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**Can Firm Clusters Foster Non-Farm Jobs?
Policy Issues for Rural India**

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Abstract

The main concern of this paper relates to the dismal state of industrialisation of the rural areas reflecting the several limitations that plague both policies and their implementation. The current obsession with the industrial cluster based approach also shares similar handicaps. A mechanistic, replicative and essentially *ad hoc* approach to cluster development that is oblivious to the developmental constraints facing the Indian rural economy may fail to succeed in generating employment opportunities as also in creating a competitive and sustainable rural industrial base. The vital aspect that needs serious attention in any rural industrialisation initiative is to ensure a sound rural infrastructure base that would promote relevant and integrative regional development. It is argued here that a comprehensive rural cluster development strategy has to be designed within a broader regional development perspective that does not fail to provide an opportunity to the local labour to be, at least, as *prepared* as their advantaged urban counterparts elsewhere. Inclusion of decent employment as a conscious policy in rural cluster development approaches needs no overstatement.

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I. Introduction

In post-Independence India, efforts at and ideas about effecting rural transformation through agrarian change have, unfortunately, been devoid of the critical elements of pragmatism and pursuance. That a highly skewed distribution of land and spatio-selective technological intervention would continue to plague expectations over remarkable contributions from the agricultural sector remained a reality that one learnt to live with. Moreover, over half-a-century of development planning, including over a decade of economic reforms, has certainly performed dismally in promoting rural infrastructure, which constitutes the very basis of activating the rural economy (Das, 2001). Despite numerous thoughtful studies and government schemes both at the central and state levels, widespread poverty and unemployment in rural India establishes the persistent neglect meted out to the rural *transformation* project, if there was one.

Whereas and whenever the farm sector could engage its population, mostly for about four months in a year, very little options were left to the villagers in terms of earning their livelihood. The predicament of unemployment is particularly acute as not only are a staggering three-fourths of landholdings still with small and marginal farmers, but the number of agricultural labour has also risen considerably from about 27 million in 1951 to 103 million in 2001. Moreover, the proportion of farm labour in the total workforce has climbed up from about 20 per cent to 33 per cent during the aforesaid period. An important consequence of this has been the large scale migration (both seasonal and permanent) to urban industrial centres, which has often landed the desperate unskilled and illiterate/poorly educated young workers in strenuous, unsafe and long-day jobs. Even when their labour was grossly under-valued and jobs remained precarious and 'unprotected', urban industrial belts have been receiving millions of migrant workers from rural areas wherein both the farm and non-farm sectors are incapable of generating adequate and sustainable income and employment opportunities.

II. Nature of Non-Farm Jobs: Rising Casualisation

In order to appreciate the potential of rural industrialisation or rural industrial clusters, it is important to appreciate the nature of the emerging non-farm employment. A remarkably disappointing feature of the rural employment scenario (as seen through six NSS rounds between 1972-73 and 1999-2000) has been the performance of the non-farm sector (Table 1). While the fairly high rates of growth of the non-farm sector during the period 1972-73 to 1987-88 “raised expectations of a structural breakthrough”, the steep deceleration of the same during the later period, 1987-88 to 1999-2000, generated an “all-pervasive scepticism of the role of the non-farm sector” (Reddy, 2002, p. 60).

More importantly, it has been argued that there has been a definite decline in the *quality* of employment in rural India. The two “prominent and inter-related” trends are the decline in self-employment and increasing casualisation. As much of the off-farm employment has often been characterised as *distress-driven*, “casualisation often cohabits occupational multiplicity, circulating labour, feminisation, child labour, contract labour and bonded labour (*Ibid*, p. 62). It has been observed that “the halting pace of rural workers’ shift to non-agricultural sectors, witnessed during the years of economic reforms, clearly signals their relative incapability of gaining access to these jobs, perhaps because of the low level of their human capital index. The infirmities are far more pronounced in the case of rural female workers, because they have to compete not only with their male counterparts in the rural areas but also with their ‘more qualified’ sisters in the urban areas” (Chadha and Sahu, 2002, p. 2009). Increasing casualisation (which could also result in landlessness) of the labour force and widespread existence of informal production regimes in rural areas (including small towns) are vital aspects to be considered while planning for rural industrialisation. In fact, the most disturbing phenomenon is that “appropriate rural institutions” are so rare to find in India.

As long as the so-called rural non-farm activities, mostly, if not entirely, depend upon or cater to the insipid farm sector in a highly localised manner, the levels of income of the factors of production cannot be expected to be substantial. The absence of ‘radical’ changes in the agrarian sphere did not quite validate the stylised model of rural farm-non-farm linkages and the multiplier proposition as Mellor (1976) had propounded it. Also, the failure of the much-touted ‘trickle-

down effect' rendered rural transformation, even in a partial manner, an elusive goal¹.

