

Participatory Governance for Rural Economic Zone: Strategy for Rural Economic Dynamics in India

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Abstract

Sustainable rural economy is base of sound economic of Nation. There is equal contribution of every social element. If rural social element is empowered economically, it plays an important role in the national interest; hence this paper aims to analyze such governance which can attain rural economic sustainability. For this purpose, Rural Business Hub (RBH) initiated under the Ministry of Panchayati Raj (MoPR). The aim of RBH was to bring about inclusive development of the rural areas. This scheme was implemented as a participatory development model for the rural areas of the country. Government initiated many economic developments such as, special economic zone, Ecological economic zone, National investment Manufacturing Zone. These efforts try to decentralize economic activities at grass root level for sustainable & progressive development. But, it doesn't convert into the desired outcome. Hence there is need of hour to analyze experience of RBH and search the ultimate alternate model for Rural Economic Sustainability.

Rural Economic Zone (REZ) aims at contributing an applied framework for rural economic sustainability. The schemes like RBH, SEZ, EEZ, NIMZ etc. all have similar vision with different objectives. The argument is, the holistic approach of REZ incorporates all these scattered schemes under one roof.

Key Words: *Governance, Economic, Sustainability, Rural Business Hub (RBH), Rural Economic Zone (REZ), EEZ, SEZ, NIMZ.*

Introduction:

India is known as biodiverse agrarian country. Since ancient period, rural agriculture, allied sub sector and small-scale industries have been playing a vital role in the rural economy. In the past, village artisans and craftsmen contributed richly in terms of goods and support services for achieving a self-sufficient and sound rural economy. India created a pattern among artisans used to cluster in specialized artisan areas all over the country making an entire village designated as a workshop and handlooms handicrafts. This system\was subsequently demolished after British rule and industrialization. But because of the history and culture are too strong, a portion of giant rural industrial structure could live to do great contribution for whole countryside economy.

In the rural development strategy with focus on betterment of the weaker sections, a faster rate of rural industrialization and village enterprises and business becomes very crucial. Rural industrialization embraces different kinds of village and small industries (Reddy, 2001). Now it is very essential to search governance for sustainable rural economy in the context of all-inclusive development of society.

Participatory economic sources in the rural areas of India will definitely ensure sustainable rural economic development. RBH's genesis was one of the important efforts in India for getting Rural Economic Sustainability. But the government could not continue the scheme due to hurdles in achieving the desired target. The experience indicated the necessity of establishing Rural Economic Zone, bringing all scattered schemes under one umbrella.

The present paper attempts to shed light on the condition of such rural Areas and the policy efforts by the Government of India and evaluate the scheme. Descriptive and analytical methods, entailing both qualitative and quantitative techniques to obtain data from primary and secondary sources are used. The design

of the study employs holistic study of the RBH and probing a new alternate effective model for rural economic sustainability through one umbrella concept of REZ.

Rural Economy in India:

India is known as an agricultural based country, as most of the population of villages depended on agriculture and small industries. Agriculture forms the backbone of the country's economy. The agricultural sector and rural enterprises contributes most to the overall economic development of the country. The compound growth rate in agricultural production has been 2.7 per cent per annum since independence (Prasad, 2010). In Fact, the rural economy of India is based upon agriculture, and it is extremely significant because it forms the main supply and demand links with other Indian industries. Agriculture and village enterprises are the two main pillars of the Indian economy, as it forms the spine of rural India that occupies more than 70% of the total Indian population. The rural part of the Indian populace is mainly involved in agriculture-related activities, directly or indirectly. The Ministry of Agriculture, Ministry of Rural Infrastructure, Ministry of Micro, Small and Medium Enterprises, Ministry of Textiles, Ministry of Food Processing Industries, Planning Commission of India, and Ministry of Panchayati Raj are the main regulatory bodies that draw and execute policies relating to the rural economy in India and its prospective enhancement for the development of the Indian economy overall.

