Facets of Rural Economy and Development of SMEs A Paradigm Shift is Imperative

Reducing Spatial Socio-economic Disparities and Enhancing Opportunities for Employment and Development

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Executive Summary

Recently, various macroeconomic indicators are showing favorable and upward trend in the Indian economy despite different kinds of natural calamities in different parts of the country. GDP growth, general index of industrial production (IIP) and IIP for the mining, manufacturing and electricity sectors are higher this year compared to last year figures. Indian stock market has been on rising indices and showing all time high crossing 8000 mark and also rupee gained against dollar considerably. Forex reserves along with FDI and FII have been increasing gradually. This exuberance would at once be short lived when we watch the poverty scenario. The number of people suffering from the poverty has increased to around 357mn, although there is decline in the percentage of poor. India still houses 33.33% of the world' poor. Jobless growth is the greatest concern of the decade. We are also not in a position to curb poverty and reduce unemployment. Many economists spoke about poverty and gave suggestions to reduce it. Extreme poverty leading to starvation, deprivation and death can be eliminated while the relative poverty would continue. Since both these are largely prevalent in rural India, attention of this paper is set on rural India. This paper is divided into three sections, where the issues related to poverty, and rural employment problem in India are addressed on small and medium enterprise development platform.

Rural India is beyond agriculture although its inclusion predominates. Section-I deals with the situation in rural India and what it constitutes. Unlike the past, information appetite has come to replace physical appetite with the result many households own T.V. sets and mobile phones. What is the future of rural India, how the vision 2020 prepared by the planning

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commission can be achieved and what are the constraints/barriers that India will confront in future? The first discusses these issues. A subsection is devoted to the discussion on the climate for private investment, including regulations governing domestic movement, storage, and marketing of major commodities, plant-scale restrictions in food processing, and restrictions on contract farming and land leasing.

Section II discusses issues relating to employment and entrepreneurship. SMEs are considered as the engines of innovation, enterprise and employment. So, the future of SMEs is of major policy concern at the present time, given their strategic importance in terms of resource-efficiency, capacity for employment-generation, reducing regional imbalances, raising exports, and fostering technological innovation and entrepreneurial skills. Re-shaping of the existing policy frameworks is required. This is a major step for the development of SMEs, which should be looked at. SMEs vertically integrating with large enterprises at one end and micro enterprises at the other end could definitely address the issue of job-oriented growth in the region on a more sustainable basis. India's SME profile broadly falls into two categories: Registered and Unregistered units under the manufacturing SSIs and SSSBEs

It is worthwhile doing a comparative study of the employment growth in public sector, organized private sector and SSI sector and to examine the employment effect of SSIs sector growth. An empirical study has been carried out with the help of correlation and regression analysis to address these issues. The evidence shows that the SSI sector has been creating employment opportunities at a higher rate than employment opportunities created by public sector and private sector. The test results indicate that there exists significantly high positive correlation between growth of total employment and growth of SSI and the SSI have considerable potential to generate employment. Another important issue namely, "Access to finance" is discussed in this section. This analysis includes analysis of start up constraints, debt markets, export-oriented SMEs, micro finance, venture capital, ailing SMEs. I have discussed briefly capacity, capability and competitiveness of SMEs, where I touched upon the issues such as, R and D, environment and ICT; cluster development initiatives and enhancing SME competitiveness through cluster development.

Section-III of this paper focuses on the sustainable development of rural areas –rural entrepreneur nucleus estates (RENE). The rural poor can be described as one of the most disadvantaged sections of the society in terms of not only their low socio-economic situation and access to information, resources and opportunities but also their degree of vulnerability to economic shocks. Vulnerability is a constant companion of the rural poor since they have precarious employment in the formal and informal sector. Several issues related to unsustanability of rural areas, value addition, agro-processing, proposed intervention and funding pattern are discussed in this section. The model envisages integrated networks between the micro enterprises in rural areas producing value added products and the SMEs positioning them in the markets and multinationals/large enterprises providing brand status. RENE evolves into either a branded or co-branded products of rural India enabling realization of the Vision 2020 of the nation.

Introduction

Macroeconomic fundamentals of Indian Economy exuberate confidence like never before. GDP growth is on the upward trend since 1994-95 when it reached 5.4 per cent. Despite fluctuating monsoon trends interspersed with natural calamities in Maharashtra July 2005, Orissa and Andhra Pradesh September 2005, RBI estimated the current year's growth rate at around 6.9 per cent. The Quick Estimates of Index of Industrial Production (IIP) with base 1993-94 for the month of July 2005 The General Index stands at 212.1, which is 6.7% higher as compared to the level in the month of July 2004. The Indices of Industrial Production for the Mining, Manufacturing and Electricity sectors for the month of July 2005 stand at 146.9, 224.3, and 184.1 respectively, with the corresponding growths of (-)0.4%, 8.3% and (-)1.2% as compared to July 2004. The cumulative growth during April-July, 2005-06 over the corresponding period of 2004-05 in the three sectors have been 3.1%, 10.4% and 5.3% respectively, with the overall growth in the General Index being 9.3%

Indian Rupee appreciated against US Dollar and also unfazed by China moving to floating currency regime. Forex reserves have steadily been on the rise to touch around $144bn. FDIs and FIIs are also on gradual increase; all this, and much more. The Stock Markets have been on rising indices crossing 8000 mark. May be the budget season Feb-Mar 2006 could see it touching 10000 mark with steady P/E Ratios. This exuberance would at once be short lived when we watch the poverty scenario. Percentage of poor has, no doubt, been on the decline (from about 35 per cent in 1990s to 26 per cent in 2003-04) providing lever to the growth economists that the decline occurred mainly due to the improvements in general health of the economy, while the actual numbers have increased to around 357mn people (Population of the country at the time of independence is just 250mn). We house 33.33 per cent of the world's poor and 70 per cent of such poor remain in Rural India. The rural-urban divide would seem to be widening during the last five decades despite ten times growth in urban population compared to three and half times growth in rural population. "It is often said that India lives in two different worlds separated, it seems some times by centuries. The reality of a globalised, industrialized India is as true as the reality of the bullock cart and the uneducated farmer. We are today both a developed and a developing nation at the same time. Extremely advanced forms of agriculture and industry coexist with other forms from a bygone era. Bridging this gap is the ultimate development challenge of the 21st century."(Manmohan Singh 2005) Attention on the rural areas seem imminent not merely from the angle of vote bank but also from the points of view of stability and growth accompanied by peace. This is where rural full employment becomes an issue of great concern.

Still, the growth ended in increasing the jobless numbers in this country. Employment scenarios presented even by those who campaigned "India Shining" before the present Government came to power shook their seat of power. The new Government seized the opportunity to enact Rural Employment Guarantee Bill as "War on Poverty", that got President's assent on the 19th September 2005 although this is unlikely to impact efficiency-led cuts leading to deceleration in employment.

This is the raison d'etre for choosing the theme of this conference as "Rural India".

The 'Poor' comprising of around 5bn people in the world always fascinate the rich, the researchers, and most to the politicians. Being at 'bottom of the pyramid' (Prahlad, 2005), they offer opportunities to corporates to discharge their 'social responsibility'; they are emerging markets for the flourishing private sector; they constitute the stable vote bank for the politicians; and they open windows of imagination and innovation to interact on a sustained basis. The National Sample Survey organisation (NSSO) estimated that 26.1 per cent of the population was living below the poverty line in 1999-2000, down from 51.3 per cent in 1977-78. The criterion used was monthly consumption of goods below Rs. 211.30 per person for rural areas and Rs. 454.11 for urban areas. About 72 per cent of the poor are in rural areas (27.1 per cent of the total rural population) with most of them comprising daily wagers, self-employed households and landless labourers. The major causes for poverty are unemployment or under-employment, low ownership of assets (especially productive assets like land and farm implements) and illiteracy.

