment in the non-farm sector has witnessed a steady increase from 19.3 per cent in 1977-78 to 28.6 per cent in 1999-2000 (Radhakrishna 2002). The annual growth rate of the workforce in agriculture was 1 per cent during 1977-99 while the same in non-agricultural sector was 4.3 per cent during 1977-88 and 2 per cent during 1988-2000. Slower growth of rural non-farm employment opportunities in the 90's is resulting in an increased pressure on agriculture, and has obviously put a downward pressure on employment per worker as well as the wage rate (Jha, 1999).

The shift in the workforce from agricultural to non-agricultural activities is both an outcome of growth as well as a "distress" phenomenon. Since real wages of the non-agricultural sector have been higher than the agricultural sector, pull factors may be stronger than the push factors. However, the non-agricultural sector is so diversified in nature that to talk about averages may be hiding that component of this sector, such as artisanal activities and gathering of forest products, where wages may still be lower than the agricultural sector. Thus increasing dependence of the poor on non-farm incomes cannot be viewed always as a sign of a healthy rural economy. This is also because of increasing uncertainty and risk in agriculture. A study by Praxis (2001) of Bolangir district, a drought- and hunger-prone district in western Orissa, showed that many marginal farmers were forced to migrate under exploitative conditions almost as bonded labour, leaving their owned lands fallow because they could not depend on an uncertain crop from degraded lands. Technology is also becoming more capital intensive, often outside the reach of poor farmers. The structure of operational holdings is becoming more skewed than in the past (Vaidyanathan, 2000), although more rigorous analysis is needed here.

Female workers dependence on primary sector employment too witnessed a steady decline but only until 1987-88; in the post-1987 years, the proportion of these workers engaged in the primary sector remained more or less constant at 85-86 per cent (Chaddha 2002). Consequently, their employment in the non-farm sector witnessed a steady increase from 11.8 per cent in 1977-78 to 15.3 per cent in 1987-88, after which it showed a mild decline to 14.6% in 1999-00. Thus the employment base of rural female workers remains heavily tagged with agriculture. For wage earning women workers in rural areas, the overall relative position has become unfavourable, as wage rates are higher in non-agricultural than in agricultural sector and the rural wages in non-agricultural activities have risen while in agriculture it has stagnated (Unni, 1999).

Approximately one-fifth of total non-farm rural employment is estimated to be generated by public sector services, primarily public administration and education (Lanjouw and Shariff 1999). While manufacturing activities are often the first that come to mind when discussing the nonfarm sector, the NSS data shows that services are easily as important. Other important sectors in terms of employment shares were found to include retail trade, personal services, construction, wood products and furniture, road transport, and textiles.

### **2.1 Potential for growth**

On the whole the informal sector in India's rural economy is experiencing expansion side-by-side with contraction. Employment in construction, retail trade, and in restaurants has expanded more rapidly than livestock, fishing, manufacturing and repairs during the post-reform phase. The same is true, *mutatis mutandis*, of the urban economy. A sizeable shrinkage in the share of women's employment in manufacturing is another negative feature of the post-reform regime. It is perhaps due to the weak and non-sustainable bargaining capabilities of female job aspirants in the rural labour market, which is again caused by their educational, training and skill infirmities. Finally there has been a secular shift of unorganised sector units from rural to urban locations in some sectors of the unorganised economy, such as unorganised manufacturing.

The total number of family based enterprises in rural areas still continues to be very large, estimated to be engaging anything between 30 to 50 million people out of which the largest segment consists of 4.5 million *beedi* (locally made cigarettes) workers and about 2 million handloom workers (GoI, 2000). Most of these enterprises depend upon urban and semi-urban demand, and therefore are a product of modernisation. The traditional household-based, unregistered, unorganised activities catering to rural demand such as rope making, hand weaving, bullock cart making, etc. have generally under-performed. These form a relatively modest and diminishing component of the total non-farm activities, and certainly cannot be the harbinger of occupational diversification in rural areas (Acharya and Mitra, 2000).

To achieve growth, rural areas need productive activities which produce rural exports: goods and services that can be traded outside rural areas. The most important are likely to be agricultural products, but natural resource extraction (forestry, mining, fishing), allied agricultural activities (stall-fed livestock, bees, silk, aquaculture), rural tourism, traditional craft products, rural industry and rural remittances through migration also have potential as rural growth engines. In general, however, competitive advantage is found in sectors in which:

- primary activities that are tied to natural resources (agriculture, forestry, mining, tourism etc),
- initial processing of a natural resource reduces bulk, transport and wastage costs and is therefore situated close to the resource (e.g. sugar processing, mineral processing),
- labour is cost sensitive and can exploit low opportunity cost of labour off-season, and
- the rural population have specialised skills (e.g. arts and crafts).

### 3 Evidence from Village Studies

In addition to the large sample survey data, there have been many village-level studies observing an expansion of non-agricultural employment. Wisner and Wisner (1971), for instance, note the emergence of a tea stall by the bus stand, and new bicycle and tractor repair shops. Epstein (1973) reports on the movement of entrepreneurs to the tertiary sector; in 1970, cafes, shops, and cattle trading posts, cane crushers, and rice mills emerged where none existed in 1955. Srinivas (1976) notes investment in bus lines, while Saith and Tankha (1992) comment on bandplaying as a local speciality of growing importance to the residents of Parhil, Uttar Pradesh. These observations indicate an *expansion* of employment opportunities which often accompany the *contraction* of traditional services. The new labour market and self-employment opportunities tend to be rather caste heterogeneous, thus compensating at least in part, for the contraction in the market for traditional labour services. Village study evidence suggests that off-farm labour market opportunities are an important means of offsetting declines or high variances in income from agriculture (Walker and Ryan 1990).

A few preliminary conclusions can be drawn about the status of the non-farm sector in India (Lanjouw and Shariff 1999). First, linkages between the farm and non-farm sector in rural India are multifarious and strong. To date, there are a few examples in the literature of a vibrant nonfarm sector emerging without the support of the agricultural sector in generating demand, and providing investment resources. Second, small scale industrial activity in rural areas is widespread but the evidence suggests that many of the smallest enterprises (in terms of employment) are not terribly productive. At least some of the smallest enterprises may comprise last-resort sources of income (such as from gathering of forest products) to those who are unable to access agricultural sources. Third, employment levels in the nonfarm sector appear to be growing, at least up to the 1990s, although much of the employment growth is of a casual nature rather than permanent. A non-negligible source of employment is the public sector. Fourth, village studies indicate that access to regular non-farm jobs is positively correlated with individual and household characteristics such as education and landholdings. This implies that the most disadvantaged in village societies are rarely found to be employed in that component of the nonfarm sector which is well-paid. Finally, no matter what the nature of work undertaken, non-agricultural opportunities are valued highly by households, as they allow them to increase incomes at the margin, as well as minimise risk through diversification. As the rural economy becomes more diversified, the share of income derived from nonfarm employment has been rising in recent years for both the poor and the better-off. Thus, although the poor may not always directly participate in the well paid non-farm sector, the sector's impact on agricultural wage rates can be considerable, and therefore of indirect importance to poverty reduction.

Conditions that require rural industries to flourish are agricultural growth, infrastructure, credit, marketing facilities, technology transfer, and skilled human capital. The expansion of cottage and small scale non-farm activity thus depends upon a number of factors, which are influenced by government policies – directly or indirectly. We will discuss the impact of governmental policies on the non-farm sector under the following heads:

- Non-monetary macro-policy framework, and laws that hamper or facilitate rural entrepreneurship,

- Direct government schemes that are run by various government departments/agencies to promote non-farm activities and employment,
- Investment by government in allied sectors, such as agriculture, power and infrastructure that help rural industrialisation, and
- Effectiveness of institutions set up by government, including panchayats, in reaching services to the rural non-farm sector.

#### **4 Bureaucratic Controls and the Macro-Policy Framework**

Trade and industry have always been under tight government control in India. Unfortunately, de-regulation introduced after 1991 has made not touched the rural or the small informal sector, and has largely been confined to the modern manufacturing sector. One can set up an urban industry worth billions of Rupees in India without any license today, but a farmer in many states can neither set up a wheat flour mill nor a rice shelling plant, nor a cold storage, and not even a brick kiln unit without bribing several officials. Even in the urban areas, occupations in the informal sector, such as hawking, small manufacturing in residential areas are heavily controlled and often illegal! It is a sad commentary on our laws that economic activities in the informal sector which are labour intensive are mostly declared illegal and subject to the whims of law enforcing agencies.

##### **The urban poor in Delhi**

Delhi has about two lakh rickshaw pullers and more than three lakh vendors, mostly run by first-generation rural migrants. But the city government has put a limit of 50,000 on licences to pull rickshaws. Thus, about 1.5 lakh rickshaws operate illegally in Delhi. A vast majority of street vendors have no license either. They all operate outside the legal economy, harassed by the police and municipal authorities. The licence-permit raj is now largely gone for the Tatas and Birlas, but it is as entrenched as ever in the areas where the poor earn their livelihood. Formal economy is closed to them, so is formal housing. They are compelled to get their *roti* (livelihood) and *makaan* (living space) from the informal sector, in their case from the road itself.

Although examples of such meaningless bureaucratic controls can be given from several sectors, these are particularly very widespread in two rural activities: marketing of agricultural products via the various regulations passed under the Essential Commodities Act, and gathering of forest products, which is regulated under rules framed under the Indian Forest Act. As these activities involve a very large number of rural people, we discuss them in some detail.

#### **4.1 Essential Commodities (E C) Act**

The E C Act was formulated during the time when the country was facing severe food shortages and scarcities. At present the country has not only attained self sufficiency in most of the commodities, but has now surplus in foodgrains and other primary commodities. Restrictions by the E C Act, which were relevant 30 years back, now only hamper the market from performing its productive/ commercial activity. All the stakeholders, from producers to traders, transporters to agro-processors are irked by the multifarious controls and restrictions imposed under the E C Act.

There are a large number of licenses and permits to be obtained from the authorities under the E C Act. Apart from this a large number of registers are to be maintained and returns filed periodically. Inspections are carried out regularly to ensure adherences to the licenses obtained. These have increased bureaucratic rents and the operational costs of traders. Some examples of such controls are given below.

Some Orders/Notifications passed under the E C Act restrict movement of goods from surplus states to deficit states. The State Governments issue Movement Control Orders. The Government can specify that transportation of certain commodities can be undertaken only after obtaining a general permit or a special transport permit. Most of these orders and notifications come into being at the harvesting time and are issued by publishing in the official gazette.

In Andhra Pradesh and Tamil Nadu, farmers are not allowed to directly sell outside the State, nor can rice move outside the state without a permit. In Hyderabad, a permit from Managing Director of the Civil Supplies Corporation is required and in all other cases from the District Collector or Civil Supplies Officer of the district. Inter-state movement restriction of wheat in Punjab and Haryana tends to depress foodgrain prices and thus is anti-farmer, especially when government and its allied agencies like Food Corporation of India do not have enough storage capacity available. In Tanjore district of Tamil Nadu, the State Government imposes restriction on movement of paddy out of the district. Another example of movement control is on cotton in Maharashtra.