India for the past three decades re-emerges as an ideal laboratory for assessing the determinants of rural poverty and inequality. As is well known, India has been among the most dramatic cases of substantial productivity growth in agriculture resulting from both private and public investments in agricultural innovation since the late 1960's as documented by Evenson and McKinsey, 1999. And, though less well documented up until now, there has also been a substantial expansion of rural enterprises, with factory employment in or near villages expanding tenfold since the early 1980's resulting in part from pro-rural investment policies Foster, 2003. For example, specifically looking at identifying the determinants of rural economic growth by source, India's villages are, on average, sufficiently isolated that they operate just like distinct economies in which there is local variation in wages and other non-tradable prices. Moreover, as has been shown earlier, there is considerable variation across India in the magnitudes of agricultural productivity growth due to differences in the suitability of different crops. There has also been differential growth in this period in rural industry, enterprises, and business, some of which is a consequence of different policy environments at the state level such as special economic zone, EEZ (Besley and Burgess, 2003). Now, the rural household's dependence on non-institutional sources significantly increased. We observed the following things (Patel, 2010).

Average annual GDP growth rate in agriculture dropped from 3.37% in 1980s to 2.97% in 1990s and to 2.9% during 2000-08, Food grains growth rate maintained through 1980s 2.73% dropped to 2.09% in 1990s and further to 2.01% in 2000-08 Annual per capita food grains' availability is 176.3 kg against the minimum required [182.5].

□ An agricultural term of trade in decline and stagnation between 1990 and 2005 render the financial viability of crop production unattractive and fast erode Government's ability to contain food prices.

□ According to NSSO, the average total income of farm household [up to two hectares] was less than 80% of its consumption expenditure and 40% of interviewed farmers wanted to quit farming, if there were options.

□ The NSSO [2002-03] concluded that 45.9 million [51.4%] farm households out of the total 89.3 million in India did not have access to credit [from either institutional or non-institutional sources]. Only 27% of the total farm households are indebted to formal sources [one-third of which also borrow from informal sources]. In short, 73% of farm households do not have access to formal credit sources.

□ The Rajan Committee on "Financial Sectors Reforms" and RBI's report "Trend and Progress of Banking in India, [2007-08]" reveal that even after four decades of banks' nationalization, country's 41% adult population is still outside the banking system.

□ Between 2004 and 2008, the number of rural branches reduced by 968. The total number of branches of all categories of commercial banks rose by 9541 [14.2%].

In fact, the ratio between agriculture and non-agriculture enterprises in India is 15.3% and 84.7%, respectively. Considering only rural area, the share of agriculture enterprises is 23.2%, whereas the percentage of non-agriculture enterprises is 76.8%. Being an agricultural nation, the share of proportion of the agricultural enterprises should be increased. The government is making every possible effort to begin processing units based on perishable agriculture products to increase national income (Table 1).

Rural Economic Sustainability:

It notes in the Approach Paper to the 12th Five year Plan that economic development shall be sustainable only if it is pursued in a manner which protects the environment. With the acceleration of economic growth, these pressures are likely to increase and we need, therefore, to pay greater attention to the management of water, forests and land. In contrast, it is largely perceived that sustained industrial and business growth has been an engine of economic transformation. However, less developed countries remained predominantly agrarian due to the lack of dynamism in the rural industrial and business economy and the low-level industrialization. The economic policy reform programme was launched in July 1991, and it intended to create the much-needed dynamism in the rural industrial and village-level business sector for the successful transformation of India's agrarian economy. Agriculture, in fact, is the base of Indian rural economy. It will become strong only when industries and business transfer to rural areas. Especially, rural economic sustainability depended on the development of social, environmental, and economic simultaneously. Figure:

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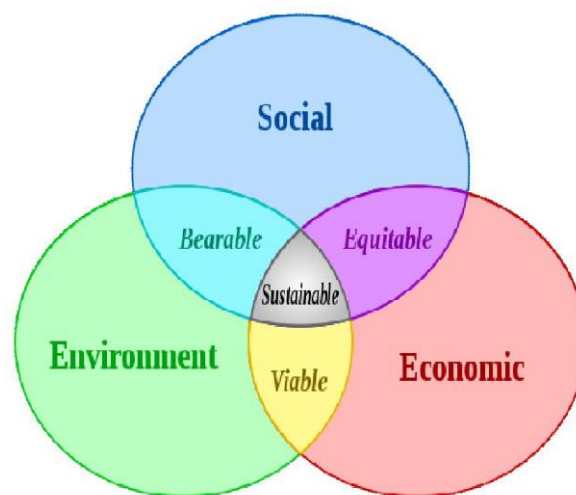


Fig 1 defines the concepts that ultimately constitute sustainability. According to this the rural economy that we are looking for should be;

- Viable from the economic and environmental point of view
- Equitable from economic and social point of view and bearable
- Bearable from the environmental and social point of view (Karunakaran, 2010)

Governance for Rural Industrialization, Enterprises and Business:

In India, small scale industries in rural areas largely incorporate under Ministry of MSME, Ministry of Textile and Ministry of Food Processing Industries. Substantial part of investment takes part in Ministry of MSME. Government intends to enhance investment and production from remaining two ministries. Particularly, Ministry of Food Processing Industry is disregarded to some extent. Investment should be augmented in this ministry (Table 2).

In fact, The Ministry of Agro and Rural Industries (MoARI) in India was established in September, 2001 with the aim to develop the Rural Industries in the Indian Economy. Now the Ministry of Agro and Rural Industries and Ministry of Small-Scale Industries have been merged into a single Ministry, namely, 'Ministry of Micro, Small and Medium Enterprises' from 9th May 2007. The main objectives of this initiative were to ameliorate the supply chain management, upgrade skills, introduce innovative technologies and expand markets of the entrepreneurs and artisans. A wide range of programs, schemes, projects and policies have been formulated to carry out various activities in the rural sector in India (BMI).

Over the past fifty years, the MSME sector has become a lively and ever-changing part of the Indian economy. MSMEs are important sources of employment in rural areas and backward areas because they need less capital than large companies do for setting up, thus reducing regional imbalances, guaranteeing fairer sharing of national income as well as wealth. Along with this there are also important role of Ministry of Textiles and Ministry of Food Processing Industries in the development of rural economy, especially Ministry of Panchayati Raj (MoPR) is playing very important role in the process of rural development. RBH was one of the important schemes implemented by MoPR in India for sustainable economic development.

Special Economic Zones (SEZs), Exclusive Economic Zones (EEZs), and National Investment and Manufacturing Zones (NIMZs) are distinct economic and geographic areas designed to stimulate economic growth and development. SEZs are designated areas within a country that have different economic regulations than the rest of the country, often with favorable conditions such as tax incentives to attract foreign investment and boost export-oriented growth. EEZs extend up to 200 nautical miles from a country's coastline, granting the country exclusive rights over the exploration and use of marine resources, including energy production from water and wind. NIMZs are large industrial zones in India, developed under the National Manufacturing Policy, aimed at enhancing manufacturing capabilities, generating employment, and creating world-class infrastructure to support industries. Each of these zones plays a crucial role in promoting economic activities, attracting investment, and fostering industrial growth within their respective jurisdictions.

SEZ Vs NIMZ

Differences between National Investment and Manufacturing Zones (NIMZs) and Special Economic Zones (SEZs):

1. NIMZ (National Investment and Manufacturing Zone):

- Objective: NIMZs focus on industrial growth, collaboration with local governments, and manufacturing development.
- Area: NIMZs cover a larger expanse, typically spanning at least 5000 hectares.
- Infrastructure: They emphasize robust infrastructure, including power, water, and transportation.
- Incentives: NIMZs offer a broader range of incentives and support services.
- Role of State Governments: State governments play a significant role in land selection, infrastructure linkages, and addressing health, safety, and environmental concerns within NIMZs.