Since the early 1950s, successive governments have implemented various schemes, under planning, to alleviate poverty that have met with partial success. All programs have improved upon the strategies of the Food for work programme and National Rural Employment Programme of the 1980s, which attempted to use the unemployed to generate productive assets and build rural infrastructure. SS Bhalla et.al, argue that the poverty estimates of both the Planning Commission (26 per cent) and the World Bank (38 per cent) are far above the actual level of 13 per cent.

The UN Report on the Millennium Development Goals (See Notes 1) acknowledges "It is about unleashing the power of local entrepreneurs to reduce poverty in their communities and nations." This single sentence needs to be read carefully. What reduces the poverty? "The power of local entrepreneurs" Where it gets reduced? "In their communities and nations." How it is reduced? "By unleashing their power". The examples in the document did not, however, come from the poor graduating to the next tier or even a few tiers up above. But the goals set before the millennium and the means to reach the goals have attracted the attention of developing nations significantly. The renowned management guru Prahlad bothered rightly about 'the poor that became the most acceptable wards of the State'. "The problem of poverty must force us to innovate and not claim "rights to impose our solutions"(Ibid xiii). New and creative approaches are needed to convert poverty into an opportunity for all 'concerned'. It is this challenge that made me look at the issues, interventions and their effectiveness in pursuit of the goal of 'eradicating extreme poverty', from the Indian perspective. Extreme poverty leading to starvation, deprivation and death can be eliminated while the relative poverty would continue. Since both these are largely prevalent in rural India, attention of this paper is set on rural India. Solutions have to be sought where the problem exists and not else where. When we strategize into the future it is extremely important to envision it properly, review the past with a view to draw lessons and draw up an action plan not as a one time effort but as a dynamic intervention.

Employment scenario presents not an encouraging picture at the moment. Agricultural and allied sectors accounted for about 57 per cent of the total workforce in 1999-2000, down from 60 per cent in 1993-94. While agriculture has faced stagnation in growth, services have seen a steady growth. Of the total workforce, 8 per cent is in the organised sector, two-thirds of which are in the public sector. The NSSO survey estimated that in 1999-2000, 106 million, nearly 10 per cent of the population were unemployed and the overall unemployment rate was 7.32 per cent, with rural areas doing marginally better (7.21 per cent) than urban areas (7.65 per cent).

Unemployment in India, like most other developing countries, is characterised by chronic under-employment or disguised unemployment. Government schemes that target eradication of both poverty and unemployment, attempt to solve the problem, by providing financial assistance for setting up businesses, skill honing, setting up public sector enterprises, reservations in governments, etc. The decreased role of the public sector after liberalisation has further undermined the need for focusing on better education and has also put political pressure on further reforms.

The National Common Minimum Programme (NCMP) of the Government attaches high priority to the development of social sectors to enable people to participate in and benefit fully from the development process. Major programmes initiated in this regard in 2004-05 include launching of the National Food for Work Programme in 150 most backward districts; provision of additional Rs.12,000 crore of Gross Budgetary Support (GBS) for Plan programmes like Food for Work, Sarva Shiksha Abhiyan, Mid-day Cooked–meal Scheme, basic healthcare, Accelerated Irrigation Benefit Programme, drinking water, and roads; increase in coverage of Antyodaya Anna Yojana from 1.5 crore to 2 crore families; improving facilities for universal education by imposition of a cess of 2 per cent on Union taxes and duties; upgrading Industrial Training Institutes (ITIs) over the next 5 years; and introduction of a new Universal Health Insurance Scheme for the poor and a special group insurance scheme. The Outcomes of the Budget and the outputs are subject to a systemic review. This still falls short of addressing the low productivity and large-scale corruption plaguing the government and public sector employment. Parliament would require a stronger resolve to solve such core issues to ensure that the development initiatives bear fruit to the desired levels.

About 18.7 million people work in Government, about 3 million in the organized private sector and another 353 million in the unorganized sector making a total of 375 mn people working in India. There are a section of employees pampered by the Constitution under Article 211. All of them work in the Government and Public Sector. The productivity-pull of this section is a drag on the economy. In order to address the issue of rural unemployment, the Indian parliament passed the Rural Employment Guarantee Bill in August 2005-- the largest programme of this type, in terms of cost and coverage, which promises 100 days of minimum wage employment to every rural household in 200 of India's 600-odd districts. The Bill despite raising debate over its curative effect left a hope among the rural unemployed youth and has been lauded by one of the noblest sons of India, Nobel Laureate Amartya Sen as a novel and bold intervention to resolve the poverty issue.

The Economic Survey 2004-05 of Government of India rightly raised five core issues that need to be addressed to step up investments. The first one relates to Public Investment in Agriculture and Allied Sectors that produce nearly 21 per cent of GDP supporting nearly 57 per cent of population. The second issue relates to Simplification of Procedures and Relaxing Entry-Exit Barriers. Even as recent as September 2005, the World Investment Report noted that while it takes 89 days for setting up an enterprise in India, it is just two weeks in Singapore and four weeks in China. The third issue relates to easy and ready Access to Finance by farmers, small and medium size entrepreneurs. While some policy announcements were made during the year, BASEL II compulsions put the bankers in jitters. The fourth issue relates to Infrastructure and its Inadequacies, more particularly in the area of roads, communication networks, transport networks and post-harvest technology infrastructure (See Notes 2). The fifth issue relates to the Foreign Investments –FDI and FII. During the current fiscal several steps have been taken to encourage FDIs and FIIs even in the wake of objections from the left wing in the UPA. The Right to Information Bill enacted in June 2005 hopefully responds to the information appetite once the rules framed under the Bill fulfill the objectives of the Bill. Entrepreneurship, employment and efficiency together should provide answer to endemic problems of Rural India. This paper would like to analyse these issues in sufficient detail to design project interventions leading to sustainable development. Section - I deals with Rural India and what it constitutes; vision and constraints and the progress thus far. Section - II deals with the issues of employment and entrepreneurship embedded in the SME sector along with the policy interventions so far and the way forward. Section - III deals with projectizing PURA - the sustainable interventions to ensure rural growth with the setting up of Rural Entrepreneurship Nucleus Estates (RENE).

Section - I:

Rural India is beyond Agriculture

Omkar Goswami and Rama Bijapurkar have rightly made out that Rural India is much more than agricultural Bharat. Even in 1993-94, the Central Statistical Organisation's rural-urban classification of India's net domestic product (NDP, which is GDP minus depreciation) showed that rural India accounted for 54 per cent of the country's NDP, while agriculture contributed to 31 per cent of India's GDP. The share of rural economy is more or less the same seven years later at 52 per cent according to their analysis in 2000-01. "This is how rural NDP played out in 2000-01: agriculture accounted for 46 per cent; industry took up another 21 per cent; and services 33 per cent. Between 1993-94 and 2000-01, rural NDP at constant prices grew at an average of 6.2 per cent per year."

According to the Annual Survey of Industries, even in 1993-94, rural India accounted for 29 per cent of the country's organised manufacturing units; 30 per cent of its employees; 32 per cent of its output; and 30 per cent of its net value added. In 2000-01, over a rising base, rural India could speak of 36 per cent of organised manufacturing establishments, 38 per cent of its employees, 43 per cent of output; and 41 per cent of net value added.