In Gujarat, for pulses, if no license is taken, then the stock holding limit is 9 quintals and if a license is taken, then stock holding limit is 25 quintals. The Government of Maharashtra has specified maximum storage period of 15 days for wholesale dealers. In Kerala, stocking of sugar is limited to 250 bags. In Andhra Pradesh, the stockholding in pulses and oils can be upto one months stock of raw material and half a months' stock of finished goods. In Uttar Pradesh, wholesale dealers have a stockholding limit of 1,000 quintals. In Punjab, limit on quantity of rice stored is 250 quintals. In West Bengal there are storage limits for rice (750 quintals) and wheat (400 quintals) for wholesale dealers. In Assam the wholesale dealer can store upto 10 quintals without license.

Orders like the Cold Storage and Fruit Products Orders specify storage rent to be determined by the authorities and licensee is liable to punishment if he does not rent out his space to Government agencies or cooperatives. The private trader has to estimate his costs which should determine the rent to be charged. Although GoI has repealed its Cold Storage Act, but several states, such as West Bengal, UP, and Bihar have their own state Acts, thus hampering setting up of new capacity in the private sector.

Regulated markets were supposed to improve efficiency, but many official market committees such as in UP, Punjab and Haryana make it illegal for farmers to sell through alternative channels (i.e. selling directly to millers). The markets have thus emerged as taxing mechanisms, rather than facilitating farmers to get the best price.

The marketing of agricultural produce, especially fruits and vegetables is governed by laws that stifle the development of agriculture. The existing laws require that wholesalers must purchase agricultural produce only in regulated mandis controlled by the Agricultural Produce Marketing Committee (APMC). Since most farmers are small farmers, they cannot directly bring vegetables and fruits to the mandis. They

typically sell their produce to village commission agents who collect produce on behalf of the market commission agent who sells to wholesalers in the mandi. Although sale in the mandi is supposed to be by open auction to ensure fair pricing, in practice the price is determined in highly non-transparent manner by negotiations between market commission agents and wholesalers. Lack of transparency is perpetuated by the fact that produce is not graded before it is sold. The prices arrived at in this fashion are declared as the mandi price and the farmer receives the residual price after the commission of the village commission agent and the market commission agent is deducted from the declared market price. Not only is the price determination nontransparent, the large number of middlemen, each of whom charges a commission, squeezes the realization of the farmer so that the gap between the farm-gate price and the retail price paid by the consumer is very large. Although originally designed to protect farmers' interests by creating regulated markets, the system has actually created a monopoly situation in which a small group of traders and agents are able to extract huge benefits. It is absolutely essential to liberalise the existing laws and allow competing markets to be set up. The Government of Karnataka has amended the Agricultural Produce Marketing Act by ordinance to allow National Dairy Development Board (NDDB) to set up a modern fruits and vegetable market in Bangalore. This is a welcome development. We would recommend full decontrol so that any group of persons should be allowed to set up modern marketing infrastructure to facilitate marketing of agricultural produce subject to paying the normal mandi tax. The establishment of competing market will help farmers.

The controls and restrictions, imposed under the E C Act and other similar laws, are dis-incentives to production and distribution of essential commodities. These have led to a situation where the trading class has to operate at very high margins so as to provide the maximum benefits being reaped by the inspectors. With the increased agricultural production in essential commodities, it is recommended that all agricultural produce and its products should be deleted from the definition of "essential commodities" of Section 2(a) of E C Act, and all Control Orders relating to or affecting agricultural produce/products should be rescinded. This would reduce the influence of various inspectors and their discretionary activities. The mere possibility of scarcity conditions recurring temporarily at some point of time in future is not a sufficient justification for keeping a huge juggernaut of bureaucratic set-up under the E C Act. Temporary scarcity conditions can always be dealt with by enforcing emergency regulations and legislation.

The Committee to suggest measures to increase off-farm employment under Mr S.P. Gupta, Member Planning Commission recommended (GoI 2002) as under,

'The Essential Commodities Act may be converted into an emergency legislation to be invoked only for a limited number of commodities and a limited period with due approval of the Central Government. All restrictions on movement of agricultural produce should be removed through a Central legislation, making it a fundamental right. All limits on stock of foodgrains and agricultural products must go. All restrictions on institutional finance against agri-stocks must be removed. Farmers and traders may be allowed to take loans from financial institutions by pledging their stocks. Corporate sector may be allowed to buy directly all agricultural produce in open market and requirement of routing commodities through mandies may be abrogated. All restrictions and licensing of processing of agricultural produce may be removed. Forward trading in all agri-commodities may be permitted and promoted within this year. Many of these measures have been initiated in the present Budget

2002. Besides, further action is needed regarding the management of “Agricultural Produce Marketing Act”, and the “Credit Link Subsidy System” for construction of cold storages and the rural godowns.’

It is learnt that GoI has accepted some of these suggestions and administrative orders have been issued to the states not to take any action under the EC Act. This order needs to be publicised very widely and repeatedly, otherwise the harassment of transporters and small traders would continue. The law itself needs radical change, and administrative orders may not be adequate to reduce risk and promote entrepreneurship.

## **4.2 Marketing of NTFPs**

The discipline of forestry has been traditionally identified with either ecological stability or as a source of industrial raw material, and not with the subsistence of the rural poor. However, forests in India serve important subsistence functions for 100 million forest dwellers, half of them tribals who collect fuelwood, fodder and even food items from forests for both consumption and sale. As opposed to timber, which is product of the dead tree; fruits, nuts, flowers and twigs, i.e. NTFPs are products of the living tree and can be harvested sustainably without any loss of tree cover. However, the legal regime associated with NTFPs is anti-poor and discourages local value addition. Some examples are discussed below.

### **4.2.1 Charcoal production from prosopis in Gujarat and Tamil Nadu**

A study by IIM Ahmedabad of charcoal makers in Gujarat showed that a simple operation of converting prosopis<sup>2</sup> into charcoal, which can give employment to thousands of people, requires several permissions. Harvesting, conversion, and transportation are all subjected to departmental controls involving cumbersome and time consuming procedures. For instance, the government of Gujarat has banned harvesting of prosopis from forest areas, and therefore, the production of charcoal is carried out in individual or private lands. The procedure established for harvesting and converting prosopis into charcoal is controlled by the revenue and forest departments. The steps followed are shown below:

- First Step: Application submitted by individual farmer producer/institution to the Revenue Department seeking permission for harvesting.
- Second Step: Revenue authorities visit the site and give permission for harvesting.
- Third Step: Application submitted to the Forest Department for permission to convert prosopis into charcoal.
- Fourth Step: Forest officials visit the site to estimate the likely quantity of charcoal that would be produced and give permission for conversion.
- Fifth Step: Farmers/producers then apply to the forest department for loading and transporting charcoal.
- Sixth Step: In the presence of forest officials charcoal is loaded in trucks. The truck number carrying coal, bags loaded, destination, route, and time of

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<sup>2</sup> an excellent coppicer with high calorific value; the more you cut it the more it grows; in the prosopis abundant districts sale of its twigs has emerged as a cottage industry for the poor, specially for women and children

departure, and estimated time of arrival are indicated in the pass issued for transport by the forest officials.

Seventh Step: Charcoal is carried to the specified market with the transit pass.

These constraints reduce production and increase cost of supply of charcoal. In Tamil Nadu too, another area of abundance of prosopis, charcoal producers faced several problems. The Tamil Nadu Government authorised in January 1986 Forest Officers to issue a certificate of origin for the transport of charcoal to other states after verifying the genuineness of its origin. However, charcoal producers had difficulties in implementing these orders, and satisfying the issuing authorities about the origin. Charcoal is prepared at the felling sites by small producers who are constantly on the move. They sell it at their sites or cart it to bigger producers who buy it, pool it and grade it for transport to other states. The same thing holds good for wood which bigger producers buy from different sources and convert it into charcoal. The small producers are not able to give any information about survey numbers, much less certificates from the village officers. They also cannot afford the "incidental expenses" incurred in getting a permit.

#### **4.2.2 Bamboo workers and forest policy**

The total number of cane, bamboo and basket weavers in 1981 was 8.2 lakhs, out of which 6.9 lakhs are in the rural areas. The share of female artisans was 43 per cent in this sector. The social situation of bamboo workers is quite bad as they are at the bottom of social hierarchy, and even other scheduled castes observe social taboo against them. These families have the expertise and skills of processing bamboo, and make hats, baskets, etc., but they are prevented from getting the full price for their labour, because of several controls and anti-artisan policy followed by the Forest Departments.

Bamboo, till its use in the paper industry was discovered in the early 20<sup>th</sup> century, was considered as a weed and was freely available to artisans. Situation changed when it became a raw material for pulp. As its economic value increased government created new rights of industrialists through long-term agreements to supply bamboo to paper industry at a low price. Reporting on the Koya tribe of the Malkangiri district of Orissa, P. Sainath writes (Times of India, March 15, 1994):-

Bamboo is the socio-economic oxygen for the Koyas. An oxygen which is being denied to them thanks to forest laws that have removed their access to that material - while granting access to major corporates seeking huge quantities of bamboo for paper (via the Orissa Forest Corporation). Ironically, Koyas are hired sometimes to do the felling on a casual basis, (but) seldom get the government rate of Rs 25 a day. With the denial of access, indebtedness - unlike the bamboo forests - appears to be growing in certain Koya pockets.

Besides, stocking bamboo and selling bamboo products requires permissions from the FD, which are available only after harassment and payment of bribes.

#### **4.2.3 Other NTFPs**

As the commercial importance of NTFPs increased during the 1960's and 70's, the state governments nationalised almost all important NTFPs, that is, these can be sold



only to government parastatals, or to agencies so nominated by the government. In theory, this right was acquired ostensibly to protect the interest of the poor against exploitation by private traders and middlemen. In practice, such rights were sublet to private traders and industry. Thus, a hierarchy of objectives developed: industry and other large end-users had the first charge on the product at low and subsidised rates; revenue was maximised subject to the first objective which implied that there was no consistent policy to encourage value addition at lower levels; tribal and the interest of the poor was relegated to the last level, or completely ignored. Many restrictions imposed in the past on NTFP processing and sale are still in place. The poor have no right to process or sell these items freely in the market.