2. SEZ (Special Economic Zone):

- Objective: SEZs primarily promote exports.
- Size: SEZs are smaller in comparison to NIMZs.
- Focus: They are more export-oriented and may not have the same comprehensive infrastructure as NIMZs.

In summary, while both NIMZs and SEZs aim to promote industrialization, NIMZs cover a larger area, focus on integrated development, and provide a wider array of incentives.

Rural Business Hub:

The Panchayati Raj Ministry has set the goal of “Hand to Hypermarket” as the overall objective of Rural Business Hubs (RBH), which is aimed at transforming from mere livelihood support, promoting rural prosperity, boosting rural non-farm incomes and increasing rural employment. Thus, RBHs established together with Panchayati Raj Institutions (PRIs) might be seen as the fulcrum of “inclusive growth” that was emphasized during the Eleventh Plan (MoPR, 2009).

The 11th Five Year Plan witnessed the birth of Rural Business Hub (RBH) Scheme. The RBH was premised on Public-Private-Panchayat-Partnership (PPPP). This concept originates from China ‘Town & Village Enterprises (TVEs)’, Thai model ‘One Tambon-One Product (OTOP)’ and Japan’s term ‘One Village-One Product’ (OVOP). But on the recommendations of the Planning Commission of India, this Scheme was put to rest since 12th Five Year Plan.

The Union Ministry for Panchayati Raj was identified 856 products, which the business community could have partnership with panchayats for establishing Rural Business Hubs. Under the scheme of RBH, 273 Memorandum of Understandings (MoUs) were signed by members of industry, Central/State supported agencies like PSUs, Promotional Organizations, large Cooperatives etc. for implementation of 72 projects in different States. Apart from that SEZ, EEZ and NIMZ played a pivotal role for economic development but still some areas not get benefited. MoPR also implemented the scheme of Backward Regions Grant Fund (BRGF) providing untied grants to 250 identified backward districts. The guidelines of the Programme entrust central role in planning and its implementation to Panchayats in rural area, to promote business using raw materials/skills available in the rural areas by linking them with industry and marketing organizations so that such products should get the benefit of value addition.

Objective:

The objective of the RBH initiative is to promote at least one RBH in each development block of the country by bringing to the attention of business houses, in the public and private sectors, the unique product or skilling each development block deriving from local resource endowments, felt needs of the people and relative absorptive capacity of the local community. Followings were the main objectives of RBH (MoPR, 2009).

- To identify rural products having potential for national/ international markets and standardize their quality.
- Value addition to rural products with the increased production volume to viable levels for marketing.
- To promote RNFE utilizing local skills and/or resources and promoting rural employment.
- To have mutually beneficial relationships between the identified producers and industrial houses.

The State Rural Business Hub Councils are generally headed by the Minister for Panchayat Raj or the Secretary of the Rural Department and are co-chaired by the chairman of the CII State Council. The State Rural Business Hub Councils looks after the well-being of many sectors that function in the rural areas of the states. The different rural sectors looked after by State Rural Business Hub Councils are Food processing, Horticulture, Animal husbandry, Biofuel production, Handicraft and hand loom, Dairy farming, Fisheries and Rural tourism etc. (BMI) State Rural Business Hub Councils thus has taken several steps in order to bring about an all-round development of the rural areas of the states. The RBH State Councils have to continue these efforts so that the condition of the rural people in these different states improves even more.