In 2001, almost a fifth of rural households owned TV sets, and the rural regions of 10 states were significantly above the national average. Between 1991 and 2001, the percentage of rural households with electricity connections rose from 30 per cent to 43.5 per cent and 11 states ranked well over the national rural average. "In 2001, over 30 per cent of rural households kept their funds in banks or postal savings accounts.

i) Rural India's Future: Vision and Constraints

Parties in power might have changed. VISION 2020 prepared by the Planning Commission being a dreaming exercise should not give rise to much difference between its architects and the present rulers. As a citizen, I would like to dream of an India where peace and tranquility prevails, where transparency in governance exists in all fields, where there would be 100 per cent food security and 100 per cent self-sufficiency for food, where market forces do not devour the poor and the weak in society, where better water and farm management would lead to better employment and least migration to urban and metropolitan areas from the rural areas, where population growth would not stand as an impediment for further growth of the economy, where all the employable get fully employed and less employable would be endowed with appropriate skills and knowledge for full employment, where there is free entry and exit for firms in the economy with no parasites, where values of life fall in tune with the culture and ethos of the nation and where the digital divide between the rural and urban vanish, where information asymmetry and moral hazard do not exist and where all the sectors of the economy realize their mutual dependence to their mutual benefit and the growth rate of the economy would move to a double digit figure as a matter of practice. I recall what Swami Ranganadhananda said once: "I look forward to the day when rural people stop easing in public and start eating in public.". The statement is highly profound and carries with it an agenda for action: provision of good sanitation, safe drinking water, crossing the caste and other societal barriers and food within the reach of all. This would also call for a synthesis between social and economic budgeting.

The barriers to realizing such vision would be:

- Lack of political will;
- High population growth;
- Poverty and low level of literacy;
- Institutionalization and harmonization of legal aspects to set up monitoring systems
- Inadequate resources;
- Improper structural plans;
- Deficiencies in implementation

Some of the strengths recognized worldwide are:

- A middle class estimated at 300 million out of a total population of over 1 billion providing a stable market;
- The second largest English-speaking scientific, technical and executive manpower in the world;
- An abundant supply of raw materials;
- An extensive rail and road network;
- A stable political system based on parliamentary democracy;
- A common law legal system with English as a court language;
- India is emerging as a major market and investment destination;
- The economic reforms initiated in 1991 have brought dramatic changes in international investment in India.
- The U.S. Department of Commerce has identified India as one of the world's top ten "Big Emerging Markets."

Another major strength is India's ability to respond to crises:

When there was crisis in meeting the food requirements in the backdrop of colonial misrule, severe famine and large patches of drought, we fought it out valiantly through green revolution and made India self-reliant in food; we are now on the threshold of food exports; when we had a crisis in Foreign Exchange and we ably steered through; most of the natural calamities – recurring floods in several States or hard-hitting recurring cyclones in AP, Tamilnadu; earthquakes of Latur in Maharashtra or Bhuj in Gujarat; the Tsunami of 2004 in Tamilnadu -- have been ably handled with domestic resources etc.

Gross inadequacies are noticed in terms of value addition due to inadequate attention to crop specific infrastructure and post-harvest technologies like pre-cooling, cold storages with assured power at uniform voltage, price hedging operations, market reforms in farm sector etc. Some States have initiated special studies in this regard to prioritize their investments in these areas and deploy the needed resources. The impacts of these initiatives would be felt in due course. However, there is a regulatory overhang in India with more than twelve Union Ministries, corresponding State Ministries, laws framed by the Union Government with rules framed by the State Governments for implementing them, still seventy-odd food control orders governing the production and trade of those commodities and crops into which the farmers would like to diversify, the farmer, rural industry and farm trade are virtually strangulated. While there is an awakening in respect of these areas, the speed of reforms and actions in these areas deserve an urgent attention. (Raju 2005)

Farmers benefit from more accurate weighing, faster processing time, and prompt payment, and from access to a wide range of information, including accurate market price knowledge, and market trends, which help them decide when, where, and at what price to sell. Farmers selling directly to ITC through an e-Choupal typically receive a higher price for their crops than they would receive through the mandi system, on average about 2.5 per cent higher (about US$6 per ton). The total benefit to farmers includes lower prices for inputs and other goods, higher yields, and a sense of empowerment. The e-Choupal system has had a measurable impact on what farmers chose to do: in areas covered by e-Choupals, the percentage of farmers planting soy has increased dramatically, from 50 to 90 per cent in some regions, while the volume of soy marketed through mandis has dropped as much as half. At the same time, ITC benefits from net procurement costs that are about 2.5 per cent lower (it saves the commission fee and part of the transport costs it would otherwise pay to traders who serve as its buying agents at the mandi) and it has more direct control over the quality of what it buys. The system also provides direct access to the farmer and to information about conditions on the ground, improving planning and building relationships that increase its security of supply. The company reports that it recovered its equipment costs from an e-Choupal in the first year of operation and that the venture as a whole is profitable. It received the Development Gateway Award of $1lakh – ITC is the first company in India to have received this Award[3]

Nearly 700 million Indians live in 600,000 villages across rural India. Connectivity of village complexes providing economic opportunities to all segments of people is an urgent need. We need to innovate to increase connectivities to the villages, making clusters out of them even while retaining their individuality. The integrated method that will bring prosperity to rural India is called PURA or Providing Urban Amenities to Rural Areas. This envis-

[3]*Support for this Digital Dividend "What Works": Case Study Provided by The Microenterprise Development Division of the United States; Agency For International Development (USAID)*

ages four connectivities: physical connectivity through quality roads and transport; electronic connectivity through telecom with high bandwidth fibre optic cables; knowledge connectivity through education, skill training for farmers, artisans and craftsmen and entrepreneurship programmes[4].

Varghese Kurien, chairman of IRMA said, "Our experience so far suggests that the key to real development lies in enabling people to get the instruments of development in their own hands."[5]

The World Bank's first India Development Policy Review (DPR) pointed out that uneven development had resulted in poverty becoming concentrated in the slower growing states, with more than half of India's poor now living in four states - Uttar Pradesh, Bihar, Madhya Pradesh and Orissa[6].

"India has undoubtedly done well in the last two decades, but with one-third of the world's poor and a billion people, it needs rapid growth and job creation to reduce poverty further and sustain the recent income increases. In the absence of comprehensive reform, growth will at best be moderate," said Michael Carter, the World Bank's Country Director for India.

The other challenges India faces are of improving the investment climate, and raising productivity in industry, agriculture, services and rural development. High levels of support for agriculture in developed countries also make Indian policymakers cautious in considering either unilateral or multilateral reforms to agriculture. The Prime Minister called for stepping up public investments in the farm sector and irrigation significantly; rain-fed area authority had been announced to ensure development of 60 per cent of the area treated as dry and rain-fed; convergence of resources of the farm sector with those of the Bharat Nirman (Infrastructure development scheme) and the National Rural Employment Guarantee Scheme and ensuring quick reforms to agricultural marketing through appropriate monitoring mechanisms. (Manmohan Singh, September 27, 2005)

ii) The climate for private investment in Indian agribusiness

Despite faster growth and increased diversification in consumer food demand, available data suggest only sluggish growth in Indian farm output during the 1990s. Despite some gains in private domestic and foreign investment in agriculture in the 1990s, there is growing concern with the relatively low levels of both public and private investment in agricultural production, processing, and marketing. A number of factors have been identified that may be constraining private investment, including regulations governing domestic movement, storage, and marketing of major commodities, plant-scale restrictions in food processing, and restrictions on contract farming and land leasing.

[4]APJ Abdul Kalam, "Empowering Rural India", Express On-line, 25 August 2005

[5]Business Standard, Ahmedabad 18th April 2005

[6]The DPR is a new, integrated analytic instrument that assesses a country's past development outcomes and identifies factors constraining better economic performance and faster poverty reduction.

Section - II

Issues of Employment and Entrepreneurship

'SMEs tend to be engines of job creation - seedbeds for innovation and entrepreneurship.'[7] Economies of scale no longer remain decisive in sustaining competitiveness, as they are being replaced by economies of scale, speed and networking. In most South Asian economies, if the first generation entrepreneurs suffered the wayward incoherent industrial policies, the current generation is suffering for want of a proper and sound policy standing on principles of transparency, responsibility and accountability.

