Changing Face of Rural Industries

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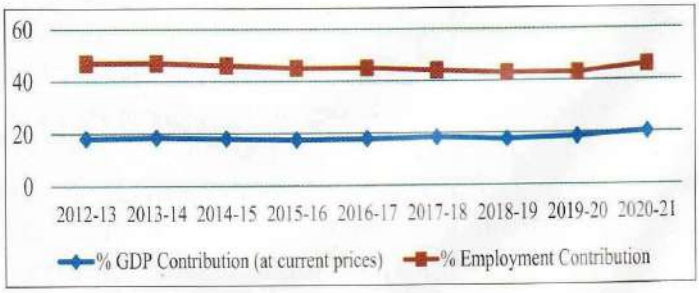
The policy makers in India have always put rural industrialisation at the centre of planning right from the First Five-Year Plans. Over the years, the focus shifted from protection of rural industries to development and finally promotion. Increased focus on building rural entrepreneurial ability and support to microenterprises remained the mainstay. However, with the technological disruptions and the boom of start-up culture in India, new age tech-savvy rural entrepreneurs have taken lead to transform the rural economy with several agri start-ups and digital service economy initiatives.

Agriculture and the allied sectors have been integral and instrumental to the process of rural development – improving the quality of life and economic well-being of people living in rural areas – as well as national development. In 1950s agriculture contributed to over 50 percent in the Gross Domestic Product (GDP) of India while employing more than 70 percent of the Indian workforce. Gradually the contribution of agriculture to the GDP started to fall and reached the point of 18.4 percent in 2019-20[1]. The percentage of labour force engaged fell as well but the fall was not as sharp as it was for the GDP contribution – 46.5 percent of the labour force was still employed in agriculture in India in 2019-20[2].

Figure 1: Agriculture sector contribution in GDP and Employment[3]



The recent trends in agriculture sector's contribution to GDP and employment show that despite the engagement of substantial labour force the agriculture sector has not grown much. The challenges of underemployment, disguised

[1]Indian Economic Survey 2021-22
[2]Periodic Labour Force participation Survey (PLFS) Report 2019-20
[3]Based on data from Indian Economic Survey and World Bank Data

unemployment and seasonal employment remain key labour force issues in the agriculture sector among other issues such as lack of sustained investment, easy credit availability, climate related certainties, market access, etc. While these are critical issues to be resolved, there have been more concentrated policy efforts by the government to a) promote jobs in the MSME sector and digital service economy in rural areas and b) create self-employment opportunities through rural entrepreneurship.

In this article we discuss the evolution of rural industries, their contribution to the national growth and employment, innovative disruptions in the rural and agriculture sector such as the rural digital economy and agri-startups, and the role of educational institutions in imparting the skills to innovate and sustain such disruptions.

History of Rural Industralisation

Rural Industrialisation has been the high priority area for the policy makers since Independence. The focus has been on small industries as they were considered as an instrument to facilitate the transition from traditional and labour intensive agrarian economy to an industrialised economy with the potential for equitable distribution of national income[4]. This inclination can be seen right from the Industrial Policy Resolution 1948. It maintained that *"Cottage and small scale industries have a very important role in the national economy. Offering as they do scope for individual, village or cooperative enterprise, and means for the rehabilitation of displaced persons. These industries are particularly suited for the better utilization of local resources and for the achievement of the local self-sufficiency in respect of certain types of essential consumer goods like food, cloth and agricultural implements"*. It was also recognised that these industries face the issues of capital, skilled labour, raw materials and marketing. Certain classes of stores were reserved exclusively for purchase from village and small industries and some price differentials were allowed to them over the products of large-scale industries. A number of emporia and sales depots for handloom, handicrafts and village industries have been established during the first-plan period. The value of purchases made from cottage and small-scale industries by the Directorate General of Supplies and Disposals increased from Rs. 66 lakhs in 1952-53 to Rs. 105 lakhs in 1954-55. Therefore, the policy emphasised on the collaborate role of Central and state governments to safeguard such industries.

The 1956 Industrial Policy Resolution could be seen as a milestone in the development of agro and rural industries. The Parliament had declared socialistic pattern of society as its social and economic policy through a resolution in 1954. The then Planning Commission of India came up with a 'Report of the Village and Small-Scale Industries (Second Five-Year Plan) Committee', popularly known as the Karve Committee Report in the year 1955. The report recognised the challenges related to over centralisation of economic activities and moving from safeguarding of small-scale industries to their development. The recommendations were reflected in the IPR 1956 which stated that *while such measures* (safeguarding of small-scale industries by restricting the volume of production in the large-scale sector, by differential taxation, or by direct subsidies) *will continue to be taken, whenever necessary, the aim of the State policy will be to ensure that the decentralised sector acquires sufficient vitality to be self-supporting and its development is integrated with that of large-scale industry. The State will.. therefore, concentrate on measures designed to improve the competitive strength of the small-scale producers*[5]. Some 128 items were reserved for exclusive production in the small-scale sector. It also recognised that lack of technical and financial assistance, suitable working accommodation, and inadequacy of facilities for repair and maintenance are among the serious handicaps of small-scale producers. Extension of rural electrification, power at lower prices, organisation of industrial cooperatives, technological advancement in the modes of production while avoiding technological unemployment were few areas of focus. Thus, a transition from 'safeguarding to development' could be seen.