The overall lacklustre performance of rural industries reflects the passivity of the policies, at the Central as well as state levels, both in terms of actual investment and efforts to *modernise* the sector. With mere employment generation remaining the cornerstone of the various strategies adopted for the promotion of rural industries since at least the Second Plan, little attention was paid towards enhancing the productivity of labour as also to raising the technological capabilities of enterprises. Consequently, the wages remained abysmally low for most workers and the products were losing out in the wider marketplace as the competing products enjoyed the advantage of better quality. Nevertheless, the non-farm sector has not only grown, especially during the last three decades or so, but has also been showing signs of 'modernisation' and 'external orientation'. Much of the dynamism, evidently, has come from those non-farm activities that have linkages with the urban-industrial sector.

Although the promotion of rural industries (essentially, the khadi and village industries) received sustained attention in all Plan documents, in terms of actual investment and investment benefits, urban-industrialisation of the urban-periphery and the rise of medium-sized towns as new industrial centres turned out to be discernible consequences of such an industry-led development strategy. Either there was a decline of rural industries (craft-based artisanal firms catering largely to the local market) or there were inherent problems resulting from the establishment of large modern units in certain rural pockets as the population of the latter could not be assimilated into the process of industrialisation.

III. Potential of Small Firm Clustering

It is in the area of small firm clustering that small enterprises assume an important role. Typically, with low capital and technological levels, and ample scope to accommodate workers equipped with a variety of skills (with the hope of upgrading to higher levels through relevant training), small firm development has

¹ For a useful discussion of the Indian rural industrialisation experience during the early phases of the Planning era and the failure of the Lewisian trickle-down proposition, see Saith (1990, pp. 213-216) as also the review in Eapen (2001).

emerged as a widely-practised approach to ensure economic growth and regeneration. It has, however, been argued that as industrialisation advances, especially for late industrialising countries, the larger firms, quite unlike the small firms, are able to take advantage of the scale and economies of specialization, and the adoption of modern technology. “There is an unbridgeable difference between them, so that small household firms face declining markets, rising costs, greater standardisation, and so are evicted from all mass markets” (Morris *et al.*, 2001, p. 38).

Contrary to the ‘old’ view, best expounded in Anderson (1982), that small firms (especially, traditional and/or household enterprises) would be unviable in the long run from the point of view of negative economies of scale and would, ultimately, ‘wither away’, these could endure the pressure of adjustment and restructuring, particularly during the crisis decades of the 1970s and 1980s. Despite recessionary phases and the highly wavering demand scenario that prevailed in the global market, small firms responded with immense resilience and dynamism in business organisation. This was when the vertically-integrated, assembly line-based mass production systems were severely constrained to maintain their employment and income levels. Characterised by the built-in fixity of the organisation of production, as reflected through the virtual indivisibility of factors of production and Taylorist managerial hierarchies, the contemporary Fordist large firms no longer remained the best of options for achieving industrial progress.

The substantial broad-basing of the sources of demand and a rise in the preference for *non*-standardised goods have necessitated small-batch, customised production, often targeted at what are termed ‘niche’ markets. Small firms all over the world have risen to the occasion and have catered to an intrinsically unstable market. “In the industrialised nations, small enterprises faced up to the challenges of competitiveness through a constant reconfiguration of the production organisation that resulted not only in their growth in business but also technological dynamism that could be fostered through networking” (Das, 1999, p. 85).

An ever-growing volume of literature on the subject has certainly been prompted by the publication of the classic *The Second Industrial Divide: Possibilities for Prosperity* by Michael J. Piore and Charles F. Sabel in 1984. Much of the success of the achieving small firms, as such literature would suggest, could be

attributed to a special phenomenon, termed as 'flexible specialisation'. As defined by Piore and Sabel (1984, p. 17), "flexible specialisation is a strategy of permanent innovation: accommodation to ceaseless change, rather than an effort to control it. This strategy is based on flexible, multi-use equipment; skilled workers; and the creation, through policies, of an industrial community that restricts the forms of competition to those governing innovation". In its broad sense, this concept captures a less rigid and fairly resilient form of production organisation, in total contrast to what constitutes the fordist pattern of industrial production.

Quintessentially, flexible specialisation, or simply flexibility, entails technological (and even organisational) dynamism that enables the firm to adjust swiftly to market signals. The alacrity and appropriateness of the firm response as has been exhibited by small firms, confirmed the vital change in the role of technology favouring small size. In specific contexts, the adoption of 'new' technology – microelectronics-based CAD/ CAM processes – by small firms has enhanced their flexible manufacturing capabilities. Nevertheless, flexibility *per se* has not been able to activate small firms; the technological paradigm shift has acquired significance only when firms have been spatio-sectorally concentrated, or have been part of industrial clusters.