#### **Ban on processing by the poor**

According to Orissa's policy up to 2000, processing of hill brooms can only be done by the lease holder, TDCC and its traders. Gatherers can collect hill brooms, but cannot bind these into a broom, nor can they sell the collected item in the open market. Thus the poor are prevented from both, doing value addition through processing and the right to get the best price for their produce. In one particular case (Das 1995; Saxena 1996), assurance was given by the Collector of Raygada to a women's cooperative society that it would be allowed to collect and market hill brooms, so that the primary gatherers, who are mostly poor tribal women, might get the benefit of higher prices in the market. The Society started functioning, but without a valid licence. After the Collector's transfer, rather than helping them with processing and finding the best price, the state government machinery at the instance of TDCC decided to launch prosecution against the women and their organisation. Their stocks were seized, and even after the court order for release, the full stock was not released causing huge financial loss to women.

Although this case of exploitation was brought to notice of state government and publicised in newspapers, the hold of traders and corrupt elements is so strong on administration that no remedial action was taken for several months.

Such restrictions are quite widespread in India. Gum collection by SEWA, a leading NGO of International fame, is a leading example of this phenomenon. SEWA organized the gum collecting women into groups, which got licenses from the forest department to collect gum. Due to the forest laws, the groups were not allowed to sell the gum in the market but had to sell it to the forest department at prices determined by the latter. The forest department began reducing its price from Rs. 12 per kilo to Rs. 10 and in one year even as low as Rs. 6, further impoverishing an already impoverished community. One of the reasons cited for this decrease of prices, was a large-scale import of gum from Sudan. However, the prices in the market were much higher than forest department prices, remaining around Rs. 20 to Rs 26. SEWA began a dialogue with the Government asking for special permission to sell gum directly in the market. This permission was reluctantly granted for a year, during which the earnings of the women went up considerably. However, the permission has not been renewed (Jhabwala and Kunbur 2002).

Practical considerations point out that government is incapable of effectively administering complete control and do buying and selling of NTFPs itself. It is better for government to facilitate private trade, and to act as a watchdog rather than try to eliminate it. Monopoly purchase by government requires sustained political support and excellent bureaucratic machinery. It is difficult to ensure these over a long period

and hence nationalisation has often increased exploitation of the poor. Experience shows that open markets may give producers the best chance of gaining a competitive price for their products. For marketing NTFPs therefore government should not have a monopoly, nor create such a monopoly for traders and mills. The solution is to denationalise NTFPs gradually so as to encourage healthy competition. Government should set up promotional Marketing Boards, as distinct from commercial corporations (which are inefficient, and hence demand nationalisation), with responsibility for dissemination of information about markets and prices to the gatherers. The Boards would help in bridging the gap between what the consumers pay and what gatherers get. Free purchase by all and sundry would also be in tune with the current liberalisation and open market climate.

### ***4.3 SummingUp***

To sum up, the opening up of the economy so far has been merely restricted to large organised sector, rather than being more widespread. It is only now that we are realising that freeing the small and poor producers from government controls may bring immediate benefits to a large number of dispersed and unorganised sellers of goods and commodities, and boost employment. Besides, doing away with many controls would reduce corruption. For instance, in several southern and western states, such as Karnataka and Maharashtra conversion of agricultural land for non-agricultural purposes is not freely allowed, with the result a farmer cannot set up industry on his own land! Surely farmers in commercialised regions, where cash crops are grown are well aware of market conditions, and can look after their own long-term interests. Permission from Collector/Government should not be necessary in such cases.

No wonder, opening up of the economy has not been seen as a political asset by the political parties. The Planning Commission Committee under its Member, Montek Ahluwalia has identified (PC 2002) several specific laws and rules that hamper entrepreneurship. Its recommendations should be accepted by government. State intervention in markets should be to turn markets friendly to the poor, by transferring many functions of the market (storage, transport, processing) to the poor themselves, on the other hand these functions had in the past been acquired by government through law, causing more market distortions.

Removing obstacles that hinder the poor as well as deregulating markets that work in favour of the poor would also help expand economic opportunities. For example, easing licensing restrictions on milk-processing capacity in Uttar Pradesh has led to a doubling of such capacity within four years. This has had a tremendously beneficial impact on the livestock economy in the state, which has been largely dependent upon female labour; yields and returns have increased along the milk routes and collection centres. In addition, research suggests that maintaining livestock, and in particular milch animals, can provide informal insurance and thus help poor households cope with unanticipated shocks.

Governments in India spends millions of Rupees in the name of non-farm sector, but the benefit is nullified due to a large number of laws and regulations that hamper entrepreneurship. Policies and budgetary provisions, despite the rhetoric, have not been integrated so far. They sometimes run on parallel tracks. One lesser known reason for this isolation is that development and planning in India are associated with spending of money. That Planning means Expenditure that will automatically lead to

Development is the mindset behind such beliefs. Changes in policy or laws are not seen as an integral part of the development process because these have no direct financial implications. The Indian planner unfortunately has still to understand the difference between planning and budgeting.

## **5 Liberalisation and the Small Rural Sector**

Trade liberalisation has both positive and negative impacts. It has brought stiff competition by way of cheap imports, but has also opened up several opportunities for expanding production due to improved prospects for stepping up exports of certain labour intensive, artisan and cheap raw material based rural non-farm products.

A study conducted in the state of Andhra Pradesh to assess the impact of a shift to aquaculture on women agricultural workers reveal that it has adversely affected both employment and earnings of women workers. While traditional paddy cultivation involved women in important activities like transplanting and harvesting, those engaged in aquaculture, shelling prawns, cleaning of moss from the tanks and de-shelling the snails worked as marginal workers. This marginalisation resulted in drastic reduction in person-days employed per season, and piece-rate and contract system of work reduced their wage earnings. Other indirect impacts include scarcity in the availability of food grains and increase in the distance that need to be covered by women for collection of fuel wood and defecation (Padma,1999).

### ***5.1 Reservation of products for small scale sector***

The small sector in industries is producing about 8000 items, out of which 812 items are reserved for production in the Small Scale Sector. Reservation, in the sense of a legal ban on production by large units, is a unique instrument used only in India. The reserved items constitute about 28 per cent by value of the total SSI production. Several recent developments call for an urgent review of the reservation policy.

In a number of cases e.g. toys, auto components, garments and leather goods, there is a vast export potential, but the country is unable to exploit this potential because it is not possible to go in for the desired technology and scale of operations to achieve international competitiveness within the permissible Rs 1- crore investment limit for plant and machinery for the Small Scale Sector. Many of these sectors have been clamouring for de-reservation or at least a very substantial increase in the investment limit.

Most of the 812 reserved items are now on OGL. The small scale sector has, therefore, to meet competition from large companies abroad including those located in neighbouring SAARC countries like Nepal, Sri Lanka and Bangladesh. Nepal already has duty-free access while Sri Lanka has preferential access. This means that domestic producers are not allowed to manufacture these products on a larger scale but these products will be importable from outside.

Domestic toy making is a case in point. Being a traditional cottage industry, employing predominantly female labour, it is plagued with lack of demand due to the import of cheaper toys from China. As the small manufacturing enterprises, especially own account enterprises employing mostly women face the threat of closing due to the threat of international competition, survival of many of these women workers are directly affected as well as their traditional skills ( Kalpagam, 2001).

This is clearly anomalous and calls for revising restrictions in India to allow domestic producers to increase investment levels to reach maximum scale. In some areas, there are a few large scale producers having “carry on business” licenses. While the Small Scale Sector is not able to offer them any competition, the reservation policy is precluding any competition from other large scale manufacturers. Thus, the fruits of the reservation policy are reaped by the existing large scale units, to the detriment of the consumers and the economy in general.

Statistics show that since the policy of reservation was introduced, the growth rate of Small Scale Sector in non-reserved areas has been higher than in reserved areas. This suggests that Small Scale production has done better where there is competition from middle scale units rather than where competition is eliminated.

For all these reasons, there is a strong case for reviewing the reservation policy to allow upgradation of technology in the Small Scale Sector, increased production, employment and exports as well as benefits to the consumer. The Abid Hussain Committee had recommended de-reservation accompanied by appropriate assistance to Small Scale Sector in terms of information base, availability of technology, technology transfer, improved credit availability and infra-structural and marketing support. These recommendations deserve careful consideration. At the very least, reservation should be abolished in areas which are critical for exports with a phasing out of reservation in other areas.

## **5.2 *Lack of protection under labour laws***

Many village industries are not covered under the Labour and Environmental laws. In any case, liberalisation has weakened government’s commitment to implement such laws.

Long years of engagement with one particular task can cause many health hazards. To cite an example, the *beedi* industry absorbs a substantial number of women labourers as beedi rollers. Largely a home based activity, women work on a piece rate basis, but face health hazards due to the peculiar nature of this work (Sudarshan and Kaur, 1999; Gopal, 1999; Government of India, 1995). As there is no effective mode of inspection (the Labour Inspectors are more used to factory based inspections) the Equal Remuneration Act is often violated. SEWA, Ahmedabad has done considerable work in this area and have pointed out how in Kanpur for *beedi* rolling there are different rates for 'mardana' (for men) and 'zanana' (for women) beedis. Many home based workers actually work long hours but are not compensated for it. One of the possible solutions that one could consider is implementation through boards on which for a particular trade employers, workers and the government are represented.

Workers in the slate mines in Andhra Pradesh are governed by the Mines Act which does not specify minimum wages. On the other hand, the Minimum Wages Act of the state government does not apply to the mine workers. Therefore the workers in the slate mines are virtually without any legislative protection. It is recommended that through a Parliamentary resolution the workers in the slate mines may be given the status of "worker", so that they are brought under the Minimum Wages Act. This will enable even the state government officials to take action for non-payment of minimum wages.

### **5.3 *Impact of Industrial Pollution on Rural Communities***<sup>3</sup>

Many small scale units cause a lot of environmental damage, such as textile dyeing and leather tanneries. Rapid industrialisation has resulted in heavy discharges of toxic chemical effluents to various water sources like streams, rivers and tanks causing serious damage to water quality and contamination of groundwater. This also affects agricultural production that depends upon the quality of irrigation water.

The Patancheru region in district Medak is among the most unplanned industrial estates in Andhra Pradesh, with no specific plan for establishing industrial units, which are established in a very unsystematic, haphazard and scattered manner. Patancheru houses some 80 firms, nearly half of which are chemical units, including some making life-saving drugs, which generate significant quantities of hazardous waste. These wastes are not controlled effectively and are dumped along with municipal solid waste on vacant lands close to the factories or along roadsides. These hazardous waste dump sites result in contamination of soil, surface and ground-water that has already crossed its assimilative capacity.

Irrigation systems are the worst affected, and at least 15 irrigation tanks have been completely polluted. Air or water pollution or both have affected around 15 villages in this region. Most common diseases are skin infection, teeth corrosion, joint pains, loss of appetite, defective vision, respiratory diseases, and chronic cough.

The most serious problem is of drinking water. People depend entirely on the municipal drinking water supply. But the meagre municipal water supplies force the villagers to depend on the contaminated water for purposes other than drinking. Livestock is also forced to drink the polluted water and hence suffer from various diseases. A number of deaths have been reported in the village, apart from declining milk yields and fertility rates. This adds to the woes of the households. The situation in Patancheru is alarming.