The future of SMEs is of major policy concern at the present time, given their strategic importance in terms of resource-efficiency, capacity for employment-generation, reducing regional imbalances, raising exports, and fostering technological innovation and entrepreneurial skills.

i) Re-shaping Policy Frameworks

The emerging view is that the State should intervene less and less in certain areas and more in others[8]. Changes in the framework of international trade through new international agreements, the increased pace of technology, capital and information flows in an integrating global economy and concerns over issues of intellectual property rights and the environment, demanded intervention by the Government. The interface between the governments and industry is changing in countries across the globe as a result of the State re-inventing itself on one side and intense international competition on the other.

In India 'medium' enterprise has been defined in the SME Development Bill 2005 currently under the consideration of the Parliament, which specifies them as those enterprises whose investment in plant and machinery valued at Rs.10crores. There are only small-scale industries (SSIs) and industry related small-scale service and business enterprises (SSSBEs) and these are defined on the basis of investment in plant and machinery in the small-scale sector till the sector gets formally enlarged into the SME sector. This generally used definition can be said to include micro-enterprises that are engaged in some form of manufacturing such as food processing and handicrafts including textiles and other cottage based industries and Rural Non-Farm Enterprises (RNFS). "The RNFS comprises all non-agricultural activities that includes all manufacturing activities and services in villages and rural towns of up to 50,000 population[9].

This inclusive approach to redefining the sector makes lot of sense for several future initiatives like the development of clusters.

SMEs vertically integrating with large enterprises at one end and micro enterprises at the other end could definitely address the issue of job-oriented growth in the region on a more sustainable basis.

SMEs are pivotal to the current development of our economy on several other counts.

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[7]Report of UN on Unleashing Entrepreneurship, 2004
[8]Rangarajan 2000
[9]This definition is largely based on Fisher, Thomas and Mahajan, Vijay (1996): The Forgotten Sector: Rural Non-Farm Employment and Enterprises in Rural India, Oxford and IBH, New Delhi, ITDG, UK.

First, since SMEs are liable to kick-start business with relatively small amount of capital, they have the potential to become a powerhouse for private investment pump-priming the growth of domestic demand. Second, with high degree of flexibility and resilience, SMEs are most suited to attuning their products and operational modes to the ever-changing market needs and diversification taking place in the international marketplace. Export-oriented SMEs prove an important driving force for sustainable growth. Third, in order to make the best use of limited operating resources, SMEs are more inclined to fit into team work, while pursuing specialization individually for vertical integration, as demonstrated in the UNIDO-assisted Cluster development programmes in India and Pakistan during the last 3-5 years. Because of this, they often act as a catalyst for the deepening of industrial division of labor, as well as cornerstones for the synergetic network that support and nurture large-scale enterprises. Fourth, SMEs can also become a cradle for innovations, in that knowledge-based economy is much predicated on individual researches and entrepreneurship.

However, it should be admitted that SMEs are generally less than solid, relatively slack in management, and lacking the experience and ability to guard against external shocks.[10] Among other things, financing, R&D, marketing, human resources, and information management are the foremost areas that often pose difficulties for them. In order to assist SMEs to overcome such inherent weaknesses, many governments have taken concrete measures to offer some relief.

India's SME profile broadly falls into two categories: Registered and Unregistered units under the manufacturing SSIs and SSSBEs.[11] 65.55 per cent (0.9mn) of the registered units and 38.75 per cent (3.54mn) of the unregistered units constitute SSIs and six million enterprises are SSSBEs. Nearly a million of the enterprises (9.46 per cent) are run by women. While 88.9 per cent under registered and 96.9 per cent under unregistered categories are proprietary, 7.21 per cent and 1.13 per cent correspondingly are partnership entities. While 3 per cent of the enterprises are private limited companies, 2.61 per cent are public limited companies and others under both categories. Cooperatives are just 0.45 per cent of the total number of enterprises. 65.43 per cent of the SSI units are run with electric power while 26.23 per cent are run without using any power. The other forms of energy including non-conventional energy are used by 7.8 per cent of the units.

Employment per a lakh of Rupees (0.10mn) of fixed investment has declined over the last Census (1988 data released in 1990-91) from 3.94 persons to 0.67 persons in 2001 and per unit of employment declined similarly from around 6.29 persons to 4.48 persons in 2001 during the same period. This is bound to happen when technology substitutes labour in factor productivity. They contribute to nearly 40 per cent of the exports from the manufacturing sector. Number of SSIs contributing to exports is just 7344 in registered category and 43,262 in unregistered category. While the number of economic activities pursued by the units in the manufacturing sector is just 672, items reserved for the sector are 877 (this has been brought down to 597 in 2004). This sector produces 5,983 products, a decline from 7449in the second Census, with per unit of gross output of Rs.1.48mn an increase of almost 100 per cent during last 12 years. This reflects some efforts at consolidation of the product ranges. About 80 per cent of

[10] See SEDF

[11] DC SSI, GOI recently carried out Third Census Survey and hence more statistical detail is available

the Units are located in the States of Andhra Pradesh, Tamilnadu, Kerala, Maharashtra, Gujarat, Madhya Pradesh and Uttar Pradesh, Haryana and Punjab.

ii) Employment Effect of SSI Sector Growth

It is worthwhile doing a comparative study of the employment growth in public sector, organized private sector and SSI sector. We have taken the employment data of these three sectors for the period of 1973-79 to 2002-2003 from "Hand book of Statistics on Indian Economy".

Table-1 shows the yearly total employment and its growth over previous year. Employment in public sector was much higher than employment is organized private and SSI sectors till 1994-95. Total employment in SSI crossed total employment in public sector in 1995-96 and after that in each year, total employment in SSI sector was higher than total employment is public sector. The growth rate of employment in SSI sector is always positive, whereas growth rate is negative for some years in case of public sector and organized private sector. This shows that SSI sector always generated employment opportunities throughout the period, but other two sectors sometimes showed reduction. The employment in SSI sector suddenly went up from 11.96mn in 1989-90 to 15.83mn in 1990-91 at a growth rate of 32.36% reflecting highest growth in the period chosen for review.

The quinquennial average employment in both public, organized Private and SSI sectors is shown in table –2. The average employment in public sector is always higher than the other two sectors till 1992-93. But during the period 1993-94 to1997-98, average employment in SSI sector (19.82mn) was higher than the public sector (19.46mn). During the period 1998-99 to 2002-03, average employment in SSI sector (23.96mn) was still higher than the other two sectors.

Growth rate in SSI during second five-year period was 55 per cent whereas it was 15.7 per cent in case of public sector and 6.98 per cent in case of organized private sector. During fourth five-year period, the growth rate in SSI was 52.88%, whereas it was below 10% in other two sectors. During the last five-year period, the growth rate in SSI was 20.89 per cent where as it was –2.18% in public and 2.17% in organized private sectors. Hence it is clear that the growth rates of average employment in SSI sector were much higher than the growth rate in other two sectors. Therefore, the analysis shows that the SSI sector has been creating employment opportunities at a higher rate than employment opportunities created by public sector and private sector.

To analyse whether establishment of small-scale industries (SSI) and increase in industrial production generate employment, we have carried out an empirical analysis through correlation and regression. To examine whether small scale industries have potential to increase employment, we have considered some of the employment and production related variables, such as, total employment of country, employment in the SSI sector, index of industrial production and number of units of SSI. We have taken yearly data on these variables starting from 1981-82 to 2002-03.

iii) Correlation results

The bivariate correlation among the growth of the above variables is carried out. The growth rate of a variable is calculated as the difference of the Natural Log of the variable. The correlation results in the following table show that there exists significantly high positive correlation between growth of total employment and growth of SSI (0.954). But there does not exist any significant correlation between growth of industrial production and growth of employment. As total employment constitutes a part of employment in the SSI sector, the correlations between growth of total employment and growth of employment in small-scale industries is higher and significant.