Although the phenomenon of industrial clustering is almost as old as the Industrial Revolution itself (Parker, 1984), academic interest in the subject dates back to Alfred Marshall who, over a century ago in 1890, identified the economies of agglomeration in what he termed as industrial districts. Quite distinct from the voluminous 'economistic' literature on location of productive activities, in the neo-classical tradition, that largely emphasised economies of scale and physical production linkages, by the early 1990s, refreshingly different perspectives on industrial agglomeration or clustering came to be proffered (Das, 1995).

It was argued that comprehending the functional dynamics of industrial clustering must involve an exploration of the role of extra-economic factors, especially socio-cultural and political ones. Drawing inspiration from the success of the small firm clusters of the *Third Italy*, Becattini (1992, p. 38) recast the Marshallian industrial district as "a socio-territorial entity which is characterised by the active presence of both a community of people and a population of firms in one naturally and historically bounded area. In the district, unlike in other

environments, such as manufacturing towns, community and firms tend to merge". The positive role of the social milieu in promoting a co-operative ethos in an otherwise competitive environment has been underscored as an important strategy of industrial clustering. Schmitz (1995, p. 530) has observed that firms derive competitive advantage through local external economies and joint action in industrial clusters, resulting in what he terms as 'collective efficiency'.

The cluster phenomenon has caught the imagination of academics, policy makers and development practitioners, as a replication of the 'occidental model' in small firm-dominated developing countries seems plausible². *Inter alia*, major United Nations and other key global agencies, e.g., the United Nations Industrial Development Organisation (UNIDO), International Labour Organisation (ILO), United Nations Conference on Trade and Development (UNCTAD), United Nations Development Programme (UNDP), United Nations Educational, Scientific and Cultural Organisation (UNESCO), Organisation for Economic Co-operation and Development (OECD) and the World Bank have taken much interest in this process of 'promoting' clusters in many developing countries in Africa, Latin America and Asia.³

IV. Cluster Development Initiatives in India

Although a precise and comprehensive definition of 'industrial cluster' remains elusive, even at the international level, UNIDO in India has taken 100 or above 'registered' units in a given location as a benchmark for classifying the latter as a cluster. It may be emphasised that such a basis of classification is severely problematic and clearly indicates the lack of an analytical approach for characterising Indian industrial clusters. Firstly, it fails to appreciate the very *nature* of clustering in the Indian context by being oblivious to the significant presence of the characteristics of the informal sector in small firm clusters. Secondly, such a definition is incapable of distinguishing between artisanal/rural clusters from modern, small firm-dominant urban clusters. Despite the

² For an early and detailed discussion, see Schmitz (1990) and later, Schmitz and Nadvi (1999). For a discussion of flexibility and collectivity issues in the Indian context and for a list of Indian cluster studies, see Das (1995, 1996 and 1998).

³ See, for instance, widely circulated documents such as Humphrey and Schmitz (1995), Ceglie and Dini (1999) and UNCTAD Secretariat (1998).

definitional naivete, the list(s) of clusters is being updated and, in itself, is a useful exercise. Of the 305 clusters for which locational information is available, as few as eight (2.6 per cent) are based in rural areas and 17 (5.6 per cent) in rural towns. In terms of artisanal activities, a list of 1656 clusters has been prepared so far. As may be observed from Table 2, a remarkable range of products are manufactured in clusters spread across the entire country.

Much of the cluster development initiatives in India are still in the project/ implementation stage as concrete approaches to the varied types of industry groups and/ or locations are still evolving. It needs to be emphasised that while only the UNIDO's Cluster Development Programme is entirely focused on this dimension, there are many other agencies for whom cluster development is only an additional activity and, clearly and necessarily, not the main concern. Efforts to promote clusters have been initiated by different organisations, mainly during the 1990s. Table 3 provides a snapshot of such initiatives in India. As is obvious, the basic emphases of these 'standardised' initiatives are technical upgradation and the provision of finance to selected units. Given the diversity of portfolio, constitution, experience and objectives of the 'external agencies', it is too early to arrive at a conclusive statement about the performances of the 'chosen' clusters. Nonetheless, it may be useful to note the nature and extent of achievement of these clusters.

UNIDO's cluster development programme is probably the most widely publicised initiative that has largely influenced other similar efforts at the local and Central governmental levels. The present strategy of UNIDO can be briefly described as follows:

- i) *Diagnostic Study and Cluster Action Plan:* The identification of potential competitive advantages and obstacles to business growth is followed by prioritisation of initiatives of the participating institutions.
- ii) *Implementation of Pilot and Strategic Projects:* Basically, at this stage, commercial promotion measures are taken with a view to generate visible and replicable outcomes. Business development services (BDS) are considered as an important input in strengthening the cluster actors in managing and furthering their growth.
- iii) *Self-Management Phase:* As networks and local industry associations gain autonomy, UNIDO and government gradually withdraw 'passing the baton' to cluster actors (Russo *et al.*, 2000, pp. 6-8).