Pollution from the industries that produce life-saving drugs has turned the surrounding villages into virtual killing fields. Strict regulation of industry to adopt pollution mitigating technologies fostered by a compensation package is the only answer. However, industry has influence, and they are able to stall any action to their disadvantage.

## **6 Government Run Schemes for the Non-Farm Sector**

Successful implementation of development programmes requires adequate funds, properly designed schemes and effective delivery machinery. Past experience has suggested that availability of funds is no panacea for promoting rural welfare; it may be necessary but not a sufficient condition. The determining factor seems to be the capability of the funding Ministries/ State Governments to formulate appropriate schemes and the delivery system to optimally utilise funds and convert the schemes into the desired outcomes. Unfortunately both design of programmes and its implementation leave much to be desired. We look in this section at some of the schemes in the non-farm sector, whereas delivery issues are taken up in section 7. Therefore in this paper we are not describing how much money has been spent on what scheme in which plan period, but whether the design of the programme was

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<sup>3</sup> Based on Bhagirath Behera And V Ratna Reddy, 'Environment and Accountability' EPW, January 19, 2002

appropriate, and what was the outcome after years of expenditure in a few important government run schemes.

There are several schemes to promote the non-farm sector, mostly initiated by Government of India. There are schemes for creating entrepreneurship through subsidised loans (IRDP, SGSY, PMRY), schemes to provide skills (TRYSEM, ITIs), and to schemes to strengthen the gender component (DWCRA, RMK). Many of these self-employment schemes have now been merged as SGSY, which is the latest *avatar* of IRDP.

Then there are schemes to provide wage-employment (JRY, EAS, Food for Work, SJRY) on rural works programmes to achieve the twin objective of creation of rural infrastructure and generation of additional income for the rural poor, particularly during the agricultural lean season. The assets so created (roads, culverts) can boost the marketing of rural products, thus indirectly helping the non-farm production and incomes.

Finally, there are schemes for the specific groups of industry, such as khadi and handlooms, handicrafts.

We discuss them in brief.

### **6.1 IRDP**

Since the inception of the programme till 1998-99, 54 million families have been covered under IRDP at an expenditure of Rs 13700 crore. The average investment per family, which was Rs 7,889 at the beginning of the Eighth Plan, rose to Rs 18377 during 1998-99. Even then the average investment per family has remained at sub-critical levels, too inadequate to generate income of Rs 2,000 per family per month as it was expected to do. Moreover, the IRDP along with its allied programmes like TRYSEM, DWCRA, GKY, SITRA and MWS presented a matrix of multiple programmes without desired linkages. These were implemented as separate programmes without keeping in mind the overall objective of generating sustainable incomes. For instance, only 3 per cent of IRDP beneficiaries received training under TRYSEM and only 23 per cent of those trained under TRYSEM were assisted under IRDP.

Not only there were no linkages between different programmes, there has been lack of coordination with other departments. IRDP and its allied programmes are not sufficiently enmeshed in the overall strategy of sustainable agricultural development or rural industrialisation strategy or with the resource-base of the area. This absence of integration together with lack of technological and institutional capabilities put a question mark on the very strategy and design of IRDP and allied programmes.

The management of such inherently unviable projects was in the hands of often illiterate and unskilled beneficiaries with little or no past experience of managing an enterprise. There was, however, an implicit assumption that the prospective beneficiaries possessed information and the skills to choose viable options, had access to raw materials and were aware of the nature of the product and factor markets. This was not the case; IRDP did not take into account the disabilities from which the poor suffer, notably their exclusion from the community decision making. As a result, many beneficiaries could not retain the assets for long. Some of those who could did not earn enough to cross the poverty line. On the contrary, where infrastructure was in place and markets were developed, the IRDP had much better success.

The delivery of credit by banks leaves much to be desired. Banks have never been agents of change; this is a new role assigned to them which they are expected to perform while keeping their own financial viability intact and operating on commercial lines. Still strongly guided by the fear of the loan becoming bad, the banks prefer lending to those applicants who would repay the loan in time. Such applicants turn out to be either the better-off ones who can make their projects work even without subsidy, or the unscrupulous ones who would pocket the subsidy element and repay the loan in connivance with the bank. Furthermore, IRDP loans are treated as a one-time affair; once the loan gets repaid the bank is relieved. It is not a continuing relationship to enhance the capability of the poor. Because of this, there is a tendency for the borrowers to default in repayment of loan.

Lack of imagination and planning has led to overcrowding of lending for certain projects. For quite sometime, IRDP was seen as a scheme for distributing milch animals without any concern for whether so much of feed and fodder and veterinary care would be available or not and whether there was any demand or market for the products. As a result, the same cattle changed hands several times and the banks, the block officials and the beneficiaries became a part of the massive racket of pocketing subsidy. Situation has changed and now there is greater emphasis on secondary and tertiary sector activities but the profitable activities in these sectors get saturated very fast as a result of over-lending. The basic problems of lack of demand analysis and availability of inputs remain.

Leakages, misappropriation of funds, violation of programme guidelines, selection of the non-poor as the target group, absence of proper maintenance of accounts and poor quality of assets have all been documented in various studies (MTR 2000). A comprehensive study on panchayats, development and poverty-alleviation in Uttar Pradesh found no evidence that Gram Sabha has played any role in the selection of beneficiaries or in the selection of schemes as envisaged under IRDP. The study further reported a well-entrenched system of graft which takes many shapes including supply of over-priced assets about which the beneficiaries have no clue.

The scale of IRDP had outstripped the capacity of government and banks to implement it. The administrative machinery to monitor local physical investment opportunities against which credit disbursement targets can be fixed simply did not exist. This led to over-investment and non-repayment of loans jeopardising the financial health of rural banking system.

IRDP exposed one major weakness, that is, an individual - and that too a poor individual without any skill or experience in managing an enterprise - cannot be turned into an entrepreneur overnight by this programme. Providing technical and managerial support to a large number of such individuals who received a whole range of assets was indeed an uphill task. It was realised that it was easier helping a group of such individuals who can be better organised, better trained and made more viable.

## **6.2 Skill building programmes**

The TRYSEM was a facilitating component of IRDP and aimed at providing basic technical and entrepreneurial skills to the rural poor in the age group of 18-35 years to enable them to take up income-generating activities. The concurrent evaluation of IRDP (1995) showed that the rural youth trained under TRYSEM were only interested in the stipends and had not used the knowledge gained under the programme for furthering their self-employment prospects. A study on Chhapra (MTR 2000) reports

that the youth supposed to have been trained under TRYSEM neither received any training nor stipend. Places shown as training institutions simply did not exist. On the whole there has been poor assessment of opportunities where the skills gained under TRYSEM could be fruitfully used. TRYSEM had a weak link with the overall strategy for self-employment in rural areas or with the industrial policy. The training was not related to the capacity or aptitude of the trainees and was unrelated to the demand for the concerned skill. It was indeed impossible for trained rural youth to run a self-employment enterprise with a poor technological base and uncertainty over availability of credit.

The position in relation to training programmes for vocational skills for the non-poor category is equally alarming. Only 5% of labour force in the 20-24 age category have vocational skills compared with 28% in Mexico and as much as 96% for Korea (GoI 2001). Part of the problem is a strong preference among the young for general education over vocational training because general education has traditionally been seen as a route to acquiring government jobs, which are highly valued. This has led to a low demand for vocational training courses. However, there is also a problem with the supply side of vocational training. The physical capacity of the existing training institutes is limited and the quality of the training provided is also not up to the mark. Training courses in government run institutes are often not sufficiently reflective of market demand. There is also a perception among employers that the skill levels acquired by graduates of these institutes are inadequate. GoI should experiment by handing over the management of these to the large business houses, who would reorient the training programmes and improve their quality so as to suit the requirement of their industry.

### **6.3 *Swarnjayanti Gram Swarozgar Yojana (SGSY)***

With a view to have a more focussed approach to setting up of new enterprises, to derive advantages of group lending and to overcome the problems associated with multiplicity of the programmes, it was decided in 1999 to restructure IRDP and its allied programmes into a single self-employment programme called SGSY. In the first two years of the programme, 785,000 SHGs were formed but only 56,222 could take up economic activity. The overall progress of the programme during the first three years of its operation has been rather very slow. In spite of shift in the emphasis from individual oriented assistance to assistance on group basis, individual assistance continued to be a dominating feature under the Programme. The level of utilisation of funds, credit disbursement per family investment and credit subsidy ratio were also low.

Regarding Bank credit, it may be mentioned that its flow has also not been smooth during these years particularly for group activities. Utilisation of subsidy under the programme, depends on the availability of the credit. Besides, inadequate appreciation of the objective of the SGSY and advantages of group finance by the field level Bankers, inadequate delegation of power to the Bank Branches to sanction loans beyond a certain amount has been another obstructing factor in the progress of the SGSY. Another related problem is the insistence by some banks for collateral security for loan beyond Rs.50,000/-. With emphasis on group approach the size of group loan/investment has increased. A group now may require an investment of more than Rs.2-3 lakhs for sustainable self-employment of its members. While the modus operandi of providing collateral security for group loans should be clarified, there is



also a need to enhance the loan limit for collateral security in view of the increase in the size of investment on group activities. Inadequate availability of credit has adversely affected average per family investment and credit subsidy ratio during first three years of the programme.

Sectoral integration has been a major casualty of the non-farm sector programmes. Very few activities under these programmes were dovetailed with either the overall development strategy of the area or the specific sectoral programmes of a given department. Thus, many industry-related schemes were taken up without linking them up with the schemes of the Industries Department of the State. In the absence of such linkages, much of the benefits from the government investment could not be sustained.

The SGSY is conceived as a credit-cum-subsidy programme, with credit as the critical component and subsidy as a minor and enabling element. Accordingly, the SGSY envisages greater involvement of banks and promotion of multiple credit rather than a one-time credit injection. Although subsidy under SGSY is back-ended, it is still possible – in the absence of any monitoring mechanism - for the banks and the borrowers to collude and pocket the subsidy.

Similar problems were noted in the implementation of PMRY, which is the equivalent of SGSY in urban areas. An evaluation of the PMRY (IAMR 2001) shows that the scheme was not popular, the average recovery rate was 29%, and according to the banks wilful default and misutilisation of funds were the main reasons for non-payment of loans.

Subsidy element in the anti-poverty programmes is a major source of corruption and a disincentive to lend on account of low recoveries. Subsidy attracts the wrong kind of people, who have no little expertise or interest in setting up an entrepreneurial activity. The experience with the rural credit delivery system reveals that what the borrowers need is adequate and timely supply of credit – cost of credit is secondary. Therefore, there is need to phase out subsidy in the rural lending programmes and banks should be encouraged to lend adequate funds to viable projects – preferably managed by self-help groups - that would ensure generation of income for the borrowers and repayment of the bank loan.

