

Rural Development:

Strategy For Incorporating It Into India's

Overall Economic Development Agenda

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Batch: 2003-05

Executive Summary

The Rural Sector is one of the pillars to the overall economic development of India through its agricultural and non-agricultural sub-sectors. However, this sector has suffered adversely from mis-directed policies of the government. Low Capital-Labour ratio, preponderance of small uneconomic land holdings, excessive dependence on monsoons, massive unemployment and illiteracy have rendered this sector uncompetitive.

Therefore, there is a need to re-focus the policies towards this sector. However, care must be taken not to view this sector in isolation. Rather the strategies must ensure that the rural development so intended must also be beneficial to the industrial and services sector. For this to happen, certain strategies have been suggested in the field of agricultural development, sustainable employment generation and poverty alleviation, rural industrialization, infrastructure development and fiscal decentralization.

Any rural development programme shall require certain funds to succeed. Some possible sources of finances and steps for their effective utilization have also been suggested.

It is believed that with these steps taken, India can hope to stride into the growth phase and achieve the high growth targets set in the near future.

(I) Introduction: Need For Strategic Re-Orientation For Rural Development

“Nations, like plants and human beings, grow. And if the development is thwarted, they are dwarfed and overshadowed” - Claude McKay

The importance of the rural sector in Indian economy cannot be undermined. The government has taken many initiatives in the field of rural development. But the moot question is: **Have these steps proven enough?** Let us analyze.

1. *Excessive dependence on nature:* Rural India is still heavily dependent on monsoons for irrigation. Approximately **53% of the total agricultural area is totally un-irrigated**¹ and is at the sole mercy of a good rainfall.
2. *Preponderance of small Uneconomic land holdings:* The average size of operational land holdings in India was 1.55 ha in 1990-91 and has been declining since. It is estimated that farmers having less than 4 ha of land are not financially viable, if they depend wholly on income from land. Thus over **80% of farmers in India are still not financially viable.**
3. *Low Capital –Labour ratio:* The gross **capital formation** in the rural sector has **declined** from 1.9% of GDP in 1990-91 to 1.3% in 2002-03². This is mainly due to decline in public investment, which has diverted its resources from investment to current expenditure on output prices and input subsidies.
4. *Low factor Productivity:* **Low crop yield** has been the bane of India’s rural sector since long. This is due to inadequate capital formation in this sector. For example, yield of

¹ GOI 2003, Agricultural Statistics at a Glance, Department of Agriculture and Cooperation

² Economic Survey, 2003

paddy in India in 2001-02 was 1874 kg/ha whereas the world average in the same period was approx 3800 kg/ha³.

5. *High Incidence of Poverty and Unemployment:* Of the total 26 crores people below poverty line in 1999-2000, 19.3 crores (**74%**) were in the rural sector⁴. Similarly, the proportion of unemployment in rural areas is much more than urban areas.

Thus we see that despite the government's efforts over the last fifty-seven years, rural development in India has not as it was envisaged. Considering the vital importance of this sector to our economy, there is an urgent need for a shift in the overall strategy for rural development to realize the 8% growth of our economy as envisaged in the Tenth Five –Year Plan. The necessary steps are described in the following section.

(II) Strategic Framework For Rural Development

I feel that even with the existing resources, developing rural sector may be possible if the policies are realigned to a more focused approach as discussed hereunder. The strategic framework described has been divided into policy initiatives to be implemented in the field of **agricultural development, sustainable employment generation and poverty alleviation, infrastructure development, rural industrialization and fiscal decentralization**. Having said this, it must also be borne in mind that these programmes are not mutually exclusive. Any success in one programme is dependant on the success of other related programmes.

³ Food and Agricultural Organization, United Nations Organizations, 2003

⁴ EPW Research Foundation, 2002

Rural Development cannot be done at the cost of other sectors, which are doing relatively well. The strategies enunciated below are expected to **benefit even the industrial and service sectors** in the long run through more investment opportunities and accessible markets for them.

(A) Agricultural Development:

India's crop output and yield growth showed deceleration in the 1990's as compared to 1980's for both food and non-food crops.⁵ A large part of the government's expenditure is in the form of agricultural subsidies, which are to the tune of Rs 21,000 crores.⁶ This has resulted in a considerable loss to the exchequer. Keeping in mind our overall economic agenda, the following framework is suggested with respect to this sector:

1. *Crop Diversification:* Over the last decade, there have been clear indications of the **preferences** of the consumers **shifting** from food towards non-food crops and other agricultural products like dairying, livestock and horticulture. The total estimated value of the output of livestock sector alone is Rs 1500 billion whereas the total value of output of rice and wheat combined is Rs. 1185 billion. Still, more emphasis is given to the latter! Moreover, the demand for the non-food products is highly **income elastic** which gives an added incentive for their greater production. Diversifying into non-food sub-sector would relieve some pressure off the food sector in terms of disguised **unemployment**. Diversification of crops would also increase the **efficiency of land use** since some of these crops are short season.