At a detailed functional level, business resource centres, say, at the district level, would form a focal point for cluster development actors and market support organisations.

In 1996, UNIDO had selected four clusters for intervention in India. These were hand-printed textiles in Jaipur, Rajasthan; hosiery in Tiruppur, Tamil Nadu; woollen hosiery in Ludhiana, Punjab; and food processing in Pune, Maharashtra. Different strategies were adopted in each of these clusters. In the Jaipur cluster, the Calico Printers Co-operative Society comprising about 126 artisans, was revived and efforts to encourage joint marketing were made. A Consortium of Textile Exporters comprising 15 exporters has emerged to increase exports. At least 23 artisans and exporters were helped to access the Japanese market. In Ludhiana, 12 firms producing woollen hosiery were supported to help them start the Knitwear Development Group, which provides common designer services, conducts training courses and helps in building partnership with the export market. As in Jaipur, 40 exporters were brought together to create the Apparel Exporters Association of Ludhiana. In the Tiruppur hosiery cluster and the food processing cluster in Pune, workshops and study tours were conducted to enhance the technological and market knowledge of select entrepreneurs (www.unido.org/stdoc.cfm?did=330928).

A series of clusters concerning the 'languishing' tribal crafts and arts (including Dokra metal casting, turned wood, lace work with vegetable dyes and terracota) in areas such as Nirmal, Ushagaon, Keslaguda, Chittal Gori and Jangaon in the Adilabad district of Andhra Pradesh have been taken up by the National Institute of Fashion Technology (NIFT) to infuse dynamism in these activities. The NIFT efforts, undertaken in collaboration with the local government and NGOs, aim to:

- i) Enhance the capability of the craftsmen to sustain themselves within their own communities and clusters (through the encouragement of local markets);
- ii) Expose the craftsmen and craft to external markets and institutions (showrooms and museums);
- iii) Encourage concern for the ecology and environment through creation of farms for various raw materials like wood;
- iv) Design an evaluation system to measure change;

- v) Establish marketing outlets based upon the house/ workshop/ museum concept; and
- vi) Organise to transfer the skills/ crafts to the next generation.

The creation of alternative raw materials, introduction of technological upgradation, wherever possible, and popularisation of the products in both local and external markets, may revive these activities and generate both income and expenditure in the region (www.niftindia.com/industry&projects/cluster/hyd/cd_adilabad_report.htm).

Drawing upon the advantage of local resource availability, the Rural Non-farm Development Agency (RUDA) of the Government of Rajasthan, intervened to promote clusters based on three selected sub-sectors, namely leather (footwear clusters, Dholpur and others), wool (processing clusters, Beawar and Bikaner) and minor minerals (blue pottery clusters, Jaipur). Set up in 1995, RUDA is the first such agency that endeavoured to follow a sub-sectoral, integrated and cluster-based approach for promoting rural micro-enterprises as viable avenues of sustainable employment. The main strategies drew upon intervention based on market demands, aiming to fill the missing links in the value addition chain by organising the artisans, skill augmentation, technological development and dissemination, design and product development, and credit and market facilitation (www.investrajasthan.com/news/sta911000.htm).

In functional terms, these included efforts to:

- i) Identify major constraints affecting the growth of each sub-sector;
- ii) Network and liaise with principal actors of rural non-farm sector promotion including prominent NGOs, government departments, research and design institutions, trade associations, national and international donor agencies and private sector agencies including entrepreneurs, exporters, domestic and international promotional trade agencies;
- iii) Assist NGOs and artisan groups in project formulation and implementation of projects including framing of evaluation parameters for the projects; and
- iv) Engage in capacity building, especially in the fields of marketing, book-keeping, accounts and other micro-finance aspects of NGOs, rural enterprises, khadi agencies.

As far as the leather goods clusters were concerned, some of the specific activities were as follows:

- i) Designing and implementing a technology-focused project aimed at making productivity enhancements to leather tanning operations through transfer of appropriate technologies, with contributions from the tanners;
- ii) Conducting skill re-orientation training programmes for the under-employed and unemployed youth in making alternate products from the vegetable tanned leather and, subsequently, linking trained persons to the markets by developing sustainable networks;
- iii) Providing techno-design, organising and marketing inputs aimed at improving the quality of ethnic *mojari* footwear under the UNDP-sponsored "Operation *Mojari*" project and thereby augmenting the incomes of poor artisanal households by integrating their products into the mainstream;
- iv) Transforming a peri-urban cluster of low end contemporary footwear in Dholpur to a high- end footwear cluster by providing them technical, design and marketing support; and
- v) Organising traditional leather workers into groups and providing them access to common facilities such as carcass processing, vegetable tanning and designing western footwear.

The aforesaid approach of micro-enterprise development has been considered useful by organisations like UNDP, UNIDO, World Bank, KVIC, and the department of rural development that have availed of RUDA's expertise in strategy formulation and implementation.