A conceptual problem in evaluating self-employment programmes is that it is not easy to determine whether the employment created by these programmes represents additional employment which would not otherwise be created, or whether the employment opportunity would have come up in any case though it may have been availed of by a different person. One can envisage a situation for example where the scope for setting up of new units in the various activities eligible for SGSY assistance is determined primarily by the demand in the economy. In the absence of SGSY these opportunities for new enterprises would be taken up by individuals who are able to do so without special assistance and what SGSY effectively does is that it helps certain categories of the population to gain access to these opportunities which may otherwise be closed to them because of lack of access to subsidy. In this case, SGSY does not actually create additional employment opportunities as much as help diverting the existing opportunities from those who are market driven to those crafty individuals who are able to corner subsidies, but do not repay loans to the banks.

#### **6.4 JRY/EAS/Food for Work/SJRY**

These schemes are to generate non-farm employment in the rural areas. However evaluation studies of the programme reveal that the employment generated per person was too inadequate to bring about any meaningful increase in the earnings of the beneficiaries. The resources available were spread thinly so as to increase the coverage of areas/beneficiaries without any concern for duration of employment. Projects selected bore no relationship to the local needs, or the agricultural development strategy, or to the development of rural infrastructure. Neither the location of such works nor their timing was in accordance with the spirit of the programme. As a result, needless projects were taken up to avoid lapse of funds. A study in Uttar Pradesh reports that the timing of works coincided with peak agricultural season and that the selection of works was not done in the gram sabha as is required.

JRY, and similar rural works programmes, has encouraged corruption on a very wide scale both at the political and administrative levels. JRY has attracted many politicians who now act as contractors wanting to execute the schemes even though contractors are banned from executing these works. At the administrative level, fudging of muster rolls and measurement books is very common resulting in huge loss of funds that could otherwise have been invested in building rural infrastructure.

A comprehensive evaluation of EAS by the Programme Evaluation Organisation of the Planning Commission found that in the matter of asset creation, the Central norms have not been followed. For example, in none of the sample States, 40 per cent of funds for watershed development and 20 per cent for minor irrigation, link roads and buildings for schools and anganwadis were earmarked. In Bihar, 69 per cent of EAS funds were allocated to activities like school buildings/anganwadis which are not labour-intensive. Similarly, in Gujarat, Haryana and West Bengal the unit cost of employment generation in school buildings / anganwadis is abnormally high (Rs 200 to Rs 300, that is, four to five times the daily minimum wages). It is difficult to justify allocation of funds to such activities under the employment generation scheme. No inventory of assets was kept and it was difficult to know whether the asset created was community or private asset.

Several lacuna have come to notice in the design and implementation of EAS. First, bogus reporting. Field staff have learnt to report figures in the manner expected of them, that is they must show that targets have been fully achieved irrespective of what the ground situation is. Collectors are under pressure from the state governments to furnish utilisation certificates, so that states could draw the next instalment from GoI. Therefore money is considered to have been spent when it is allotted from the district to the panchayats, even when no physical expenditure has taken place.

Second, employment generation programmes create incomes for the rural poor but no assets. Once such programmes are withdrawn the poor may again fall below the poverty line, if family based assets are not created for them. Third, development of vital infrastructure like road, water supply, electricity, schools and the like is neither labour intensive nor results in assets which are primarily used by the poor. The choice of projects gets severely limited if sustained benefits other than one-time employment to the rural poor is to flow. Fourth, employment schemes provide massive amount of funds for the provision of road and school construction, in which villagers become (temporary) state employees of the concerned departments, leading to a continued state of psychological dependency on and expectation from the state. And lastly, such

programmes have encouraged corruption on a very wide scale, both at the political and administrative levels.

The EAS, like other wage- and self-employment programmes, will have to be so designed that, apart from providing short-term employment, it leads to improvement in productive capacity of individuals and areas which, in turn, would make greater employment on sustainable basis possible. This entails preparation of a district plan based on resource endowment and felt needs of the people. Works taken up under EAS should be viable and integrated with the development plan of the area. Sectoral programmes of agricultural development should focus on works that enhance productivity of land, such as soil and moisture conservation and drainage, which are also taken up under wage-employment programmes like JGSY and EAS. Sectoral and wage-employment programmes should not work as separate regimes but as an integrated programme. Wage-employment programmes have a tremendous potential to contribute towards environmental sustainability, but need to be integrated with sectoral programmes. There is a need to fully tap this potential.

As regards the self and wage employment programmes, one would like to make the following recommendations:

- SGSY (IRDP) should be transformed into a micro-finance programme to be run by banks with no subsidy, on the lines of Rashtriya Mahila Kosh.
- Funds should be provided to gram sabhas only when the people contribute a substantial amount, say, 25 percent in normal blocks and 15% in tribal/poor blocks.
- Employment programmes should be replaced by the food for work programme to be run only in areas of distress. In all areas, the focus should be on undertaking productive works and their maintenance, such as rural roads, watershed development, rejuvenation of tanks, afforestation & irrigation.
- Grassroots women's groups and SHGs should be empowered and encouraged to set up new units.
- Special efforts should be made to strengthen the economy of marginal and small farmers, forest produce gatherers, artisans, unskilled workers etc. The poor should not merely benefit from growth generated elsewhere, they should contribute to growth. This would need strengthening of programmes based on the skills and assets that the poor possess, and helping them with credit and market support.

### **6.5 Khadi**

Over the years, the production of khadi cloth has been on the decline. It was 109 million sq.metres in 1990-91 and has declined to 98 million sq.metres in 1998-99. Employment in this sector has also fallen from 14.15 lakh persons in 1990-91 to 13.85 lakh persons in 1998-99. Even these figures were not found credible by the Comptroller and Auditor General of India in its review of the performance of Khadi and Village Industries Commission (KVIC). The review observed (CAG, 2001):

“Targets to create employment under various employment generation schemes ranged from 0.89 *per cent* to 13 *per cent* only.

Under the CBC scheme, as against the target of 20 lakh persons, the total additional employment generated by March 1999 was 1.79 lakh persons only. Under the DSEP, against a target of creating employment of 7.10 lakh persons in 71 districts, the actual achievement was only 10826 persons in 45 districts only which was two *per cent* of the target fixed. Similarly, under BDP, against a target of 1.25 lakh persons in 125 blocks the achievement was 15831 persons from 97 blocks after spending Rs 23.87 crore which was only 13 *per cent* of the target fixed.

Thus, KVIC continued to project a highly exaggerated picture of its contribution to employment generation in the country.”

Moreover, the quality of employment opportunities generated from these activities is relatively modest. For example, KVIC data indicate an annual income of only Rs.4000 for full time workers (ie only Rs. 333 per month) and only about Rs.1500 (ie Rs. 125 per month) for part time workers. These figures are very low even for rural areas.

The khadi programme suffers from some basic infirmities. Costs are high and the product at the lower end of the quality range is not able to compete with mill-produced fabric available in the market. Then its dependence on government subsidies is very high. Any change in the rebate policy for khadi upsets the production schedule and output of khadi producers. The sector is not able to avail funds from banks and depends on the budgetary resources for meeting expenses on the staff, etc. Its marketing is not well organised leading to high stock of unsold khadi.

**PEO evaluation** – This sector was evaluated by the Programme Evaluation Organisation of the Planning Commission in 2001. The main findings were:

- inadequate linkage between production and sales strategies resulting in accumulation of stocks,
- low return on investment,
- non-performing asset build-up, and
- low production and shrinking employment opportunities.

The first and foremost requirement is a thorough overhaul of the marketing strategy for khadi products. Product development and marketing need a professional approach. One way of addressing this issue is to leave the entire marketing and product development to the private sector, while the semi-processed goods can be produced by the KVI units/institutions under the guidance and supervision of KVIC as at present.

A committee on strengthening of the khadi and village industries sector was set up under the chairmanship of Shri K.C. Pant, Deputy Chairman, Planning Commission. The report of the Pant Committee, submitted in November 2001, recommended a special package for the development of the sector. The package includes: (i) providing the option of market development assistance (MDA) or rebate for khadi cloth; (ii) continuity of rebate/MDA for five years; (iii) creation of a database for the sector; and (iv) intensive marketing support so that the sector may fulfil the

objectives of generating rural employment and improving the quality of life of the rural people.

Under the National Programme for Rural Industrialisation (NPRI), announced in the 1999 budget speech of the Finance Minister, 50 clusters have been identified by the KVIC for cluster development. Twelve clusters were taken up in 1999-2000, out of which five have commenced production. Further work on the promotion of rural clusters for increasing sustained employment and establishment of backward and forward linkages, setting up of Common Facility Centres, common service network support for satellite cluster units, etc should be taken up by the KVIC.

One may recall that a similar programme of rural industrial estates has been under operation in several states for the last two decades, but with little success. The share of functioning units was often less than half, and in Bihar was only 22 per cent (GoI 1997). Such units suffered from several disadvantages; lack of skilled manpower, poor quality of power, inexperienced entrepreneurship, high corruption, and poor quality of goods that could not be sold.

### **6.6 Handlooms**

Handlooms produce somewhere about 7-10 per cent of cloth produced today while its share was about 20 per cent two decades ago. The main reason is that handloom weaving is an inefficient economic activity, primarily due to its very low productivity and non-availability of market for its products. Handloom weaving still continues because the weavers have no options. Handloom weaving provides a major source of livelihood for lakhs of people in both rural and urban areas and is the largest employer after agriculture.

The handloom sector has always depended on state support, such as reservation of items to be produced exclusively by the handloom sector, and ensuring access to raw materials (such as hank yarn) at reasonable prices. While powerlooms and mills use the cone form of cotton yarn, handlooms use hank yarn. All rely on yarn produced and made available by the spinning mills. The hank yarn obligation (HYO) on mills is seen by supporters of the mill sector as a burden on mills and they urge that it be done away with. However, it will affect the livelihoods of lakhs of handloom weavers, and therefore is not desirable. Powerlooms too find it difficult to compete with the mills. Promotional schemes focused on training and skill upgradation, design and technology improvement, supply of quality tools, strengthening of organisational support have continued for several years without much improvement in the situation.

For a dispersed industry such as handloom weaving, state support has hitherto been more in the form of subsidies and welfare schemes, rather than of ensuring its entitlements as an industry. The most urgent task today is one of developing such structural supports that could help the handloom industry realise its potential as a productive industry and as a major generator of employment. As a productive industry, the handloom sector's entitlements – to raw materials, credit and markets – must be met, and any government policy on textiles has to be based on a clear understanding of such continuing requirements.