⁵ RBI, 2003

⁶ RBI, 2003

2. *Increased attention to marginal areas:* In India, less favoured lands account for 40% of the total agricultural output⁷. In almost all the previous agricultural development programmes, less emphasis has been given to marginal and backward areas. The population in these areas has been increasing but has not been matched by increase in yield of crops. The incremental productivity **returns potential** in these areas on application of HYV seeds have been shown in Table 1 under the head of “Infrastructure Development” on **page 9**. Thus, considering their vast importance to agriculture, there is an urgent need to give increased attention to such areas.
3. *Shift in Procurement Policy:* As a result of the procurement policies over the years, the exchequer has been incurring a constant loss over subsidies and the MSP for the food sector. It is suggested that **MSP be frozen** for the next few years. It is also suggested to **decrease the role of FCI** in food procurement and increase **private sector** participation. The success of the ITC’s e-Choupal initiative is ample proof that the private sector participation in grain procurement will lead to better efficiency. The payment to the farmer on the basis of both the **prevalent price and yield** of his crop will increase the incentive towards use of HYV seeds, which will increase overall productivity of output.

(B) Employment Generation and Poverty Alleviation:

⁷ Report prepared by Technical Advisory Committee of Consultive Group on International Agricultural Research (CGIAR), 2003

Gainful employment shall lead to poverty alleviation by increasing the purchasing power of the poor. The rural sector accounts for over **75% of the total employment** in India. The growth rate of rural employment declined to 0.55% per annum in the period 1994-2002 as compared to 1.7% per annum during the period 1983-94⁸. The various strategies to tackle unemployment in rural sector could be as follows:

1. *Change of overall stance*: The policies of the government through the years have been "protective". Various schemes have been implemented which provide employment to the poor; but only on a short-term basis. This cannot provide sustainable employment. It is proposed that the government change its focus towards a "promotional" strategy. Under this strategy, the government should give more emphasis to creating rural entrepreneurs by creating suitable infrastructure and promoting rural industrialization (discussed later).
2. *Promotion of Rural Non-Farm Employment (R.N.F.E.)*: According to a study by N.S.S, for an 8% growth in economy, employment growth of approx. 3% is required. The agriculture sector is not in a position to absorb more workers. Thus an increased emphasis towards R.N.F.E. can **improve rural wages** and also be an **escape route** for agricultural workers leading to an improvement in their purchasing power. Promotion of RNFE can be carried out through development of Non-Farm sector (as discussed above) and through rural industrialization (as discussed later).
3. *Enhancing effective distribution of food grains*: Revamping the distribution system has been the cry of one and all since long. **Geographic targeting** for

⁸ Economic Survey, 2003

allocation of food grains, distribution of “**food coupons**” among the BPL population and using **food as wages** can effectively tackle this situation.

(C) Rural Industrialization:

As noted above, there is an urgent need to place more emphasis to the Rural Non-Farm Sector to increase agricultural production, employment and poverty alleviation. This sector can also contribute to a large extent in the development of small industries in the rural areas. For this, it is imperative to strengthen the grass root level organizations, build up their professional capabilities and support them externally through critical inputs and transform them into catalysis for rural industrialization. For this, there is a need for a policy shift towards **development of people’s enterprises** through promoting self-employment for new enterprises. Some of the suggested inputs into the new policy are:

1. *Proposed Structure:* The enterprises will follow a **3-tier structure** at village, district and state levels. These bodies can be well integrated with the current Panchayati Raj Institutions (PRIs) already present at these levels. The state level bodies shall receive various government schemes, projects, success stories, marketing and business techniques. The district level bodies shall address the problems of artisans of their districts and the village level bodies shall comprise of chosen, willing artisans who shall work at the grass-root level.
2. *Approach and features:* The enterprises shall work on a one-to-one relationship with the artisans. They shall **study market conditions**, potential products and identify various activity-specific interventions. They would

promote “clusters” as against individuals to provide advantage of economies of scale. They shall impart skill upgradation and enterprise training. Other important points worth considering for such enterprises would be:

- Traditional manufacturing activities, based on batch production are NOT VIABLE, as they require economies of scale, which is absent.
- Activities relying on local raw materials but not vertically integrated can suffer from disabilities due to transaction costs.
- Since majority of traditional artisans engaged in diverse activities are also engaged in agriculture, they would accept such technology and processes, **which does not hinder their agricultural activities.**

(D) Infrastructure Development:

Of all the tools for rural development, infrastructure is probably the most important. Government investment in infrastructure has been decreasing because it requires a lot of capital and the returns are negative in the first couple of years. However, a sustained rural development program can only be built upon firm foundations of a good infrastructure and technological system.

