



Probing for Governance towards Rural Economic Sustainability: An Experience of Rural Business Hub in India and Strategy thereafter

Dr. Sandu Trimbakrao Shirsath¹

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ABSTRACT

Rural economic sustainability is the key phenomenon today. If rural social element is empowered economically, it plays an important role in the national interest; hence this paper aims to probe into such governance which can attain rural economic sustainability. Rural Business Hub (RBH) initiative in India was set up under the Ministry of Panchayati Raj (MoPR). The aim of RBH was to bring about all-round development of the rural areas. This scheme was implemented as a participatory development model for the rural areas of the country. 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 a feasible/practical framework for rural economic sustainability. The schemes like RBH, PURA, Cluster Development, SHGs etc. all have similar vision. The argument is, the holistic approach of REZ incorporates all these scattered schemes under one roof.

¹ Associate Professor, Dept. of Public Administration, Dr. Babasaheb Ambedkar Marathwada University, Aurangabad, Maharashtra, India. (431004) Corresponding Email: gsham123@gmail.com, ssham@rediffmail.com

Introduction:

India is known as agrarian country. Since times immemorial, rural agriculture and village level small industries have been playing an important role in the rural economy of India. 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 developed a system of specialized artisan concentrations throughout the country, where the entire village was a workshop and handlooms and handicrafts. This system was later destroyed due to British rule and the Industrial Revolution. However, due to strong historical and cultural roots, a part of the giant rural industrial structure could survive and make a significant contribution to overall rural 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.

Sustainable rural economic development can be achieved by establishing participatory economic sources in the rural areas of India. The genesis of Rural Business Hub (RBH) was one of the important efforts in India for getting Rural Economic Sustainability. But government could not continue this scheme due to hurdles in achieving desired target. This experience indicated the necessity of establishing Rural Economic Zone (REZ) 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 country, as most of the population of villages depends on agriculture and small industries. Agriculture forms the backbone of the country's economy. The agricul-

tural 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 in India is wholly agriculture based and it is of tremendous importance because it has vital supply and demand links with the other Indian industries. Agriculture and village enterprises are the main stay of the Indian economy, as it constitutes the backbone of rural India which inhabitants more than 70% of total Indian population (BMI). The rural section of Indian population is primarily engaged with agriculture, directly or indirectly. The Ministry of Agriculture, the 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 governing bodies that formulate and implements the policy related to rural economy in India and its subsequent development for the overall growth of the Indian economy.

India over the last three decades provides a useful laboratory for assessing the determinants of rural poverty and inequality. As is well-known, India has experienced substantial productivity growth in agriculture resulting from both private and public investments in agricultural innovation since the late 1960's (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). Moreover, for the purpose of identifying the determinants of rural economic growth by source, India's villages are, on average, sufficiently isolated that they operate as distinct economies in which there is local variation in wages and other non-tradable prices. Moreover, as has been established previously (Foster and Rosenzweig, 1996) there is substantial variation across India in the magnitudes of agricultural productivity growth due to differences in the suitability to 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 (Besley and Burgess, 2003). Now, the rural households' dependence upon non-institutional

sources significantly increased. We observed following things (Patel, 2010).

- During 2000-08, GDP growth rate in agriculture declined to 2.9%, Food grains growth rate declined from 2.73% in 1980s to 2.09% in 1990s and further to 2.01% in 2000-08 and Annual per capita food grains' availability is 176.3 kg against the minimum required [182.5 kg] according to National Institute of Nutrition.
- Decline and stagnation in agricultural terms of trade during 1990-2005 explains the declining financial viability of crop production and fast eroding Government's ability to contain food prices.
- According to NSSO, average total income offarm households [upto two hectares] was less than 80% of their consumption expenditure and 40% of farmers interviewed wanted to quit farming, if there was option.
- According to NSSO [2002-03] 45.9 million [51.4%] farm households out of total 89.3 million in India did not access credit [either from institutional or non-institutional sources]. Only 27% of total farm households are indebted to formal sources [of which one third also borrows from informal sources]. In short, 73% 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 remains outside the banking system.
- Between 2004 and 2008, the number of rural branches declined by 968, whereas total number of branches of all categories of commercial banks increased by 9541 [14.2%].

In fact, the ratio of agriculture and non-agriculture enterprises in India is respectively 15.3% and 84.7%. Considering only rural area, the share of agriculture enterprises is 23.2% whereas percentage of non-agriculture enterprises is 76.8%. Being an agricultural nation, proportion of agricultural enterprises should be increased. Government is making every possible effort to initiate Processing

units based on perishable agriculture produces to raise National Income (Table 1).