### **6.7 Government schemes - summing up**

To sum up, the various government sponsored programmes for boosting the non-farm economy so far have achieved marginal success. There were certain structural

weaknesses in the approach as these were based on the wrong assumptions that (a) rural enterprises were motivated enough to spontaneously come out of their social and cultural stranglehold on the call of government agencies; and (b) bureaucracy was well equipped to take up the new challenge (Adhikari, 2001). The other problem is the multiplicity of schemes and agencies and the absence of any comprehensive coordination and follow-up mechanism. Further, with the emphasis shifting from protective to promotional measures now, technological upgradation, market surveys, producer and design development have become the central themes of development programmes. However, they are not well co-ordinated and routinely administered. Departments/development agencies responsible for these interventions carry out their functions in a routine manner and there is little co-ordination between them and much less with pioneering institutions, both government and nongovernment, engaged in rural technology, training, extension and marketing of rural industry products (Dantwala, 1995). Very often, the district level agencies and their extension staff at the block and village level as well as NGOs, majority of which are engaged in activities other than income generation, do not have information regarding improved technologies, activity-specific product range and designs, sources of raw material capital equipment and markets. Even if new products and designs are known, seldom are these introduced as it would require (a) acceptability of designs/new products (sometimes technology also) by artisans and (b) marketability of the new products.

A major problem for expanding outreach of self-employment programmes is the lack of efficient micro-finance institutions to deliver services. The over-emphasis on lending compared to the provision of insurance, saving and other financial services, and build their linkages with markets is a major constraint for reaching those who are most vulnerable and risk-averse. Therefore building and strengthening such organisations should be given a high priority.

This becomes all the more difficult when there are two parallel programmes – one government sponsored subsidised programme and the other without subsidy/ stipend – in the same area for the same target group. Further, contribution of multiple agencies to the improvement in the performance of artisan industries is not tangible. In this situation, the best course seems to be to merge various programmes and implement them in coordination with a couple of leading professional NGOs in the district, of course, after strengthening the capabilities of the NGOs. NGOs' participation will be mutually advantageous as it will not only ensure better participation of the target groups but also lend quality to the programmes. As regards activity-specific programmes, a majority of the traditional industries, even after diversification of product, do not seem to be self-sufficient. Terracotta pottery, bamboo products are some such activities which in spite of widening the range of their products – both utility as well decorative – do not command a large market to sustain a large number of artisans. On the other hand, agarbatti-making (involving a large number of women) and fancy leather products are doing well in the select districts as these activities command a relatively larger market. Last but not the least, low income entrepreneurs and producers are excellent clients of financial services willing and able to repay high interest rates. However, a range of intermediaries – commercial banks, specialised financial intermediaries, NGOs, co-operatives, credit unions, self-help groups as well as promotional institutions such as DRDA, DIC, specialised agencies need to equip and gear themselves to the changing scenario of skill technology and market to provide a wide variety of services.

## 7 Growth in Other Important Sectors

Despite a large number of government schemes, it appears that they have had little impact on the growth of the non-farm sector, which seems to be more dependent on either the growth in the agricultural sector that provides backward production and consumption linkages as well as forward linkages through processing of agricultural commodities, or on the general growth in the economy that opens up new markets for rural skills and crafts.

We discuss some of these constraints of sectoral policies and suggest action that needs to be taken.

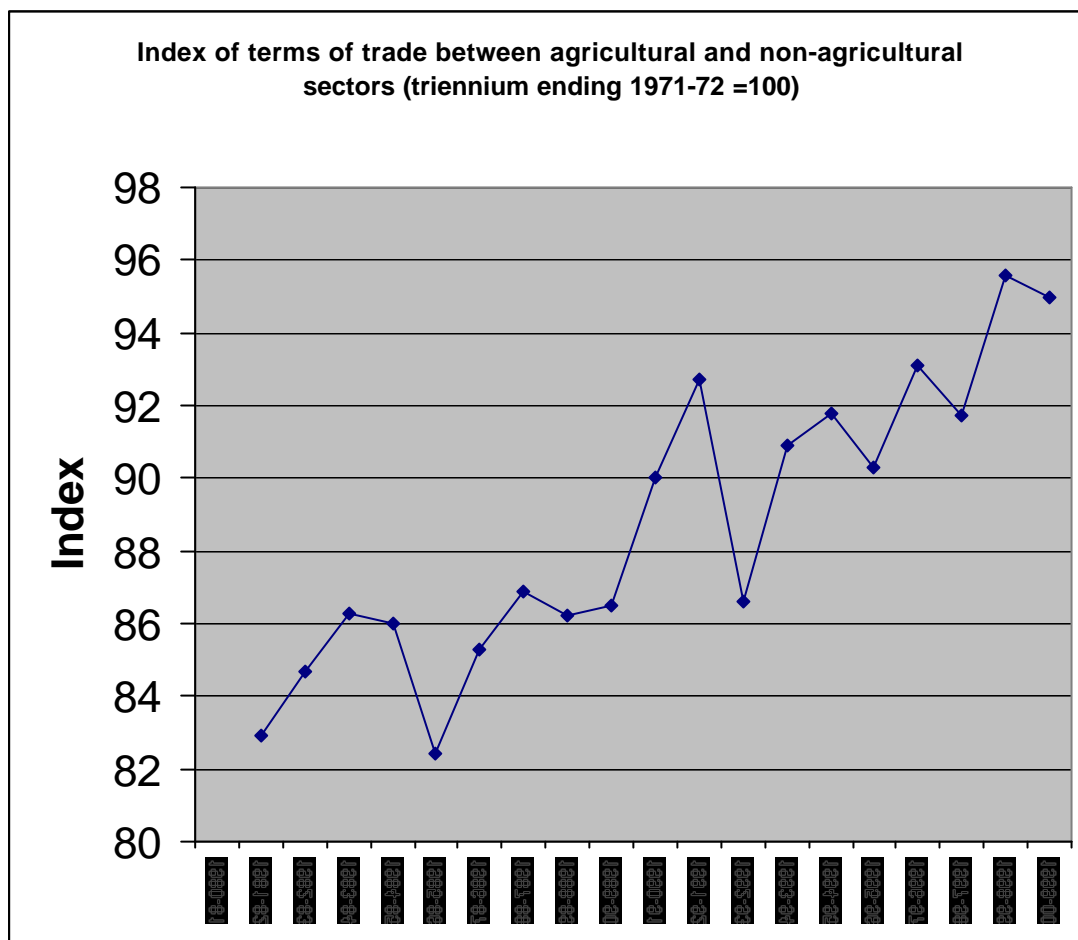
### 7.1 *Distortions in agricultural policy*

It is widely recognised that rural industrialisation is stimulated by rapid agricultural growth (Saith 2001). It is likely that the slow down in the non-farm employment in the 1990s is because of the decline in the agricultural growth in the same period. During the period 1989-90 to 2000-01 growth rate of production for both foodgrains and non-foodgrain crops taken together declined to 2.35 percent per annum from 3.72 percent per annum achieved during 1979-80 to 1989-90. The decline in the rate of growth for foodgrains was sharper from 3.54 to 1.80 per cent per annum. This has also resulted in slower increase of real agricultural wages from 4.68 percent during 1981-91 to 2.04 percent between 1991-99. Why this slow down?

The policy approach to agriculture, particularly in the 1990s, has been to secure increased production through subsidies in inputs such as power, water and fertiliser, and by increasing the minimum support price<sup>4</sup> rather than through building new capital assets in irrigation, power and rural infrastructure. The equity, efficiency, and sustainability of the current approach is questionable. The subsidies do not improve income distribution and the demand for labour. The boost in output from subsidy-stimulated use of fertiliser, pesticides and water deteriorates the aquifers and soil – an environmentally unsustainable approach that may partly explain the rising costs and slowing growth and productivity in agriculture, notably in the Punjab and Haryana. Moreover, the deteriorating state finances have meant that subsidies have, in effect i) “crowded-out” public agricultural investment in roads and irrigation and expenditure on technological upgrading, ii) limited maintenance on canals and roads, and iii) contributed to the low quality of rural power. These problems are particularly severe in the poorer states. Although private investment in agriculture has grown, this has often involved macroeconomic inefficiencies (such as private investment in diesel generating sets). Instead of seeking low cost options that have a higher capital-output ratio, present policies have resulted in excessive use of capital on the farms, such as too many tubewells in water scarce regions.

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<sup>4</sup> The average excess of actual procurement prices announced for wheat over cost of production during the 1980s was 63 per cent, which increased to 96 per cent during the 1990s. A more or less similar trend is observed in the case of rice as well.

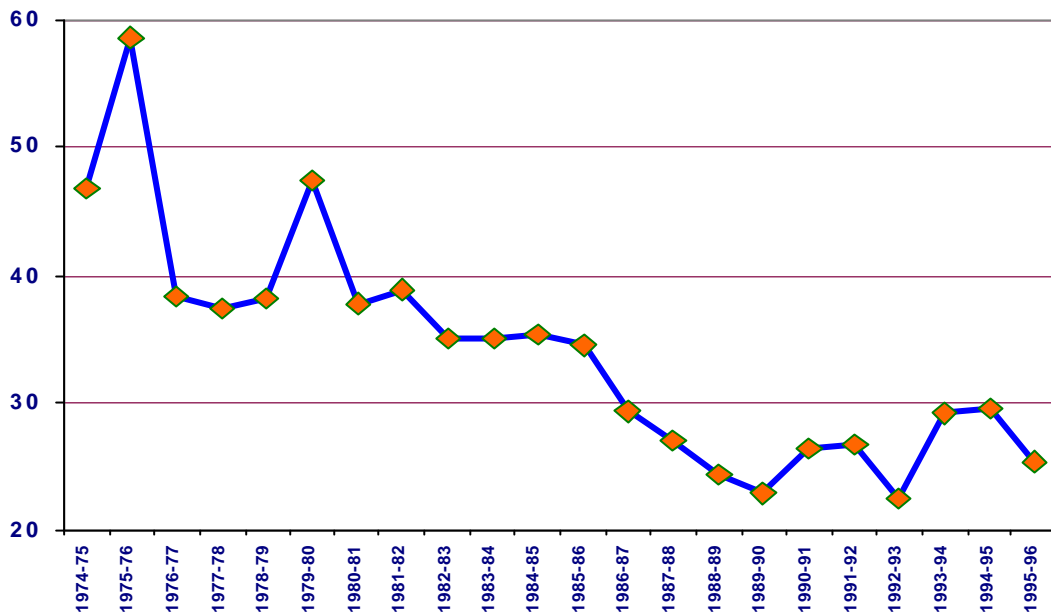


Sources: MTA 2000, Mid-term Appraisal of the 9<sup>th</sup> Plan, Planning Commission, New Delhi

Intensity of private capital is in fact increasing for all class of farmers, but at a faster pace in green revolution areas and for large farmers. Thus, the weight of fertilisers, pesticides and diesel that accounted for a mere 14.9 per cent of the total inputs in 1970-71 in the country increased to 55.1 per cent in 1994-95. For a large farmer in commercialised regions it could be as high as 70 per cent. But the proportion of output sold has increased at a much slower rate than the proportion of monetised inputs, including hired labour. The implication of this is a resource squeeze in agriculture. Whereas the need for resources to purchase these inputs has been increasing, the marketable surplus has been increasing at a slower rate to absorb this, as growth in non-farm employment has become very sluggish. It is not surprising that the repayment of loans is such a problem in Indian agriculture and has even led to suicides in some cases. A better strategy would be to concentrate on small and marginal farmers, and on eastern and rainfed areas where returns to both capital and labour are high. The need is also for better factor productivity in agriculture or of a new technology, which would be more labour intensive and would cut cash costs.