Correlations

		DLTOEMP	DLSSIEMP	DLIIP	DLSSI
DLTOEMP	Pearson Correlation	1.000	.968**	.234	.954**
	Sig. (2-tailed)	.	.000	.307	.000
	N	21	21	21	21
DLSSIEMP	Pearson Correlation	.968**	1.000	.165	.990**
	Sig. (2-tailed)	.000	.	.474	.000
	N	21	21	21	21
DLIIP	Pearson Correlation	.234	.165	1.000	.154
	Sig. (2-tailed)	.307	.474	.	.504
	N	21	21	21	21
DLSSI	Pearson Correlation	.954**	.990**	.154	1.000
	Sig. (2-tailed)	.000	.000	.504	.
	N	21	21	21	21

**. Correlation is significant at the 0.01 level (2-tailed).

Notes: DLTOEMP : Growth of total employment
DLSSI : Growth of SSI
DLIIP : Growth of industrial production
DLSSIEMP : Growth of employment in SSI sector.

iv) Regression Results

To know whether the increase in SSI and increase in industrial production will lead to employment generation, we have estimated the following model, where growth of total employment is regressed on the growth of SSI and growth of industrial production (IIP).

$$\text{DLTOEMP} = \underset{(4.08)}{0.013} + \underset{(13.68)}{0.066}\,\text{DLSSI} + \underset{(1.29)}{0.063}\,\text{DLIIP} \qquad (1)$$

The above model shows that the coefficient of the growth of SSI is positive and statistically significant (t-value is given in the brackets). But the coefficient of the growth of industrial production is not statistically significant. Hence, the growth of employment is affected by growth of SSI, whereas growth of industrial production does not affect growth of employment. From model (1) it is seen that 1 unit increase in SSI growth rate leads to 0.06 unit increase in total employment growth rate. It means if the SSI sector growth rate increases from say, 5 per cent to 6 per cent, the corresponding growth rate of total employment will increase by

0.06. Hence we can say that establishment of more and more small-scale industries have potential to create considerable employment opportunities.

To know whether the growth of industrial production will have any impact on the growth of employment in SSI, we have estimated the following model.

$$DLSSIEMP = \underset{(1.332)}{0.039} + \underset{(0.731)}{0.316}\, DLIIP \quad (2)$$

The result shows that growth of industrial production does not have any impact on the growth of employment in small-scale industries, as the DLIIP coefficient is not statistically significant. Again to examine whether the growth of employment will affect growth of industrial production, we have regressed DLIIP on DLTOEMP, and the regression result is:

$$DLIIP = \underset{(5.584)}{0.055} + \underset{(1.049)}{0.328}\, DLTOEMP \quad (3)$$

Here the employment growth coefficient is not statistically significant. Hence growth of total employment does not significantly affect growth of industrial production. Therefore, we can say that increase in employment may not affect industrial production. Growth of industrial production can be obtained by adopting capital-intensive technology, adopting new production techniques or innovations etc.The above analysis clearly reinforces the general impression that the small-scale industries have considerable potential to generate employment.

Manufacturing would need to grow annually at 12 per cent compared to the trend growth rate of 7 per cent achieved during the last decade in order to create 1.61 million employments with present employment elasticity. If the employment elasticity were to improve to the earlier higher level of 0.59, the 12 per cent growth in manufacturing would result in 2.9 million new direct jobs per year in manufacturing sector alone. Both direct and indirect job creation would increase and the interdependence among the large and SME sectors would ensure sustainability. Stability of policy is a necessary but not a sufficient condition for achieving and sustaining high levels of economic development. However, integration of policies and regulations relating to interconnected sectors of the economy coupled with effective implementation would hold the key to eradication of poverty.

It is often argued that SME promotion is justified on grounds of the job-creating prowess of SMEs or of their greater efficiency and growth. Attempts are often made to draw a causal link between SMEs and poverty alleviation so as to justify policies and subsidies in favor of SMEs. But the empirical evidence supporting many of these claims is very mixed, making it difficult to justify SME promotion on the basis of inherent economic benefits of smallness. A survey of small- and medium-sized enterprises (SMEs) commissioned by the World Bank in 2000 cited the main constraints on their development: (i) lack of access to institutional credit and high interest rates for loans; (ii) poor infrastructure, including power, gas, and port facilities; (iii) government policies that allow too many imports, frequently devalue the currency, and keep tariffs high on intermediate inputs; (iv) government bureaucracy, corruption, and red tape; and (v) underdeveloped business management skills.

Belabouring on a historical review of policies at this juncture when new paradigm shifts are occurring and new policies are emerging as part of global integration could be a drag on this paper and therefore avoided. (See the Boxes below for synoptic view of rationale of regulation and policy framework)

Regulatory excesses have become endemic in India's body politic. These need an urgent correction. The fact that a regulation raises the cost of doing business doesn't necessarily mean that the regulation should be softened or eliminated. Environmental regulations, for example, impose a cost on the business sector, but these costs may be outweighed by the social benefits of improved environmental quality. Nevertheless, when doing the cost-benefit analysis of such regulations, one factor to consider is how the burden is distributed across different types of firms. In some cases, adding flexibility in the implementation of regulations can be an important way to ease the burden on small enterprises.

Box. 1: Rationale of Regulation in India

Law	Rationale
Incorporation	To allow enterprises to derive benefits as legally recognized entities, and to protect owners, investors and debtors.
Registration	To gather information for governing economic activities and allocating resources and services
Licensing for production	To control modes of production, and to protect weaker economic actors (especially traditional and small producers), as well as workers, consumers and the environment
Licenses and quotas for raw materials	To control inter-and intra sectoral resource allocations, and to allocate public or quasi public goods
Taxation (income and sales tax, excise, octroi)	To gather revenue for the various tier of government, from local to central; sometimes to change relative prices
Labour laws	To ensure fair wages, welfare and safety for workers
Environmental laws and consumer laws	To protect the environment and to protect consumers by ensuring quality and standards for products
Laws applying to specific sub sectors	All the above rationales may apply, depending on the specific laws introduced.

Source: Mahajan and Raju 2004 RNFS

Government of India got an exclusive Bill for Small Enterprise Development ready for enactment in the current financial year to address most of the issues relating to entry barriers, harassment, needless regulation, competitiveness of the sector and appropriate facilitation.

There are a number of States like Andhra Pradesh, Tamilnadu, Karnataka, Maharashtra, Gujarat, Punjab, Haryana, Rajasthan, and Madhya Pradesh that have taken initiatives proactively to (i) simplify procedures, (ii) reduce the impact of inspector-raj, (iii) provide infrastructure at affordable cost to the entrepreneurs, (iv) provide easy exit rules within their realm, (v) rehabilitate potentially viable enterprises by dialoguing with the financial institutions and banks and (vi) enter into partnership with credible Industry Associations to provide

BDS. It will take time to gauge the benefits but the moves are worthy to note. States' experiences are illustrated in the following Box.

Box. 2: Infrastructure Promotion & Development: States' Initiatives in Public Private Participation.

Maharashtra State pioneered in providing the right type of infrastructure for the SMEs during 1970s by setting up Maharashtra Industrial Development Corporation (MIDC)-sponsored industrial estates wherein it provided comprehensive services and utilities to the SSIs in these estates at affordable costs that made them more competitive than their counterparts elsewhere.