The central aspect of cluster development initiatives, at least in terms of the manner in which these are being practised in India, has been accessing a wider market, importantly, the external/ global market. It has come to be recognised by now, as a UNIDO paper would put it, that the problem is not of the inefficiency (i.e., lack of competition) of the existing BDS markets (e.g., vocational training, book-keeping, technology transfer, etc.) but rather "the absence of certain types of BDS markets, for example, in the fields of export consultancy, Internet technology, bulk purchasing, and joint product marketing, though they would be the most beneficial" (Russo *et al.*, 2000, p. 8). The UNIDO approach involves, on the one hand, articulation of demand by the entrepreneurs for the relevant BDS

and, on the other, the designing of BDS customised to the cluster needs. While there is no notable demerit in the strategy of BDS development in clusters, it is useful to note that most other agencies have not underscored the need for the same. As mentioned before, most of these agencies purport to promote clusters in a very 'selective' manner, largely in keeping with their organisational priorities and mandate.

V. Rural Clusters and Governmental Role

In many ways, it needs to be recognised that the existing small industry promotion bodies have been performing practically the same or similar roles all through the last half a century or so (Bala Subrahmanya, 1998). Further, artisanal firms, in general, hardly received any special attention (as compared to the modern small scale industry) despite the recognition of their special needs. The existence of innumerable project documents on improved rural technology has remained largely unutilised. The promotion of artisanal or rural enterprise, most unlike that in the recent past, must have to be visualised as an integrated and pragmatic approach to regional industrialisation *per se*.

Irrespective of the poor implementation of policies and its modest performance, the Central Government has had an impressive record of policy formulation concerning rural industrialisation. With yet one another scheme on the anvil, in his Budget speech of 1999-2000, the then Finance Minister announced the launching of the National Programme for Rural Industrialisation (NPRI) with a clear emphasis on promoting clusters in rural areas. It delineated the objective of setting up 100 rural clusters every year. Although no separate budgetary allocation has been made for the purpose, the main idea is to gain the synergy from the concerted and co-ordinated efforts of various departments, ministries, organisations and state governments having similar activities or programmes pertaining to rural industrial development. The Development Commissioner, Small Scale Industries (DCSSI), has been designated the vital role of co-ordinating with the relevant departments/ministries to ensure the implementation of these programmes. Developing rural clusters, as any other rural development programme, would naturally depend upon the supportive inter-relationship between the various stakeholders.

Under the NPRI, cluster development is being taken up by the Khadi and Village Industries Corporation (KVIC), the Small Industries Development Organisation (SIDO), the Small Industries Development Bank of India (SIDBI) and the National Bank for Rural Development (NABARD). The sponsoring organisation for each cluster will provide for design development, capacity building, technology intervention and consortium marketing. A Cluster Development Fund has been proposed to be created under the Plan. It is assumed that the tiny units shall emerge as the major beneficiaries of the cluster development programme.

While the KVIC had taken up the responsibility of developing 50 rural industrial clusters during the first year (1999-2000) itself, SIDBI had chosen 25 clusters for the same purpose. The remaining 25 clusters had been taken up by the DCSSI, NABARD and the individual states. At the district level, the programme is managed by an implementing committee under the district magistrate, with members selected from the concerned ministries and agencies. There also exists a state level committee, constituted under the chairmanship of the Secretary, industrial/ rural development department, to oversee the programme implementation. At the national level, one more committee has been formed under the chairmanship of DCSSI to formulate policies and guidelines, lay down targets for the year and to co-ordinate among the concerned heads of the various ministries and agencies involved at the state and district levels. The identification of clusters has already been completed and diagnostic studies have been undertaken for identifying their specific needs. These diagnostic studies would form the basis on which the implementation strategy would be drawn up. In some cases, the implementation has already begun. The resources/funds needed for the programme are being pooled from various ministries and agencies.

In addition to the rural cluster development programme, during the Eighth Five Year Plan (1992-97), the Central Government had introduced an Integrated Infrastructural Development (IID) scheme for facilitating the growth of small and medium enterprises in the rural and backward areas of the country. This scheme aims to promote infrastructural facilities such as developed sites, power distribution network, water, telecommunications, drainage and pollution control facilities, roads, banks, raw materials, storage and marketing outlets, common service facilities and technological back-up services in the existing or new industrial areas. It was proposed to establish about 50 centres except in those districts which are covered under the Growth Centre Scheme. This scheme continued during the Ninth Five Year Plan also. Whereas the implementation of

this scheme can be taken up by state public sector units, private corporate bodies or NGOs, yet the financing of each centre to the extent of Rs. 5 crore shall be shared between the Central Government and SIDBI in the ratio of 2:3.⁴ The IID scheme will progressively cover all areas in the country with 50 per cent reservation for the rural areas. Under this scheme, 50 per cent (as against the previous 40 per cent) of the plots are to be earmarked for the tiny sector.