Unique Feature:

We observed some unique features of RBH they are as follows;

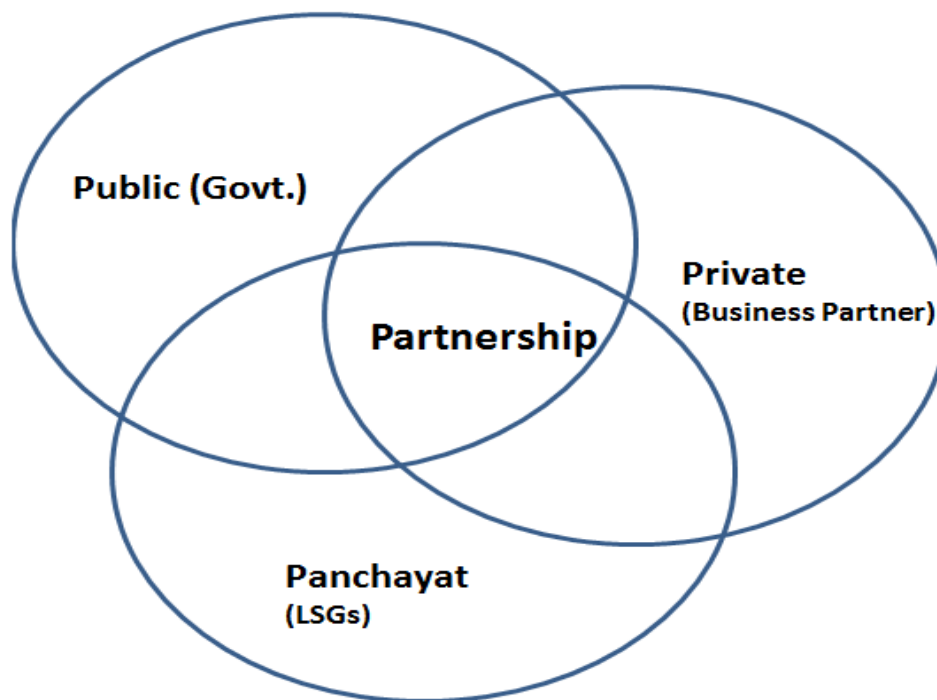
1. It is located in rural areas and linking rural producers with the wide market through a professional marketing partners and developing this integrated business relation benefiting both sides and therefore, sustainable.
2. Rural Local Self Governments that's Panchayats; the democratic grass root level institutions playing the key role of planning and implementing plans for economic development, where in the plans are based on local resource endowments, felt needs of people and relative absorptive capacity.
3. Based on economic activity not charity and Generating rural employment/livelihood.
4. Any economic activity could be taken up but RBHs are ideally suited for Agriculture/Horticulture/Handloom/Handicraft marketing where production is decentralized (Patel, 2012).

Working as 'P³ Partnership':

Model of RBH is based on the unique concept of Public, Private, Panchayat Partnership (P³Partnership). Roles, responsibilities and benefits of key stakeholders are as follows;

- **Public (Government):** Government should provide necessary financial assistance and basic minimum infrastructure by liaising hubs with banks. Government should initiate the process and bring Panchayat and industry personal, entrepreneurs on a single stage. Especially encourage the individuals to set up small units in the villages.
- **Private (Company or Business Partner):** Identify local skills/products with wider market potential and formulate business plans which are Panchayat based & Community accepted. Companies procure the raw material from the village itself. So, less transportation and transaction cost. Selling takes place there only, selling costs are also low. Labor costs are low compared to the urban areas.
- **Panchayat:** As institutions of Local Self Government, extend institutional support to viable business activities, which will benefit the rural populace. Employment opportunities exist always. This ensures 100% employment. Public goods delivery will be efficient as the companies themselves deliver them. They can get quality products for much lower rates. It can avoid the heavy dependence of unemployed people on agriculture for unemployment (Reddy, 2007).

Figure: 2



Though the design of RBH was fair enough, its four years' experience was not pleasing. 30 projects were implemented in four years and total expenditure was 314.35 lakh. The number of projects and total spending in a Continental country like India was inadequate. These projects were executed state-wise on experimental basis. Though the scheme was innovative, it failed to draw attention of people and could not get success too (Table 3).

Reasons of Discontinuation:

The RBH scheme was concluded in 12th Five Year Plan on the background of its failure. The scheme could not attain anticipated success due to following reasons;

- The scheme was put into practice for very short period, with less expense and on the basis of few projects. This scheme could not reach most of the Panchayat.