Government of Andhra Pradesh formed 83 Industrial Area Local Authorities out of the 270 Industrial estates where the Industry Associations have to work in partnership with the AP Industrial Infrastructure Corporation, to maintain the infrastructure in Industrial estates. The Government has empowered them to collect and share local taxes and user service charges for the utilities, with the local municipalities in 1996. A study commissioned by the Government in 2003 suggested a few amendments to ensure their functional effectiveness. These suggestions are being considered for review.

Similarly, Government of Andhra Pradesh partnered with CII in the establishment of a Technological Development Centre and sub-contract exchange. It has also set up APSSI Centre in Association with Federation of AP Small Industries Associations to provide the much-needed Business Development Services to the SSIs in November 2002.

Government of Karnataka has set up a sub-contract exchange in association with Karnataka State Small Scale Industries Association. (KASSIA)

Coimbatore District Small Industries Association has set up a Large Exhibition Centre for the benefit of SSIs and has been part funded by the ZDH and Government of Tamilnadu. Ambattur (Chennai) industrial Manufacturers' Association had set up R&D centre in machinery manufacturing to benefit over 1000 manufacturing units in SME sector with the assistance of GOI and GOTN. Similarly, Fredrick Neuman Foundation helped the Tamilnadu State Small Scale and Tiny Industries Association (TANSTIA) to set up a Business Development service provider -- TANSTIA-FNF. These are all State-partnered private initiatives where the initiative of the Government triggered action from the private agencies. The exit route for the State Governments concerned also is carefully planned.

One of nodal officers in charge of setting up an Apparel Park narrated to me an experience that is also worthy to note.

Box. 3: Setting up Apparel Export Park

The nodal Oficer narrated her experience in bringing up this Apparel Park during her tenure (1997-2002), which is worthy to record for the benefit of those implementing cluster development initiatives and infrastructure development programmes. "Government intervention for the development of such clusters of export-oriented apparel manufacturing units can yield positive results, if and only if certain factors are in place. These factors vary from region to region depending on the nature of the cluster irrespective of the markets it caters to. Existence of an active local industry Association can be very beneficial in order to build bridges of understanding between the government agencies and the industry as also to build networks.

In the instant case, even though the land was to be made over by the state –owned Infrastructure Development Corporation, the procedures proved very cumbersome and led to a delay of nine months to one-year Public intervention, was overly supply-oriented (infrastructure, training of manpower, attracting service providers etc). Once the local industry representatives joined the Managing Committee of the Park, there was a shift towards demand –driven intervention. Thirdly, emergence of influential leaders among the local industry representatives helped resolving diverse issues by securing a consensus smoothly. Internal roads were not black topped for two years after setting up the Park and this had a deleterious impact on the manufacturing units--dusting the raw material, materials in process and finished goods whenever the trucks were passing through the Park. The lessons she drew from this experience are worthy of mention:

1. Engaging professional consulting team to conduct a diagnostic study before setting up the venture.
2. Involving them as a part of the Managing team would fix accountability for their suggestions and quickens the process for midcourse correction in project implementation.
3. Involve the Local Industry Association in the planning and designing of the project as also in execution. It is admissible to set up platforms to facilitate such consultations.
4. While there could be some pressure from the user groups to provide tax – holidays, cash incentives etc., it is better to distance such demands and instead the Government should directly involve in speeding up provision of electricity, telephone lines and other basic infrastructure at the doorstep of the entrepreneur, and to provide security during the period of construction.
5. It is essential to prepare a PERT – CPM charts and review them at prescribed intervals
6. Developing sensitivity to local customs conventions and beliefs is very crucial (e.g., vastu- a science that deals with the manner and direction of structure & internal lay –out).
7. It is desirable to set up catalytic institutions in co-ordination with the Association e.g. Institutes for manpower training and development, fashion designs, demand forecasting, Brand building etc.
8. While initially the risks of public investment should be borne by the Government, as such of them cannot be absorbed by SMEs, transferring them later to the stakeholders should be planned & executed.
9. Special dispensations like making certain provisions of Labor laws inapplicable in the parks should be thought of in the beginning and should be legalised.
10. Exit of Government interventions and its timing are extremely critical in all cluster based initiatives.

Box. 4: Industrial Policy of India

Features of the Industrial Policy of the Govt of India affecting the SMEs:

- Investment in Plant and Machinery for qualifying as tiny enterprises increased from Rs.0.2mn to Rs.2.5mn.
- Tiny enterprises are eligible for continuing support, including easier access to institutional finance, priority in the government purchase programme and relaxation from certain provisions of the labor laws
- Investment in Plant and Machinery Rs.50mn qualify for being small enterprises as per the

proposed SME Development Bill 2005

- Investment in Plant and Machinery above Rs.50mn but below Rs.100mn qualify for being medium enterprises under the proposed SME Development Bill
- Equity participation from the large-scale industries in a small-scale unit permitted up to a limit of 24 per cent of the total shareholding to promote sub-contracting and ancillarisation
- Project limit for National Equity Fund raised to Rs.5mn with 30 per cent for tiny sector.
- Small Industries Development Bank of India establishes 'factoring' services to unlock the dues from the vendees.
- A scheme of integrated infrastructural development (including technology back-up services) to be introduced to facilitate locations of enterprises in rural and backward areas.
- Preferential allotment of indigenous raw materials to tiny and small-scale units
- Turnover based simplified working capital assessment limit enhanced to Rs.50mn
- The National Small Industries Corporation to concentrate on marketing, under a common brand name, mass consumption items produced by the small and tiny industries and to set up rating agency services to improve credit markets.
- SIDBI sets up Small and Medium Enterprise Rating Agency in September 2005
- Threshold limit for Credit Linked Capital Subsidy scheme for technology upgradation increased from Rs.4mn to 10mn and the related subsidy from the 12 per cent to 15 per cent. The scheme extended up to March 31, 2007 and modified in terms of calculation of the capital subsidy to be calculated on the purchase price of the plant and machinery involved and not on the term loan disbursed to the beneficiary SSI Unit.
- Women enterprises redefined to include enterprises having majority shareholding and management control by women.
- Functional industrial estates to be established in areas where agriculture or horticultural produce is concentrated.
- Industries, services and business establishments are included within the ambit of tiny enterprises up to Rs.1mn.
- Composite loans and working capital up to Rs.5mn to be extended through a single window
- Upto Rs.2.5mn without any collateral security under the GOI-SIDBI funded Credit Guarantee Fund Trust.
- Self certification to reduce the statutory inspections under the Labor laws and Factories Act.
- Market Development Assistance Scheme for SSIs introduced.

Cluster Development initiatives are implemented through two windows of Government of India, Development Commissioner (DC SSI) and Ministry of Industry & Commerce (MoI&C). While five are natural clusters that improved with UNIDO export during the last five years, the rest are in various stages of implementation and 90 per cent are in the beginning stage.

Competitiveness constraints on SMEs

The law of comparative advantage provides that when markets are competitive, people will trade and will gain from trade when there are differences between countries in the relative costs of production[12]. In addition, many engaged in making trade policy have advocated export-oriented industrialisation for developing and transitional economies, an approach that relies on an open economy that exports goods to industrialised nation and other markets. There has been a great deal of focus on the "East Asian Miracle" and on the extent to which the economies of Northeast Asia relied on exports to generate significant rates of economic growth, often in the neighbourhood of 10 per cent per annum. In addition to the findings on export-led growth, there have been some significant findings in what has been termed "growth theory" on what makes countries develop. Classical growth models focused on capital accumulation, and particularly the increasing returns to capital that occurred in countries that were starved for capital. New growth theories, particularly endogenous growth theory, focus on technical change as the catalyst for economic growth. By technical change I mean decisions by individuals in an economy in response to market forces that result in growth because of technical change in three areas: 1) increasing returns to specialisation in an economy; 2) human capital accumulation through education and training; and 3) "learning-by-doing" or growth through increased experience in business and production; and 4) research and development. All of these factors leading to growth complement the law of comparative advantage.[13]

- Noticeably, the policy thrust has been to enhance the capability of SMEs to perform effectively in this context. Structural changes in several economies have led to a shift in industrial production of SMEs from construction and low-tech manufacture to high-tech industries. SME presents a canvas with dull colours:
- No major shifts in employment pattern occurred despite sectoral shift from the primary to the secondary and tertiary sectors over the last decade
- Despite some initiatives on entrepreneurial promotion and development through specific institutional interlinkages, educated youth do not see setting up a new enterprise as a risk worth its while due to obsessive entry barriers, apparent inspector-raj, and uncertain markets
- Technological obsolescence among the existing enterprises
- Unwelcoming attitude of the financing institutions and banks in extending financial support for setting up new enterprises and for expansion
- Lack of innovation in new financial products to suit the sector
- Venture Capitals still hesitate to take risks in the manufacturing sector
- Poor networking
- Inadequate Market support and Market Access Initiatives when compared to the developed nations.