As far as the role of KVIC in assisting the establishment of small units in rural areas is concerned, there has been a major shift in its functional approach itself. Following the recommendations of the high-powered committee, constituted under the chairmanship of the then Prime Minister, from April 1995 onwards, KVIC has switched over to a project approach whereby it provides a margin money grant for setting up industrial units in the rural areas.⁵ In order to support the handloom sector, the relatively recent scheme, the Deendayal Hathkargha Protsahan Yojna, with a financial implication of Rs. 447 crore, has the mandate to provide comprehensive financial and infrastructural support to weavers. A comprehensive package aimed at the skill upgradation of workers in the khadi and village industries is also being worked out by the government. Similarly, as regards the revival and recharging of the languishing industrial estates, the Ministry of Small Scale Industries and Agro and Rural Industries (SSI and ARI) proposes to draw up a detailed cluster development scheme for the consideration of the Planning Commission. The funds available under the non-lapsable pool for the north-east region are to be used for industrial infrastructure development, cluster development and for the setting up of incubation centres, and of IIDs in the north-east, including Sikkim.

⁴ Under this scheme, the Central Government provides aid in the form of a grant upto of Rs. 2 crore (Rs. 4 crore in case of the north-east region) for a project with an investment of Rs. 5 crore excluding the cost of land to state or union territory governments for setting up IID centres. The remaining amount of upto Rs. 3 crore can be taken as a loan from SIDBI. Any cost beyond Rs. 5 crore shall be borne by the respective provincial governments which are expected to select the appropriate site for the project and implement through an implementing agency of their own. A project of 15 to 20 hq. is expected to accommodate about 400 small industrial units in the rural and backward areas.

⁵ While one-fourth of the project cost forms the grant component, the same is 30 per cent for the north-east region, Andaman and Nicobar Islands, and Sikkim.

VI. Rural Industrialisation: A Discussion of Issues for Policy

The primacy of employment generation through cottage and village industries has remained one of the most pronounced policy objectives in India. The promotion of local entrepreneurship as well as of physical resources has been the cornerstone of such policy prescriptions. That such development would involve a variety of institutional, financial and infrastructural support had been recognised in the very first Industrial Policy Resolution (IPR) of 1948 itself. The latter had, in fact, identified a whole gamut of factors that are essential for promoting industrialisation in rural areas. These included, “provision of raw materials, cheap power, technical advice, organised marketing of their products, and wherever necessary, safeguards against intensive competition by the large scale manufacturers as well as on the education of the workers in the use of the best available techniques” (Vepa, 1971, p. 16).

Much of the later policy statements, including the subsequent IPRs and Plan documents, have reinforced the aforesaid mechanism of rural industrialisation. A glimpse of the plethora of programmes (Table 4) reveals the wide-ranging promotional systems conceived over the decades. It is important to note that most of the policy ideas have evolved over time, keeping in view the problems specific to the rural sector. Moreover, while employment generation continued as an important objective, time and again, suggestions were made to promote infrastructure development, technology upgradation and marketing, including exports. As the Karve Committee had recommended way back in 1955, “any development programme for small industry should be decentralised, aimed at gradual improvement in techniques *without reducing job opportunities*, assure marketing through co-operatives, and aim at positive promotional support rather than enforce protection or reservation” (*Ibid*, p. 19; emphasis ours).

Despite rich policy measures, their failure lay in the relative neglect of village and small industries as compared to the modern small industry. The lack of seriousness in implementation of these measures has often been cited as a major reason of the ineffectiveness of the policies.⁶ Another obvious limitation of

⁶ For instance, the “Common Production Programme was repeatedly advocated but was never introduced (perhaps under pressure from big business lobby) in any industry, thus upsetting the most vital link needed to give the village industries a chance for survival. Even minor attempts at common production programmes

the rural industrialisation strategy remained a certain 'obsession' with certain 'old' techniques of production that had both a tremendous scope and necessity for upgradation. The simple point is that unless there exists a growing market or potential for creating one for a particular product, initiatives for industrialisation may be difficult to sustain (Bhatt, 1998).

While there need not be any dispute as regards preserving and encouraging traditional skills and crafts (at the individual or household level), at a regional or macro- policy plane, enhancing the enterprise's access to a larger--new and existing--market must form an important concern. If such an approach involves substantial product diversification (through technological and/or skill formation), the specific requirements need to be identified. As rightly observed by Papola and Misra (1980, p. 1745), "It is likely that with increasing income levels the consumption pattern would grow more urban-based. If village industries are to cater to the local needs, it seems necessary that technology of the traditional industries is refurbished to meet new demands; and new products are introduced for manufacturing in the rural areas. An approach based on an emphasis on traditional products and technology is highly unlikely to succeed as a mode of rural industrialisation for income and employment generation".