- Sufficient exposure was not given to the scheme. Government, too, did not take the scheme seriously due to which private sector was not enthusiastic in the functioning of the scheme.
- The schemes like PURA, Cluster Development were running at the same time when RBH was in force having similar objectives like RBH had. Naturally, RBH could not become effective owing to the apathy among people and negligence of the Government.

In a few words, various scattered schemes for rural area, less attention of the Government, indifference of Panchayat and people, lack of interest shown by private sector are some of reasons because of which RBH could not prove remarkable.

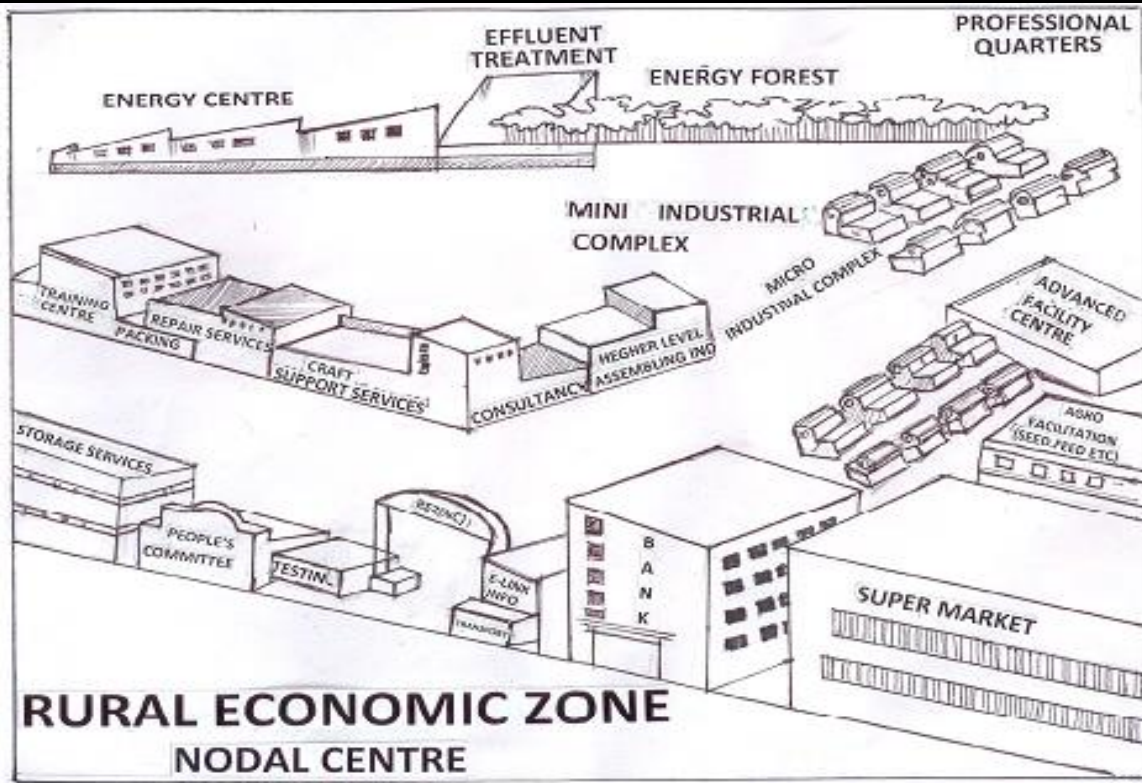
Alternate Model of REZ:

In the context of scattered rural economy, we can suggest REZ (Rural Economic Zone) as an ultimate alternate model for RBH (Rural Business Hub).

- A concept of REZ is a geographic region with about 50,000 people constituted into a cluster of gram panchayats. A radius of REZ is an around 15 (plus or minus five) kilometers so that an Advanced Facility at the Centre could be accessed easily.
- It will depend on the base of agricultural produce and / or ethnic skills or economic opportunities arising from special locations / occasions.
- The concept of REZ gives possibility of skill resources existing organized at the above levels; Self Help Group at hamlet level, specialized groups/entrepreneurs at village cluster level and advanced skills at the zonal headquarters.
- A governance structure involving the stake holders and having committees for planning, environmental monitoring, ensuring social connectivity (Karunakaran, 2010).