SMEs are subject to a number of constraints on their competitiveness in public procurement markets. Many of the constraints result from the relative effects of fixed costs on SMEs to conduct public procurement relative to the effects of fixed costs on large businesses. Most important challenge is the fierce competition in costs and prices, improved designs, new product ranges, quick and on-time deliveries etc. The Town and Village Enterprises (TVEs) of China have aggressively moved from their domestic economy to the global arena and South

[12]*Kenan 1994*
[13]*Francois and Shiells 1993.*

Asia being in the immediate neighbourhood has to not merely take cognizance of it but should draw lessons from them. 'There was a dramatic reduction of rural poverty in China from about one-third of the rural population in 1978 to about 8 per cent in 1996[14] Manufacturing TVEs constituted longest generator of employment opportunities accounting for around three –fifths of the total. TVES contributed over 30 per cent of China's GDP and half of the value-added. In the year 2000 TVEs provided employment to nearly 25.8 per cent of workforce.[15] The sectors that are worthy of alliances within and outside the country among the SME firms are toys, RMG, electronic goods, and light engineering goods.

v) ACCESS TO FINANCE: The Stress and Distress of SMEs

Limited access to finance has been identified as the major obstacle for growth in all the South Asian economies although their risk profile centres round obsolete technologies, limited marketing abilities, lack of adequate management skills, high share of intangible assets, poor accounting standards and the resultant low level of financial discipline. The net result is that they are discriminated against by the lending institutions. Impact of reforms on the small industries seems to have upset the apple cart and many small industries bemoan that the financing institutions distance them because of the fear of accumulation of non-performing assets. SMEs require greater attention from the lending institutions in terms of continuous follow-up and monitoring and this function increases the transaction cost for the Banks disproportionately. The post-liberalization era resulted in shedding manpower and uneconomic branches in the rural and semi-urban areas and therefore, has seen many banks turning to a market transaction function instead of lending function. In contrast, large enterprises, despite higher level of accumulation of non-performing loans, are accorded a privileged status by the banks an financial institutions. All the expert studies in India and elsewhere have confirmed that the small industries are denied adequate and timely credit facilities and therefore losing their competitiveness.[16] Structural inadequacies and imperfections do not allow them to access equity markets.

a) Start up Constraints

Most SMEs venture with small seed capital or promoters' contribution making them

[14]CH.Hanumantha Rao, 2005 Rural Transformation in India, p. 31

[15]C.H. Hanumantha Rao, 2005

[16]The Reserve Bank of India appointed from time to time a number of committees to examine the problems in meeting the financial requirements of the small industries. The prominent among them are: Puri Committee (1980), Tewari Committee (1985), Nayak Committee (1993), Kapoor Committee (1999) etc. The Banks on their own and a few State Governments have also addressed the issues relating to sickness in the SSI sector: SBI Study; ASCI Study sponsored by the Government of Andhra Pradesh (1997) and another by the Government of Jammu and Kashmir (1998). Government of India also initiated two major studies in this regard: Expert Committees with Abid Hussain as Chairman (1998), S.P. Gupta, Member of the Planning Commission as Chairman (2001) and Ashok Ganguly, former Chairman, HLL and presently Director, RBI as Chairman (2004) . All these studies were unanimous in their opinion relating to the inadequacies and inefficiencies in the lending systems of the financing institutions and banks in meeting the requirements of the small industries. A specialized institution set up for meeting the requirements of this sector, viz., Small Industries Development Bank of India (SIDBI) did not also go far enough to redress the grievances of the small industries in this regard. Therefore, all the efforts put in for reducing the supply side constraints proved a damp squib. It is but necessary to look at these supply side constraints, as we have to seek solutions in the problem arena and not else where. (See Raju 2001:RGICS WP33 for detailed analysis of the Indian Financial System Vs SMEs). The Internal Working Group on SMEs ,2005 of the RBI have made certain recommendations that found merit with the GOI resulting in a renewed thrust on this sector from the banks and financial institutions vide the Policy Announcement of Finance Minister dated August 10, 2005.

unattractive for the institutional lenders right at the start. Generally Banks insist 25-33 per cent of the total project cost as a contribution from the promoters. This requirement forces them to resort to finance from friends and relatives and even private sources at interest rates far higher than what the organized market generally offers. Another major constraint is that the gestation period allowed for the SMEs falls short by six months to a year compared to their elder brothers. These force SMEs generating resources for repaying their obligations far ahead of the commencement of commercial production. This places them in a debt trap.

b) Debt Markets

The high risk, high return nature of SMEs suggest that excessive dependence on debt markets puts them to a high disadvantage particularly because they do not have cushion capital when the banker removes the umbrella either in a downpour or in hot Sun. Though National Equity Fund Scheme has been in operation in India for the last 20 years, the pick-up is very poor because the lending institutions did not propagate it and made the procedures for accessing it unfriendly to the entrepreneurs. Further, most enterprises being proprietary or family owned (90-98 per cent), pooling up required collaterals to access debt from time to time (banks are found to be seeking these collaterals with almost every request for additional quantum of loan) has later put them to partnership and family disputes. Whole nation suffers from this disability and therefore, we have to think of alternates ways of collateral-free financing. The overall thrust of the credit guarantee programmes should be to absorb part or some of the risks. Their success hinges on the ability to minimize the default rate. The premium and the extent of guarantee are the two essential parameters under such schemes and balancing them in a manner that would not upset the inherent incentivization effort seem critical to their success. Some efforts in Bangladesh, Pakistan and India are manifest lately though their impact has not been as significant as in the US, Japan, Germany, Italy, South Korea, other South East Asian economies in the post-East Asian crisis, China etc.[17] Started in Italy, Mutual Guarantee programme has demonstrated its sustainability wherein the SME Associations promote own/mutual guarantee funds and leverage them with public or government promoted guarantee funds for wider coverage. SIDBI's Guarantee Funds made a beginning in this direction. Among the Indian States Rajasthan took the lead in this direction and the Government is putting in efforts to sensitize this sector.

c) Export-oriented SMEs

We view these enterprises on a different footing and created special zones for housing them (EPZs, SEZs, AEZs) where regulatory rigour is minimal and fiscal incentives are specially made attractive. The three instruments for the bank based trade financing system are: (a) transaction based, self-liquidating mechanisms for trade financing (including rediscounting mechanisms of the central bank); (b) Pre-shipment and post-shipment packing credit facilities; and institutions to deal with overseas buyers' non-payment risk, i.e., export credit

[17]Deposit Insurance and Credit Guarantee Corporation of India, an extended arm of the RBI (1962-97) and a similar Credit Guarantee Corporation in Sri Lanka were wound up. SIDBI, at the instance of and with the support of Government of India started in the year 2000 a Credit Guarantee Fund Trust with participation from the Industry Associations. It took nearly an year for enthusing the public sector banks to become members of this scheme. None of the private banks has become a member which speaks of their interest in catering to the requirements of the really small enterprises whose working capital requirements are below Rs.2.5mn.