[4]Reddy CS, Reddy PM, Reddy SR. Indian Small Scale Industry: The Changing Perception. SEDME (Small Enterprises Development, Management & Extension Journal). 1997;24(3):19-24. doi:10.1177/0970846419970303

[5]https://niti.gov.in/planningcommission.gov.in/docs/plans/planrel/fiveyr/2nd/2planch20.html

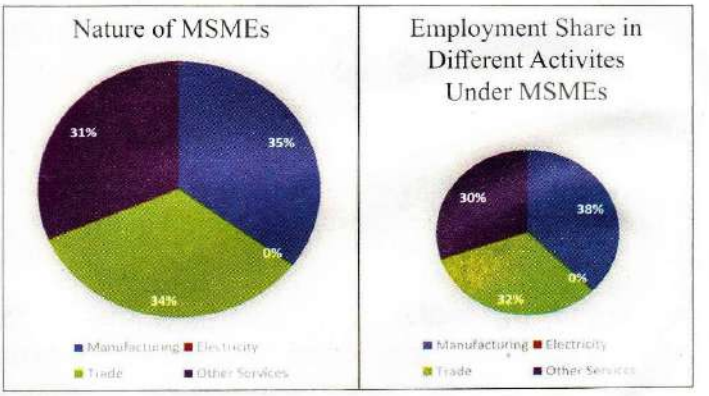
The next two decades were focused on improving the competitiveness of rural and small scale industries. The Third Five-Year Plan focused on positive forms of assistance such as improvement of skill, supply of technical advice, better equipment and credit, to reduce progressively the role of subsidies, sales rebates, and sheltered markets. The Fourth Plan focused on providing a combination of incentives and disincentives for securing decentralisation and dispersal of small industries. It allowed for advancing loans to the State Cooperative Banks for financing 22 broad groups of small industries including coir, sericulture, handicrafts, tanning and flaying, leather goods, hand pounding of paddy and cereals, oil crushing, and general engineering. However, all these initiatives couldn't achieve the desired goals. Two decades after the last IPR, the new IPR of 1977 was promulgated. It maintained that *"The emphasis on industrial policy so far has been mainly on large industries, neglecting cottage industries completely, relegating small industries to a minor role. The main thrust of the new industrial policy will be on effective promotion of cottage and small-scale industries widely dispersed in rural areas and small towns. It is the policy of the Government that whatever can be produced by small and cottage industries must only be so produced".* Consequently the number of reserved items for small-scale industries was increased to 504. District Industry Centres (DIC) were set up to promote under a single roof all the services and support required by small and village entrepreneurs. The IPR 1977 classified small sector into three broad categories.

i. Cottage and Household Industries which provide self-employment on a large scale
ii. Tiny sector incorporating investment in industrial units in plant and machinery up to Rs. 1 lakh and situated in towns with a population of less than 50,000 according to 1971 Census
iii. Small-scale industries comprising of industrial units with an investment of upto Rs. 10 lakh and in case of ancillary units with an investment up to Rs. 15 lakh.

The following IPRs of 1980 and 1990 increased these investment limits to support the growth of small-scale industries. Small Industries Development Bank of India (SIDBI) was established in 1990 to ensure both adequate and timely flow of credit facilities for the small-scale industries. Delicensing was introduced in the case of 100 percent Export Oriented Units (EOU) set up in Export Processing Zones (EPZ). The focus of the IPRs shifted towards promoting small-scale industries by making them self-sufficient while providing a cushion of much needed safety.

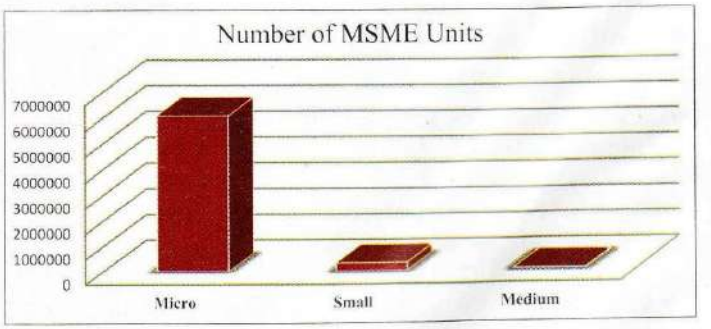
Comprehensive Policy Package for small scale and tiny sector, 2000 and the Industrial Policy Packages for small scale industries, 2001-02 continued to increase investment limits, support credit inflow and marketing efforts for small-scale industries. However, the monumental shift has been the Micro, Small and Medium enterprises Development (MSMED) Act of 2006. MSMEs have been hailed as the engines of growth. There are 324.88 Lakh (51 percent) unincorporated non-agriculture rural MSMEs in the country engaged in different economic activities in rural India[6] with the following distribution.