## Public Capital Investment in agriculture during 1974-75 to 1995-96 at 1980-81 prices in billion Rs.



36

Sources: MTA 2000, Mid-term Appraisal of the 9<sup>th</sup> Plan, Planning Commission, New Delhi

In addition, the following changes in agricultural policies are suggested:-

- Agricultural output increased in the 1990s because of higher output support price and input subsidies. Now it must come from higher investments in irrigation, seeds, power and roads. Therefore public investment in irrigation, power and roads should be sufficiently stepped up by reducing subsidies on fertilisers, water and power.
- Canal systems are in poor shape for lack of operations and maintenance outlay. These should be improved by stepping up plan allocations for maintenance, involving users' groups in management, and appropriate pricing of water to cover operation and maintenance costs.
- Minimum Support Prices for foodgrains and other commodities should be reduced as to promote diversification of agriculture, environmental sustainability, and reduction in food subsidies.
- And lastly, eastern and central region (through watershed development) should be the focus of attention during the 10<sup>th</sup> Plan.

These measures can put agriculture on higher growth trajectory as well as trigger growth in the non-farm sector too.

## 7.2 *Neglect of infrastructure*

Poor progress in the energy-transport infrastructure has always been a major constraint on any effort to achieve a significant acceleration on the growth of the non-farm rural sector. Since these are non-tradable services, the necessary expansion in supply must come from increased domestic production. The quality of these services in terms of both price and reliability are as important as availability. It is well known that we face serious problems on both counts. The lack of adequate infrastructure is particularly acute in rural areas, as well as in poorer and more backward regions of the country. Nearly a quarter of UP's villages still lack all-weather connectivity. Power shortages are endemic, and many businesses resort to using diesel to power their machines, thus pushing up production costs. Small, home-based producers can rarely afford to purchase generators, and the vast majority of the rural families are not even connected to the power grid. Another factor that has become increasingly important is the information and communications systems and other banking and commercial networks, facilitating rural-urban interactions and reducing the information and transaction costs of operating deep within rural areas. For want of space, we consider below only some of the important infrastructural bottlenecks.

## 7.3 *Power*

The power sector faces an imminent crisis in almost all states. No State Electricity Board (SEB) is recovering the full cost of power supplied with the result that they make continuous losses on their total operations. These losses cannot be made good from State budgets, which are themselves under severe financial strain, and the result is that the SEBs are starved of resources to fund expansion and typically end up even neglecting essential maintenance. The annual losses of SEBs at the end of the Ninth Plan were Rs 24,000 crores and this has led to large outstanding dues to Central PSUs NTPC, NHPC, CIL, Railways, etc. amounting to Rs. 35,000 crores. SEBs overcharge industry and commercial users, but these do not always pay the high charges because theft of electricity, typically with the connivance of the staff in the distribution segment, resulting in actual T&D losses to be as high as 45-50%. Operational efficiencies in generation are also very low in many states. Overstaffing is rampant. Political interference on the management of SEBs has become the norm in most states making it difficult to ensure high levels of management efficiency.

Government has also failed to attract private investors in power generation, as the independent power producer cannot be expected to sell power to a public sector distributor, which is not in a position to pay for the power purchased. The result has been that the inflow of private investment has been much below the targeted level.

Fortunately, consensus is beginning to emerge on what needs to be done in this area and a handful of states has started the process of reform. The main elements of power sector reform are the following:

- Power tariff must be rationalised and the process of tariff fixation de-politicised by entrusting it to State Electricity Regulatory Commissions. Ideally, power tariffs should cover the cost of production with reasonable levels of efficiency. If any section of consumers has to be subsidised, the necessary subsidy should be provided explicitly from the Budget. Cross subsidisation should be avoided. If it is felt that power consumers as a whole should pay for subsidies to certain categories of consumers, this is better done

by levying an excise duty on power (which is within the domain of the states) and using the proceeds to subsidise targeted consumers.

- The traditional vertically integrated public sector monopoly model in which generation transmission and distribution are all bundled into one does not provide maximum incentive for efficiency in all stages of the operation. SEBs should therefore be unbundled to separate generation, transmission and distribution as distinct activities which can then be corporatised and ultimately also privatised.
- Reforms in the distribution segment are the most critical for restoring viability in the power sector since this is the segment which realises sales proceeds and therefore ensures financial viability. Public sector controlled distribution systems dealing with millions of consumers are unlikely to ensure efficiency in collection. Many states are willing to begin the process of privatising distribution. This will help to provide competitive benchmarks against which the rest of the system can be judged.
- Even states unwilling to privatise distribution at this stage should give top priority to distribution reforms. Immediate metering of all 11 KVA sub-stations and the introduction of appropriate MIS systems which would help locate pockets of high T&D losses should have top priority. In the medium term the system must move to 100% metering if all consumers, or group of consumers in areas where individual metering is not feasible.
- Bulk consumers should be allowed to access power directly from producers paying a suitable wheeling charge to the transmission and distribution companies. This open access to the transmission network on a non-discriminatory basis is critical for opening up the electricity sector to competition. If implemented, it will force distribution companies to improve the quality of service.
- Captive power generation has an important role to play in an environment where there is an overall shortage. However, most state governments have not formulated clear policies which would enable efficient use of existing resources. A rational policy for captive generation should be drawn up which would enable surplus captive power to be sold to the grid at a reasonable price. Captive power producers should also be able to sell to individual consumers on paying a suitable wheeling charge.

It is important to note that the process will necessarily be long drawn out. Systems that are operating at a T&D loss of 45% cannot suddenly go to a 10-15% level, which is otherwise technically feasible. And yet, unless they make this transition, we cannot expect to provide power to Indian industry at a reasonable price and of assured quality. As states embark on power sector reforms it will be necessary to deal with the problems of the very large outstanding dues of SEBs and also the medium term restructuring of the SEBs to bring about viability in operations over a 3 to 4 year period. Substantial financial resources will be needed to help states make the transition. The Accelerated Power Development Programme (APDP) introduced in the Ninth Plan needs to be greatly expanded to serve as a vehicle for assisting states willing to undertake power sector reforms.

The optimum mix of power generation in terms of primary energy sources is an important issue for long term planning of the power sector. Over the years, the

balance between thermal and hydro-electricity has shifted steadily against hydro-electricity which now accounts for only 24% of total power generation whereas an ideal level would be much higher. Special efforts need to be made to restore the balance. Hydro-electricity not only avoids carbon emissions, it is also particularly well suited to dealing with situations where there are large peaking deficits. India has large untapped hydro resources and although there are environmental constraints in tapping these resources, a concerted effort at exploiting this potential, while at the same time protecting against environmental damage and ensuring fair resettlement compensation is definitely needed.

#### **7.4 Road transport**

Transport system in India comprises a number of distinct modes and services, notably railways, roads, road transport, ports, inland water transport, coastal shipping, airports and airlines. Railways and roads are the dominant means of transport carrying more than 95% of total traffic generated in the country. The country's transport system is far from adequate both in terms of spread and capacity and suffers from a large number of deficiencies. The quality and productivity of transport network and resources also needs improvement. Some other issues are:

- The net ton kilometres per route kilometre for the railways is 4.21 million in India whereas for China the figure is 23.4 million.
- The Indian road network is seemingly very large. However only 46% of the roads are paved and only 20% of the paved roads are estimated to be in good condition.
- The transport system of the country is currently saturated on both the main rail and road links and capacity shortages are a serious constraint for overall growth.
- The high-density corridors of rail and road linking metro cities and ports are completely choked. Out of the total route kms. identified for four laning, around 50% is already carrying traffic that is more than twice its capacity.
- About 14000 kms of National Highway requires four laning, while 10000 kms requires widening from single lane to two lane to facilitate normal flow of existing road traffic.
- The average productivity of a truck is 200 kms. a day as against 350-400 kms. that would be possible through reduction of congestion.

We discuss here only road transport because of its greater relevance to rural connectivity.

Out of nearly 6 lakh villages, only 60% are known to be connected by all-weather roads at the beginning of the Ninth Plan, although connectivity for the large sized villages (more than 1000 population) is much better. Broad estimates of investment requirement till 2010 indicate that it will be necessary to increase annual investment levels to three to four times the present level in real terms. The financing of investment on this scale is a massive task. It will require a substantial increase in budgetary support to the sector. However, recognising the scarcity of budget resources the bulk of the effort to meet the additional investment requirement has to

come through generation of resources from within the sector. The pricing of transport and user charges will therefore have to play a much larger role than in the past, at least for national highways.

There has also been persistent demand for subsidising transport operations in backward and remote areas on the plea that the traffic and the low level of income would not generate the kind of demand which could bear the cost of providing transport services. There is merit in this argument. The responsibility of ensuring efficient operation of transport services in these regions is that of the State. But it does not necessarily mean that the state should be direct provider of these services. Whether it relates to providing transport services in the backward area or air services in isolated and hilly region, the State should auction and award routes on the basis of lowest subsidy sought by the operators so that benefits are targeted and costs become apparent. However, rural roads have to be the direct responsibility of the state, although the panchayats should increasingly play a dominant role here.

The biggest roadblock, almost literally, to the development of both agriculture and village industry in poorer northern states has been the poor quality of local transport infrastructure roads, irrigation services and power. In UP, for instance, inadequate infrastructure in general, and in particular, the decreasing availability and reliability of power supply and water for irrigation have lowered productivity in agriculture and industry, thereby contributing to lower rates of poverty reduction. Studies for UP have established the pivotal role of physical infrastructure in explaining inter-district variations in overall agricultural and industrial development (Singh, 1997). Electricity, road density and banking facilities explained most of the variation in industrial development across districts (Joshi 1990).

These and similar local public goods - e.g. roads, communication systems, irrigation, power - strongly influence returns to private capital. For example, while agricultural terms of trade improved through the 1990s, that betterment has not yet brought commensurately higher productivity and output levels, nor universally lower rates of poverty. Its impact on the non-farm sector too has been at best modest. Developing sound infrastructure will also need good governance and sound administration, a subject that we take up in the next section.