1. *Increased emphasis to marginal areas:* Public investment has to be more in rainfed and marginal areas where poverty is concentrated. This is because the marginal returns from these areas are much higher. Table1 shows the marginal returns available from infrastructure development in rainfed areas of India vis-à-vis irrigated areas, where currently much of the investment is targetted.

Table 1: Marginal Production returns

	<i>Units</i>	<i>Irrigated Areas</i>	<i>Rainfed Areas</i>
HYV	<i>Rs/ha</i>	63	688
Roads	<i>Rs/km</i>	1,00,598	1,36,173
Canal Irrigation	<i>Rs/ha</i>	938	1,434
Private Irrigation	<i>Rs/ha</i>	1,000	4,559
Electrification	<i>Rs/ha</i>	(546)	1,274

Source: International Food Policy Research Institute, 2003

Moreover, the investment in marginal areas will also go a long way in alleviation of poverty in these areas. Persons who could be raised above poverty line with such investments in India are represented in Table 2:

Table 2: Marginal Poverty Reduction

	Units	Irrigated Areas	Rainfed Areas
HYV	Persons/ha	0.00	0.05
Roads	Persons/km	1.57	9.51
Canal Irrigation	Persons/ha	0.01	0.09
Private irrigation	Persons/ha	0.01	0.30
Electrification	Persons/ha	0.01	0.10

Source: International Food Policy Research Institute, 2003

It has also been found that, contrary to popular beliefs, the **unit costs** of execution of such projects is almost the **same across various states** and agro-climatic zones. Thus cost being almost the same, the benefits are immense.

2. *Systematic Regulatory Environment*: There is **complimentarity** between public and private investment. For example, in West Bengal, private investment in

irrigation increased only after rural electrification. Given the political environment, private investment will only increase if certain regulatory mechanisms are in place. For example, investment in telecom increased when TRAI came into place.

(E) Fiscal Decentralization:

The financial status of PRIs remains elusive. For effective industrialization and development of local infrastructure (as discussed above), enhancing the fiscal powers of these institutions is critical. Some measures that can be adopted include:

1. *Provision of a Local List:* Currently there is no clear demarcation of the responsibilities and financial relationship between states and local government. A local list shall attain this so that **effective discharge** of **duties** can take place.
2. *Rationalizing tax collections:* By correcting the method of tax valuation, charging different rates for commercial and residential properties, imposition of taxes on ad-valorem basis and cutting out exemptions can raise the revenues of these institutions to a large extent. Identifying taxes that are difficult to administer locally can be collected by the state government and then passed on again to them.
3. Raising state transfer to PRIs in the form of untied grants
4. Allowing rural government to borrow but with certain restrictions.

(III) Financing the Rural Development Programme

The Fiscal Responsibility and Budget Management Act, 2003 envisions the fiscal deficit of the Centre to reduce to 3% by 2007. Keeping this in mind, a pragmatic approach has to be found out to finance the rural development programmes outlined above. Some of the sources for such programmes could be:

1. *Securities Transaction Tax*: This tax is estimated to collect approx. Rs.3750 Cr. per annum, which can be channeled, to developmental activities.
2. *Increase in the no. of services under the tax net*: Various services are still outside the purview of the Service Tax, like doctors etc. Increasing the tax net to such activities can increase tax collection that can be used for rural development.
3. *Greater allocation from Rural Development Infrastructure Fund (RIDF)*: The utilization level from RIDF is very less, though the corpus is sufficiently large. One reason was the higher rate of interest charged by the Centre on account of high interest it had to pay to the banks. Though this rate has been reduced to 6% now, with the imminent hike in interest rates, this should not be allowed to hike.

(IV) Conclusion

Rural Development is one of the pillars on which the future of our economy stands. Most of the rural development programmes undertaken thus far have lacked focus and seem to be

misdirected, though some of the programmes have yielded exceptionally high economic and social returns.

As we reach halfway into the Tenth Plan, it is clear that the high standards we set would not be met. However, it is my firm belief that focused infrastructure development, combined with gainful, sustained employment, industrialization and effective fiscal decentralization can pave way to a much resilient economy and lead to achievement of our lofty targets in future.

Bibliography

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