Figure 2: MSMEs in Rural Areas
MSMEs Rural Employment



A majority of the MSMEs are micro units followed by small and medium enterprises with the following share in the total number of MSMEs.

Figure 3: Number of MSME Units



[6]National Sample Survey (NSS) 73rd round

The Government is implementing the following schemes for bringing the rural industries under the ambit of the 'Make in India' programme.

- **Prime Minister's Employment Generation Programme (PMEGP):** It is a credit linked subsidy scheme, for setting up of new micro-enterprises and to generate employment opportunities in rural as well as urban areas of the country through Khadi and Village Industries Commission (KVIC), State Khadi and Village Industries Board (KVIB) and District Industries Centres (DIC). Since inception and up to January 2016, 3.50 lakh micro enterprises have been set up by utilising margin money amounting to Rs. 7004.40 crore and 29.82 lakh jobs have been created from these units.
- **Scheme of Fund for Regeneration of Traditional Industries (SFURTI):** This scheme was launched in 2005-06 for making Traditional Industries more productive and competitive by organising the traditional industries and artisans into clusters. Twenty six clusters have been granted final approval with a total project cost of Rs. 72 crore benefiting around 25,000 artisans.
- **A Scheme for Promoting Innovation, Rural Industry and Entrepreneurship (ASPIRE):** ASPIRE was launched in 2015 to promote Innovation and Rural Entrepreneurship through rural Livelihood Business Incubator (LBI), Technology Business Incubator (TBI) and Fund of Funds for start-up creation in the agro-based industry.
- **Stand Up India:** This scheme is meant to provide composite loans between Rs. 10 lakh to Rs. 100 lakhs for setting up Greenfield enterprises in non-farm sector by SC/ST and women entrepreneurs.

While these schemes have contributed immensely to the growth of micro-entrepreneurs in the country, the recent technological disruptions and the start-up revolution have led to innovative agro-tech businesses and a series of rural entrepreneurial ventures in the digital service economy.

The Start-up Revolution and Technological Disruptions

The pertinent issues of the rural economy, and particularly agriculture, such as the credit availability, realisation of profitable prices, storage facility, marketing challenges, and forward linkages have been taken up as business problems by budding entrepreneurs, tech-savvy farmers and new age Farmer Producer Organisations (FPOs). There are agri start-ups which provide smart solutions across the value chain of agriculture – from online marketplace for agricultural machinery, seeds, and fertilisers to advisory platforms for government schemes and benefits to smart water and electricity efficiency solutions to warehousing to market place for produce and so on. Similar start-ups have emerged for artisanal work. Most of these innovations rest on the pillars of Digital India and the JAM trinity introduced by the Government of India.

NITI Aayog has taken a leap forward in promoting rural entrepreneurship by decentralising the incubation centres while leveraging private sector expertise. Under the Atal Innovation Mission, Atal Community Innovation Centres (ACIC) have been set up to nurture high growth and employment generating start-ups across the country. ACIC are envisaged to serve the unserved/underserved areas of the country with respect to the start-up and innovation ecosystem. ACIC saw it to be crucial to reach the innovators at the bottom of the pyramid and give them equitable opportunities, especially by reducing the 'lab to land' distance and creating a space for pre-incubation of ideas/solutions.

Celebrating the idea of 'frugal' which is predominant in Indian communities, ACIC aims to create a formal approach to identify and scale up these innovations; using solution driven design thinking and being supported by Public Private Partnerships (PPP) model. ACIC promotes Grassroots Innovations which refer to products and services emerging from innovations brought about by people at the bottom of the pyramid (BOP) who are from economically disadvantaged sections and socially excluded areas[7].

ACIC also runs a Community Innovator Fellowship (CIF) Programme in collaboration with UNDP India to facilitate knowledge building and provide infrastructure support essential for the entrepreneurship journey of aspiring community innovators.