## **8 Delivery**

While the functions of the state in India have steadily increased, capacity to deliver has declined over the years due to administrative cynicism, rising indiscipline, and a growing belief widely shared among the political and bureaucratic elite that state is an arena where public office is to be used for private ends. Weak governance, manifesting itself in poor service delivery, excessive regulation, and uncoordinated and wasteful public expenditure, is seen as one of the key factors impinging on growth and development. The issue of reform in governance has acquired critical dimensions in poorer states in the light of low economic growth and fiscal crisis.

In almost all states people perceive bureaucracy as wooden, disinterested in public welfare, and corrupt. This perception of the collapse of ethical standards has a number of implications for fiscal discipline. States' reluctance to hit at the entrenched government servants, take action against the corrupt ones, or reduce their numbers or make changes in their service conditions to their disadvantage further confirms the belief of the people that state apparatus exists only for government servants. The problems of law & order in some states, the culture of harassment, long delays,

administrative secrecy, and the seeming inability to check organised power theft (T & D losses are close to 40 percent) - all discourage formal sector, large scale, law-abiding tax paying units from investing in these states. But it is the growth of the latter upon which prospects for future growth of the non-farm sector will largely depend. These states will be neither able to end the fiscal crisis nor to restore growth unless they are able to address problems of governance. Whether the issue is tax compliance or investment climate for the private sector or the state's physical and social infrastructure, progress will be impossible without a significant redirection and improvement in the way these states run their administration so that the administrative apparatus performs for what it is paid.

If bureaucracy is failing to deliver, can panchayats rise to the occasion and provide public goods and services with efficiency?

### **8.1 Panchayats**

As regards panchayats, in spite of various drawbacks and lacunae in constitution of PRIs, and the fact that political leaders even at the PRI levels tend to imbibe the political culture of that state, there are many instances where village Sarpanches have done commendable work in improving the social and economic life of the common people. There is less optimism about the work done by PRIs at the block and district level, where the elected members behave more or less as contractors. Even for the village panchayats, the ordinary village people think that they have not benefited to the extent of funds provided by government. Corruption is singled out as the most important cause for the ineffective functioning of these institutions. Control which is exercised by the sarpanch and Block Level officials over the village panchayats and gram sabhas (which rarely meet) has not only buttressed corruption, but it has also led to pessimism that villagers at their own level cannot change and improve performance because of heavy dependence on elected functionaries and Block officials. The present system is, therefore, seen as to have actually reinforced dominance and unequal access to power, besides rendering the villagers helpless and alienated. Though providing a framework for decentralised rural development, trends so far suggest that the panchayat raj system has not been able to enhance participation and empowerment.

The major lessons emerging from the first round of Devolution in the wake of the 73<sup>rd</sup>/74<sup>th</sup> Amendment are as follows:

- ❖ Finance Commission and other development funds for local bodies should not be given to the states unless effective powers are transferred to them. Stringent cuts should be imposed on them in Central Assistance and other development funds.
- ❖ Provide PRIs with revenue raising powers of their own in order to reduce their excessive dependence on the State and Central Governments. Today the PRIs hesitate to levy and collect taxes, as they prefer the soft option of receiving grants from GoI. This must be discouraged and the local bodies be encouraged to raise local resources for development and then receive matching grants from the Centre. The more dependent a PRI is on the mass of its citizens for financial resources, the more likely it is to use scarce material resources to promote human development and reduce poverty. External funds with no commitment to raise internal funds make PRIs irresponsible and corrupt.

- ❖ Strengthen accountability of the local bodies, their standing committees and its representatives. Help to evolve a code of conduct for the newly elected members. Make rules and procedures simple and transparent. Strengthen financial management and audit procedures with the objective of *facilitating* the tasks to be performed by the elected functionaries drawn from all walks of life.
- ❖ Constitution should be amended to enable the states, if they so wish, to abolish either the district or the block level tier of the panchayats, and retain only one out of these two, in addition to the village tier, which has the highest potential for direct democracy and participation through the institution of the gram sabha.

With a view to bring about greater transparency in the functioning of PRIs and to ensure proper utilisation of funds, there is need to put in place a system of ‘social audit’. Under this system, it should be ensured that all concerned have the information about the release of funds by DRDAs / Zilla Parishads to Blocks / Panchayats through press notes and similar information is given to the general public by the implementing departments when they receive funds. Gram Panchayats must display on their notice board information about the works executed, their value, employment generated, payments made along with the list of beneficiaries. This information must be verified in a meeting of the Gram Sabha. Payments made by the executing agencies for the materials should also be similarly made public for any one to verify.

Effective panchayats/user groups would also require effective district and block level administration, hence reforms for better governance cannot be ignored otherwise the elected leaders would also perceive the state being an ‘open treasury’.

The way forward is clear. India needs to find better ways to empower its poorest citizens and bring them into decision-making at all levels. In addition to ensuring that the recently created Panchayati Raj Institutions (PRIs) include the poor fully as decision makers, India needs to transform its public sector so that the conduct of the police, the courts, and the bureaucracy in general is transparent and accountable to citizens at all levels. In addition, administrative and staffing reforms are needed within the civil service - to reduce fragmentation e.g. by streamlining and combining departments and sub-departments with similar functions, and to improve overall productivity and staffing and skills mix. Complementary reforms are needed at the sectoral level to improve regulation and service delivery in the areas that matter most for the non-farm economy – agriculture, power, roads and enterprise development.

## **9 Summing Up**

Many small entrepreneurs in the country are facing genuine problems, for example, poor quality infrastructure; inadequate access to institutional credit; delayed payments by large industries; procedural delays in getting government clearances; harassment by inspecting officers; rigid labour laws, technological obsolescence; non-availability of skilled manpower; lack of marketing facilities and difficulty in competing with well-established foreign and national brand names. These would require not only policy changes but an efficient and responsive administration. Though supply side intervention in the form of rural electrification, roads, credit and communication systems is vital for the growth of the non-farm sector, institutional framework within which government support is delivered – plethora of official organisations and agencies, many charged with overlapping functions, with poor coordination between themselves – needs to be set right too.

Rural industrialisation could reduce, if not stop, skill drain from the countryside if sufficiently lucrative alternatives for employment are provided. Rural industrialisation will also have a significant spin-off for agricultural development. By creation of better rural infrastructure it could raise agricultural productivity through provision of better roads, canals, storage facilities, commerce, transport and communication facilities, etc. There would be increased availability and improved capacity for maintenance, repair and improvement of farm machinery. Further, rural industrialisation would also help in reduction of regional disparities through location of industrial units in backward areas. Rural industries would thus help in generation of new employment opportunities, creation of new skills and opening up space for rural entrepreneurship. Rural industries could also use local 'slack' resources which are not capable of being used in modern industry. The social cost of such raw materials is very low and benefits high, e.g., agricultural waste utilisation, waste recycling activities, etc.

The formal financial system is not well suited to meeting the credit needs of the informal sector and yet this sector is expected to play a major role in expansion of the economy and the provision of employment over the next ten years. It is therefore essential to ensure that the credit needs of the informal sector are adequately addressed. The co-operative system is a potentially important mechanism for providing credit for the informal sector but the system has been greatly weakened in most states. Non-bank finance companies (NBFCs) are another potentially important mechanism for reaching the informal sector with several advantages over the formal banking system. It is necessary to find ways of strengthening NBFCs to enable them to perform this intermediation role with suitable prudential safeguards. Micro-finance through self-help groups is another potentially useful channel.

The non-farm sector can also influence poverty levels indirectly. Casual agriculture labour is one of the main sources of income for the poor. Econometric analysis suggests that agricultural wage rates in India's villages are strongly and positively related to the percentage of villagers employed in the non-farm sector, controlling for agriculture yields as well as population density. In Uttar Pradesh, for example, a one-percent increase in the village labour force primarily employed in casual construction work was found to be associated with raises in average daily agricultural wage rates from Rs 22 to Rs 25 and from Rs 25 to Rs 30 in sowing and harvesting activities, respectively (WB 2002). The linkage suggests that by tightening village labour markets and raising wage rates in agriculture labour, an expanding non-farm sector can help to reduce poverty even for those poor not directly employed off the farm.

Local informal-sector industries touch the lives of many more people than the corporate sector. A programme of economic reform that involves curbing the petty tyranny and corruption of the small industry inspectors (who currently act as serious barriers to potential entry), encouraging micro-finance and marketing channels, and providing the 'positive' and 'negative' incentives of Chinese-style decentralisation, has the potential of opening the floodgates of small-scale entrepreneurship in India. Examples of successful cooperative business development with the leadership of the local government, though rare in India, are not entirely absent. Take the case of the Manjeri municipality in the relatively backward district of Malappuram in north Kerala, with not much of a pre-existing industrial culture. In this area the municipal authorities, in collaboration with some NGO's and bankers, have succeeded in converting it into a booming hosiery manufacturing centre, after developing the necessary skills at the local level and the finance (Bardhan 2002). This should dispel the common presupposition that civic bodies in the villages and small towns of India



do not have the capability to take the leadership in developing and facilitating skill-based small-scale and medium-scale industries.

To sum up, three main factors determine whether the non-farm sector can grow and work to reduce poverty. First, ensuring high rates of growth and surpluses in the agriculture sector will stimulate growth in the rural non-agriculture sector due to multiple and strong production and consumption linkages. Second, there is a need for adequate social and physical infrastructure to ensure the conditions for broad-based growth and good investment opportunities and finally third, policies and spending patterns must be put in place to ensure that the rural non-farm sector has the capacity to adjust and modernise in response to conditions brought about by globalisation, increasing competition, and changing demands from consumers.

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## Acronyms

Aanganwadi	Place for gathering infants
BPL	Below the Poverty Line
CAG	Controller and Auditor General
CIL	Coal India Limited
DRDA	District Rural Development Agencies
DIC	District Industries Centre
DWCRA	Development of Women and Children in Rural Areas
EAS	Employment Assurance Scheme
GDP	Gross Domestic Product
GoI	Government of India
IRDP	Integrated Rural Development Programme
ITI	Industrial Training Institute
JRY	Jawahar Rozgar Yojana (Employment Scheme named after Nehru)
KVA	Kilo volt-ampere
Lakh	100,000
MIS	Management Information Systems
MWS	Million Wells Scheme
NTPC	National Thermal Power Corporation
NHPC	National Hydro Electric Power Corporation
NSS	National Sample Survey
NTFP	Non Timber Forest Product
OGL	Open General License
One Crore	= 10 million
PMRY	Prime Minister's Employment Programme
PE	Public Enterprise
RMK	Rashtriya Mahila Kosh (National Fund for Women)
SEWA	Self Employed Women's Association
SSI	Small Scale Industry
SGSY	Swarnajayanti Gram Swarozgar Yojana (Golden Jubilee Rural Self-Employment Programme)
ST	Scheduled Tribe
T&D	Transport and Distribution
TDCC	Tribal Development Cooperative Corporation
TPDS	Targeted Public Distribution System
TRYSEM	Training of Rural Youth for Self Employment
UP	Uttar Pradesh



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