In some sense, and in all probability, agencies with a clear *sub-sector* focus, for instance, NIFT or RUDA, may go a long way in promoting the relevant clusters largely due to the experience they have in, say, raw material quality, scope for innovation, potential markets, nature of diversification, and pooling the skills of artisans. In order to strengthen the clusters, especially, the artisan-based rural clusters, they require to maintain interaction on a sustained basis and in association with the local state.

The role of the local state is essential because rural clusters, if they have to be promoted as efficient and competitive industrial bases, need improvement in terms of both human skills and provision of 'real services', including such vital infrastructure as transport, power and telecommunication facilities in the region. While the craft and the craftsman need discrete attention, enhancing the *business capabilities* of the cluster shall, eventually, require substantial investment in infrastructure building. It is only in the growth phase that

could not make headway because the administrative arrangements that exist are at best an appendage" (Jain, 1980, p. 1748).

supporting entrepreneurship, networking, innovation and, even later, making available venture capital, shall assume importance and usefulness.

The excessive preoccupation with mechanisms to enhance external orientation and networking in small firm clusters, reflecting the tactical concerns of the industrially advanced countries, seems to have overlooked, deliberately or otherwise, a few critical aspects of the circumstances in which small firms typically function in India or in similar developing countries. The non-recognition of the dynamics of the overwhelming presence of the informal economy, of which a very large proportion of the small firms is a part, can be a serious lapse in policy formulation for promoting small firm clusters. Tendler (2002, p. 10), would perceptibly argue “that the widespread sympathy for small firms as a special category – and in particular their “inability” to pay taxes and conform to environmental and labour standards – tends to undermine other important concerns about appropriate strategies for reducing poverty, increasing employment and development, and improving governance. These include reducing environmental degradation (to which small firm clusters can be major contributors); protecting the workers’ right to organise, and improving health and safety in the workplace; expanding the coverage of social security, health, and other social insurance to poorer workers; increasing the tax yield of governments so as to better finance public services and, in so doing, drawing government and firms together in a contract – in this case, to promote a more inclusive style of economic development”.

Arguing in a similar vein, and pointing to the ‘atrophying’ of rural manufacturing as a source of non-farm employment, Saith (2001, p. 119) observes that the “great expectations placed on the role of new rural industrial clusters might well go unfulfilled...Given the disadvantages of deep rural locations and the higher transactions costs involved, it appears highly unlikely that such an intervention will yield adequate returns, especially if outright subsidization is to be eschewed as a form of support”. In fact, as he argues, there exist ‘justifiable doubts’ regarding the emergence, sustainability and efficiency (in terms of competitiveness, at least) of policy induced rural industrial clusters. Moreover, absorbing the rural poor (and *unprepared* for an industrial job) in the industrial clusters would be a difficult proposition . Under such conditions, it would be far-fetched to visualise rural industrial clusters as being plausible source of non-farm employment or even as partial solutions towards ending poverty.

Be that as it may, cluster development programmes in India, including those for rural clusters, have not yet addressed, in any meaningful manner, the employment dimension from the perspective of either its growth or 'decent' work. In fact, by the early 1990s, the gradual shying away from or non-reference to the issue of labour in the debate on flexibility-collectivity in the small firms, was quite apparent. This strange silence on labour issues also has its imprint on the cluster development initiatives that are currently underway.⁷ This is especially true when there are dynamic approaches to rural industrialisation whereby, despite the income-employment trade-off, employment maximisation is possible through some "combination of capital-intensive industrialisation and labour-intensive techniques" (Bar-El, 1984).

The present paper argues that a comprehensive rural industrialisation/cluster development strategy has to be designed within a broader regional development perspective that does not fail to include employment generation as *a*, if not *the*, critical dimension. The dismal state of industrialisation of the rural areas reflects the several limitations that plague both policies and their implementation. The current obsession with the industrial cluster based approach also shares similar handicaps. A mechanistic, replicative and essentially *ad hoc* approach to cluster development that is oblivious to the developmental constraints facing the Indian rural economy, would, euphemistically, compare well with the proverbial camel that hid the head for the body! Such a policy may fail to succeed in generating employment opportunities as also in creating a competitive and sustainable rural industrial base.

The vital aspect that needs serious attention in any rural industrialisation initiative is to ensure a sound rural infrastructure base that would promote relevant and integrative regional development. It is argued here that a comprehensive rural cluster development strategy has to be designed within a broader regional development perspective that does not fail to provide an opportunity to the local labour to be, at least, as *prepared* as their advantaged urban counterparts elsewhere. Inclusion of decent employment as a conscious policy in rural cluster development approaches needs no overstatement. A critical re-reading of the earlier policies of rural industrialisation, including those tried out in similar circumstances in other developing countries, may prove worthwhile for a pragmatic and relevant cluster development approach for the rural regions.

⁷ For detailed study on this aspect in the Indian context, see Das (1999).