Rural Economic Sustainability:

The Planning Commission notes in its Approach Paper to the 12th Five year Plan, that economic development will be sustainable only if it is pursued in a manner which protects the environment. With acceleration of economic growth, these pressures are expected to intensify, and we therefore, need to pay greater attention to the management of water, forests and land (PCI, 2011). On the other hand sustained industrial and business growth has been widely acknowledged as an engine of economic transformation. Less developed countries, however, remained predominantly agrarian due to lack of dynamism in the rural industrial and business economy and the low level industrialization. Economic policy reform programme was initiated in July 1991 to generate essential dynamism in the rural industrial and village level business sector for successful transformation of the agrarian economy of India (Singh, 2006). In fact, agriculture is base of Indian rural economy. It will become strong only when industries and business transfer to rural areas, especially rural economic sustainability is depended on social, environmental and economic development simultaneously.

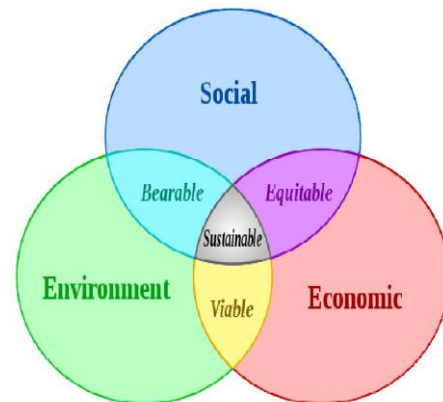


Figure: 1

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, rural industries largely incorporate/include under Ministry of Micro, Small and Medium Enterprises, 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).

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and 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.

Rural Business Hub:

The Ministry of Panchayati Raj has adopted the goal of "*Hand to Hypermarket*" as the overarching objective of the Rural Business Hubs (RBH), initiative aimed at moving from mere livelihood support to promoting rural prosperity, increasing rural non-farm incomes and augmenting rural employment. RBHs set up in association with Panchayati Raj Institutions (PRIs) could thus constitute the fulcrum of "inclusive growth" which was the theme of the Eleventh Plan (MoPR, 2009).

The Rural Business Hub (RBH) Scheme was started during the 11th Five Year Plan. The RBH was based on the concept of Public-Private-Panchayat-Partnership (PPPP). It follows the Chinese concept '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. 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 skill in 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 which have potential for national/ international markets and standardize their quality.
- To ensure value addition in rural products and increase production volumes to levels viable for marketing.
- To promote Rural Non-Farming Enterprises (RNFE) which utilise local skills and/or resources and promote rural employment.
- To foster mutually beneficial relations between the producers and industrial houses as identified above.

The Minister for Panchayat Raj or the Secretary of the Rural Department generally heads the state Rural Business Hub Councils. They are co-chaired by the chairman of the CII State Council. State Rural Business Hub Councils look after the well-being of many sectors that function in the rural areas of the states. The various rural sectors looked after by State Rural Business Hub Councils are Food processing, Horticulture, Animal husbandry, Biofuel production, Handicraft and handloom, Dairy farming, Fisheries and Rural tourism etc. (BMI). State Rural Business Hub Councils thus have taken several measures in order to bring about an all-round development of the rural areas of the states. RBH State Councils must continue with its efforts so that the condition of the rural people in the various 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

after marketing where production is decentralized (Patel, 2012).

Working as 'PPPP':

Model of RBH are based on the unique concept of Public, Private, Panchayat Partnership (PPPP). 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).

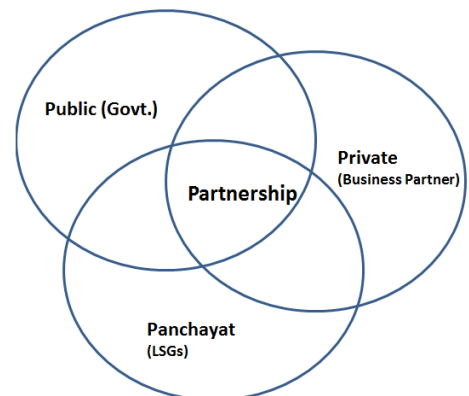


Figure: 2

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 Panchayatis.
- 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.

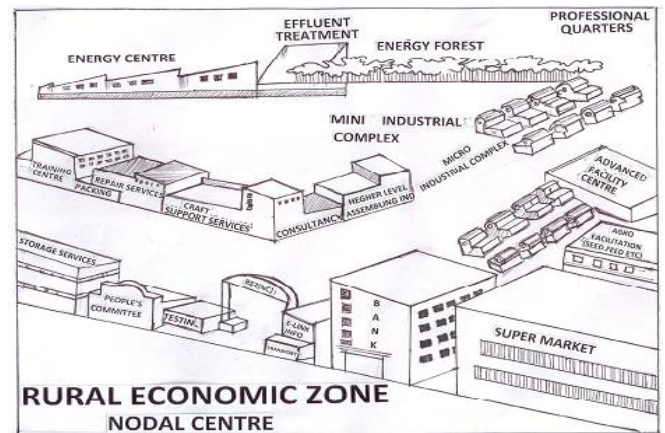
- A concept of REZ is a geographic region with about 50,000 people constituted into a cluster of gram panchayats. A radius of REZ is an around 15 (plus or minus five) kilometers so that an Advanced Facility at the Centre could be accessed easily.
- It will depend on the base of agricultural produce and / 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 REZ. One 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 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 otherhand, 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 micro credit, 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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