[7]https://aim.gov.in/acic-fellowship.php

CIF FEATURES

Knowledge
Curated content on SDGs and entrepreneurship through toolkits, workshops and a digital learning platform

Mentorship
Mentorship to build business acumen and sector experties

Community Immersion
Local Mitra for on ground, community outreach support and solution validation

Infrastructure
Access to all infrastructure of host ACIC

Funding
Milestone based funding (upto Rs. 2 lakh per fellow) and pitching opportunities

Inclusion
Sensitization workshops for encouraging equitable access innovation ecosystem

Digital Service Economy

Another disruption which is changing the rural employment landscape is the IT/ITES industry penetration in the rural areas. Under the Digital India Programme, the Ministry of Electronics and IT notified the "India BPO Promotion Scheme (IBPS)" with the twin objectives of a) Employment generation through BPO/ITES operations and b) Balanced regional growth of IT-ITES sector across the country. The scheme sought successful establishment of 48,300 seats in respect of BPO/ITES operation across the country (except NE) and 5,000 seats in respect of BPO/ITES operation in North Eastern Region via North East BPO Promotion scheme (NEBPS).

The IBPS scheme is based on a Public Private Partnership Model with viability gap funding being provided by the government. The scheme provides financial support of up to 50 percent of expenditure [Capital Expenditure (CAPEX) and/or Operational Expenditure (OPEX)] incurred on permissible items, with upper ceiling of Rs. 1 lakh per BPO/ITES seat with additional 5 percent incentive for employing 50 percent women and 7.5 percent incentive for employing 75 percent women.

The expansion of e-commerce, digital marketing, delivery services, warehousing services and access to market has opened up immense opportunity in the rural economy. However, the benefits of technology led enterprises can be fully optimised if we have digitally skilled and tech-savvy customers and service-sector microentreprenuers in the future.

Implications for the Education Sector

The National Education Policy (NEP) 2020 has laid a lot of focus on building foundational literacy and numeracy skills among children. Accordingly, the Government of India has launched the NIPUN Bharat scheme to attain foundational literacy and numeracy for children by 2026-27 in a mission mode. The NEP 2020 has laid equal emphasis on imparting digital skills, vocational training and entrepreneurial training both at the school level and university level and has considered these activities as an integral part of the curriculum. However, the actual implementation is not as swift as the NIPUN Bharat mission. There is an urgent need to develop appropriate curriculum on entrepreneurship, contextualise the existing National Skills Qualifications Framework (NSQF) curriculum for skilling at school level from grade 6 onwards and universalise digital skills training across all schools.

Case Study: ACIC Deoria, Uttar Pradesh

NITI Aayog's supported ACIC-Jagriti Entrepreneurship Foundation, based in Deoria, UP aims to nurture entrepreneurship in three districts of Deoria, Kushinagar and Gorakhpur.

Unlike the metros, "Entrepreneurship" is a relatively new concept in tier-3, tier-4 cities, and hence to mobilise the entrepreneurs, ACIC Jagriti team deploys diverse outreach concepts like Ideathons, field office setups, and undertakes collaboration with the government departments like DICs, NRLM, ODOPs, KVICs, etc.

Along with the infra and the lab facilities, the incubatees avail unique services on mentorship, market connection, and funding from the centre. The foundation has been supporting enterprises like 'Nayi Roshani' working in sanitary pads distribution across 1000+ villages and generating Rs. 3,000 per month each for 100+ *Mahila Mitras*. Few other incubatees are working on integrated farming –Moonj, Macramé products working with a group of 70+ farmers producing lemon grass, production of honey and processed mushroom products such as Jelly, Jam, Bakery, pickles, and powders, etc. ACIC Jagriti has conducted several Ideathons in collaboration with government schools to crowd source innovative solutions and promote entrepreneurship right from school.

The Foundation has evolved a three-layered concept, which brings farmers, manufacturers, and marketers together to form an eco-system of entrepreneurship. "There would be an evolutionary journey for these enterprises and institutions like ACIC Jagriti in remote places are a must to address the SDG goals", says Mr. Ashutosh Kumar Mishra, CEO, ACIC-Jagriti.

NITI Aayog's Atal Tinkering Lab (ATL) has created a curriculum and a handbook on entrepreneurship for school students. The students have used the training on design thinking at the ATLs to create product ideas which were further incubated with the support of Atal Incubation Centres (AIC). The curriculum and handbooks have been created as a public good which could be used by the education department of the States/ UTs to customise the curriculum as per their own contexts. NITI Aayog has also been providing support to interested States in this regard.

It's only through the right skills and mindset that the students from rural India can bring about transformative change in their communities, in the nation and globally. Our Education System must facilitate such trainings as an integral part of the curriculum.

Conclusion

Rural Economy has been a major contributor to the Gross Domestic Product of the country. Sectors like agriculture have been a major force in the economy. However, its contribution to the economy has stagnated in the last decade while it still employs close to 50 percent of our labour force – mostly underemployed. The non-farm sector holds immense potential provided we facilitate entrepreneurs to address the long standing challenges in the sector. Government of India has nurtured entrepreneurial abilities among our youth which now shows results in the form of several unicorns including from rural areas. It's high time that we institutionalise the culture of entrepreneurship and technological disruptions by embedding them in our curricula and deliver it to the last mile student – giving them wings to fly.

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