Table 1: Distribution of Workers by Employment Status in Rural India, 1972-2000

Employment status	1972-73	1977-78	1983	1987-88	1993-94	1999-2000
<i>Male</i>						
Self-employed	65.9	62.8	60.5	58.6	57.6	54.9
Regular	12.1	10.3	10.3	10.0	8.6	8.9
Casual	22.0	26.9	29.2	31.4	339.9	36.2
<i>Female</i>						
Self-employed	64.5	62.1	61.9	60.9	58.7	57.4
Regular	4.1	2.8	2.8	3.7	2.7	3.1
Casual	31.4	35.1	35.3	35.4	38.6	39.6
<i>Person</i>						
Self-employed	65.3	62.9	61.0	59.4	58.0	55.6
Regular	9.3	7.7	7.5	7.7	6.4	6.7
Casual	25.4	29.7	31.5	32.9	35.6	37.7

Source: Reddy (2002, p. 63).

Table 2: Rural Artisan Clusters in India by Broad Product Group and Region

Artisan Cluster	Regions					
	North	South	East	West	North-east	All-India
Wood Products	73 (23)	36 (25)	60 (15)	56 (22)	20 (10)	245 (95)
Metalware	27 (10)	27 (4)	81 (28)	32 (6)	5	169 (45)
Stoneware	8 (8)	10 (10)	12 (12)	14 (14)	-	44 (44)
Textile Products	153	67	94 (1)	102	40 (2)	456 (3)
Bamboo/Cane	25	28 (3)	65 (1)	44	43	205 (4)
Leather Products	17	2	6	24	2	51
Bone, Horn, Ivory	6 (2)	10 (3)	8 (4)	6 (1)	1	31 (10)
Clay/Pottery	37 (25)	14	65 (39)	35 (6)	10 (5)	161 (75)
Carpets	40	4	7	13	4	68
Jewellery/Fashion	37	23	36	42	9	146
Dolls and Toys	6 (6)	15 (15)	15 (15)	12 (12)	2 (2)	50 (50)
Glassware	5	1	-	-	-	6
Miscellaneous	7	4	8	2	3	18
Total	435 (74)	241 (60)	457(115)	383 (61)	139 (19)	1656 (276)

Notes:

North: Delhi, Himachal Pradesh, Haryana, Jammu & Kashmir, Punjab and Uttar Pradesh

South: Andhra Pradesh, Karnataka, Kerala and Tamil Nadu

East: Andaman & Nicobar Islands, Bihar, Orissa and West Bengal

West: Gujarat, Lakshadweep, Madhya Pradesh, Maharashtra and Rajasthan

North-east: Arunachal Pradesh, Assam, Manipur, Mizoram, Nagaland, Sikkim and Tripura

'Miscellaneous' includes the following product groups: *Agarbathi* (10); *Basketaries* (2); *Pactra* Tribal jentiles (1); *Dhokra* (2); and Other Domestic (3).

Figures in brackets indicate the number of artistic or decorative (as distinct from utility) products.

Source: Cluster Development Programme, UNIDO, New Delhi. Grouped (sub-sectoral and regional) by the author.

Table 3: Approaches to Cluster Promotion in India, Some Aspects

Agency	Basis of Cluster Selection		Implementation of Action Plan			
	Diversification	Dynamism	Implementer	Stakeholder	Control/Evaluation	Range of Services
SIDBI (1997)	Diversified	Capacity to absorb improved technology	SIDBI officials	Partial stake with private sector	SIDBI officials	Technical, upgradation, financial help
DCSSI (1998)	Diversified	Scope for technology upgradation	NRDC, its identified experts and other technical agencies	Participatory	DCSSI officials	Technology
UNIDO (1996)	Diversified, modern SME clusters	Some level of dynamism	By identified experts and focus group (private)	Full stake with private sector	Private sector	As catalyst
SBI-Uptech (1988-89)	Clusters where SBI has larger stake		By identified experts	Partial stake with private sector	Bank officials	Financial and technical
Abid Hussain Committee (1997)	State governments to identify clusters based on their regional priorities		Public and private JVs	Participation (CSEAs)	N.A.	Training, technology and information

Notes: N.A. = Not Available

Bracketed figures indicate year of initiation of the cluster programme.

Source: Based on personal communication with Mukesh Gulati.

Table 4: Major Rural Industrialisation Programmes in India

Programme	Period of Launching (Five Year Plan)
Rural Industrial Estate Programme	I
Village Artisan-oriented Programmes	I
Common Production Programme	II
Pilot Project Programme	II
Rural Industries Project Programme	III
Rural Artisan Programme	IV
District Industries Centre Programme	V
Backward Area Scheme	V
Growth Centre Programme	VI
Integrated Infrastructural Development Programme	VIII
National Programme for Rural Industrialisation	IX

Source: Compiled from Singh (2001, pp. 11-16).

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