Fig. 3 below is a pictorial representation of the constituents of a Nodal Centre of a typical Rezone sees in it (Karunakaran, 2010):

- a. Agro Facilitation Complex:(Seed, Food etc.)
- b. Mini Ind. complex & support services: (Facility, Services, Repair etc.)
- c. Craft support service Centre:
- d. Major Backup Facilities: (Energy, Effluent Treatment etc.)
- e. People's Committees:



Comparison of Different Models:

Criteria	SEZs	EEZs	NIMZs	RBH	REZs
GDP Growth	Significant contribution through industrialization and exports	Moderate growth through sustainable industries and long-term stability	Substantial impact through large-scale manufacturing and industrial activities	Significant contribution through small scale such as, SHG	Localized impact, enhancing rural economies and agricultural output
Job Creation	Major job creators in various sectors, with a multiplier effect	Creates green jobs in renewable energy, eco-tourism, and sustainable industries	Significant job creators in manufacturing and supporting sectors	Create local jobs	Creates jobs in agriculture and rural industries, reducing rural-urban migration
Foreign Direct Investment	High attraction due to favorable policies and incentives	Attracts FDI in green technologies and sustainable projects	High attraction due to comprehensive industrial policies and incentives	Low Attraction in Local level	Moderate attraction in niche sectors like agribusiness and rural development

After all, by above comparison we can say that for sustainability of rural economy incorporates decentralized policies such as rural economy zone (REZ) for growth led development of this country.

Comparison of REZ and RBH:

The RBH has the main objective of linking the business sector to potential rural markets so that the GDP of the country and export could be strengthened while benefiting the rural sector in the process. The sectors that are of interest to those commanding the market will alone be touched. The REZ on the other hand starts from local resource endowment and skills and gives priority to the basic needs (food, shelter, clothing etc.) of the people and depends less on export, national market etc. The RBH campaign aims to locate one product in a block and then promotes it from the point of view of national economy. The aim of REZ is to build up regional self-reliance in the food, shelter, clothing, and essential services etc. dimensions to the extent possible with maximum reliance on local resources and further building up wider circles of self-reliance (Karunakaran, 2010).

The REZ builds on the foundation of economic units like SHGs, farmers 'groups, artisans' guilds etc. The REZ movement would attempt to build higher level of business including export and where such organizations beyond their capacity could seek the help of organized sector units which are normally handled by the RBH (Karunakaran, 2010).

The RBH is dependent on Block Level Panchayat which at the moment has not much *locus standi* in most of the states. The REZ, on the other hand, seeks to form a part of a block with a population of 50,000 by federating a set of willing Panchayats forming a contiguous cluster (Karunakaran, 2010).

Conclusion:

Indian Government endeavors on large scale for Rural Development. Even though, we have to admit that Indian rural economy is still in transition state/condition. Abundance of economic development schemes are especially seen in Indian rural development. Rural area is renovating as fallout of these schemes. However, the process of development should be steered to sustainable economic development. RBH is counted as one of the schemes in the attempts initiated for rural development. At present, it has become necessary to think on competent alternative structure for sustainable rural economic development as a result of not achieving desired success by RBH and putting a halt by Government on the implementation of RBH in twelfth five year plan.

The collective and balanced/fair development of agricultural products, industry and trade can boost sustainable rural economic development. Therefore, it is required to put diverse sprinkled schemes under one roof to generate wide-ranging REZ.

REZ brings in a holistic and structural view of the recently emerging 'cluster approach'. Like the watershed approach, SHG based microcredit, decentralization, participation etc. this is a global phenomenon and has a very high chance of success. India's pre-eminence in IT and the significance being given to knowledge connectivity in India are indicators that it will succeed in India.

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