insurance and guarantees Export Credit Guarantee Corporation (ECGC) (EXIM Bank of India both through direct financing and reinsuring mechanisms offers such facilities, to cite an instance).

d) Micro Finance

Micro enterprises initiated by the self-help groups representing bottom of the pyramid farm and non-farm sectors' rural enterprises offer a faster growth prospect. Bank linkage programmes were evolved by the refinancing institutions like NABARD and SIDBI and are successfully implemented. Phenomenal growth of SHGs and micro enterprises led to the need for and evolution of separate regulatory mechanisms to ensure their sustainability. Adoption of the systemic approach holds the key for sustainability of such micro level interventions and maximizing the development impact. Enabling policy environment, promoting appropriate financial intermediaries, and financial infrastructure are essential ingredients of success as they delivered credit with extension and retail market support. Commercial Banks and Non-Banking Finance Companies reflect non-performing loans of just 1 to 2 per cent. One Study conducted by APMAS reveals that hidden NPAs or rolled over credit unrelated to the activity requirements conceal the ills of the micro enterprises. (See Notes 3)

e) Venture Capital

Venture capital (VC) is recognized as an important financial instrument to assist the high risk and innovative projects. However, the VCs are in infancy in South Asia. They have not opened their doors for the manufacturing industry and more specifically to the SMEs. All these countries are in transition and lack an exit route such as an organized public equity market at the lower end of investments. Republic of Korea and China made good in-roads and lately India is proving to be an attractive destination for the VCs. However, for the SMEs, VCs are still distant. SME –VCs should provide training to the new entrepreneurs in regulatory and financial management, and provide handholding support for at least two years. Even the SIDBI VC, which has been floated recently does not have these ingredients.

f) Ailing SMEs

Prudential norms and reclassification of assets as a consequence of reforms in the financial sector in India and Pakistan have brought to the fore non-performing loans and in terms of number of accounts these abound in the SME and Farm sector loans. The raison de etre of the classification of assets is the need for immediate attention to convert them to performing assets and in the absence provide for them as losses in proportion to the risk attached to them. The cause for the NPA will generally be not in the nature or value of the collateral but in the primary security the erosion to which may have taken place either on account of adverse selection or change in the complexion of risk. Moral hazard is not a function of collateral. NPA is, therefore, a ghost that may haunt but not a monster that would eat up the institution if the Banks through restructuring of debt or revitalizing the asset initiate corrective steps. Unfortunately, this did not happen. Absence of bankruptcy laws only accentuated the grief and burden of the 'sick' SMEs. Some of the State Governments under pressure from the Industry Associations and also with a concern of locked up monies and physical assets in sick small manufacturing enterprises initiated specific measures for rehabilitation (Gujarat, Andhra Pradesh, Kerala, Madhya Pradesh, Rajasthan and Tamilnadu are cases in instance in India).

Supply side constraints do not border on lack of resources so much as on attitudinal disposition of the lending institutions as has been described above. Lack of transparency, undue obsession with collaterals, discriminatory application of lending norms under identical risk bearing portfolios in SMEs, absence of credit information exchanges, and almost non-existent credit rating for the SMEs, hostile attitude for upgrading the assets, etc., both from the commercial banks and specially set-up funding institutions like the SIDBI, State Finance Corporations in India, are some of the other supply side constraints that could be addressed easily. Demand side constraints largely arising from inexperience, lack of knowledge in systems and procedures, lack of adequate collaterals, pervasive default culture can be addressed through capacity building efforts and with the involvement of Industry Associations and Chambers of Commerce and Industries. Recent experience suggests that a stringent law could effectively reduce the willful default in the sector (Securitisation & Reconstruction of Financial Assets and Enforcement of Security Interest Act 2003 has contributed to the net NPAs in commercial Banks falling to a low of 2.4 per cent in 2004 from more than 7 per cent in 2000). There is a reprieve in the recent policy announcements of GOI and the RBI, which the institutions should set out to implement.

g) Options Available

Attitudinal change is possible only when the Banks put in place incentives for better performance in SME sector – performance defined in terms of new enterprises financed, efforts at regular scaling up of assets and increase in the quantum of flow of credit and institutionalizing the risks by way of correcting information asymmetry, investing in capacity building, involving BDS providers and instituting internal rating mechanisms(it is worthwhile recording that the years 1993-2005 witnessed incentives for NPA management and many officers with a track record of showing consistent decline in the NPAs – not necessarily through cash recoveries –are today the CEOs of public sector banks).

vi) CAPACITY, CAPABILITY AND COMPETITIVENESS OF SMEs

The 'traditional' way of doing things had its roots in the religion and native culture. In the case of Hindu society, caste and the joint family were generally considered hindrances to development of entrepreneurship that the new industrial growth poles centering on the SMEs.[18]

a) Technology, R&D, environment and ICT

SMEs generally suffer from technological obsolescence save the new generation enterprises and those in ICT and Biotechnology. This happens in the developing nations mainly on account of lack of information on emerging technologies, overconfidence on adaptation and reverse engineering processes, laggard approach of the financing institutions for technology investment proposals.

Technology divide does not have to follow income divide. It is created in response to market pressures – not the needs of the poor people who have little purchasing power.[19] Although technology modernization and upgradation is critical to both domestic and export competitiveness, it continues to be a casualty. SME sector in general is not capable of invest-

[18]Mario Rutten and Carol Upadhya (ed), Small Busines Entrepreneurs in Asia and Europe-Towards a Comparative perspective, Sage Publications, New Delhi, 1997

[19]Human Development Report, 2001, Oxford University Press, New Delhi p3

ments in R & D because of their cost intensity. Further, when technology is changing, enterprises have to invest in training workers to stay competitive. Smaller enterprises in particular can benefit from public policies that encourage coordination and economies of scale and partly subsidize their efforts. (Technology Information, Forecasting and Assessment Council-TIFAC, Technology Development and Modernization Fund of SIDBI are cases in instance)

TIFAC founded in 1988 had its task cut out clearly: It has to look ahead at the technologies emerging worldwide, and pick those technology trajectories, which were relevant for India and should be promoted. In its tasks, TIFAC networked various stakeholders: the government, industries, users, scientific and technological institutions, financial institutions, and intellectuals.[20] It provides partial funding support to SMEs for demonstrating commercially viable new technology, products and processes. TIFAC has taken up 70 projects in ten years of which 15 have been commercialised and ten patented. Synergies between industry, academia and the government are essential to develop a vibrant innovative ecosystem much needed by the SMEs.

"The office of DC SSI in its latest publication 'SSI-An Engine of Growth' listed 20 industries as having proven advanced technologies. Their costs range from as low as Rs. 50,000/- for dedicated test jigs in electronic industry to as high as Rs. 4 crore for bulk drugs and dyes industry. These twenty types are: 1) Foundry-Ferrous and Cast iron; 2) Shoes manufacture; 3) Glass Manufacture; 4) Rubber processing ; 5) Bulk Drugs; 6) Dyes 7) Tissue culture for fruit plants, edible oil bearing plants, forest plants, medicinal and aromatic plants; 8) Tiles; 9) Electronics; 10) Transfer manufacture; 11) Wires and cables; 12) Lamps, bulbs and lighting service; 13) Multiple use hand tools; 14) Surgical equipment; 15) Bicycle parts; 16) Auto parts; 17) Machine tools; 18) Granite industry; 19) Diamond wiring; 20) impregnated gang cutters, etc.,"(Raju 2004)

A Government supported Regional Research Centre in Kerala and National Research Centre in Central India are coming up in the Food Processing Industry to promote R & D in the Food Processing Sector at a cost of Rs.4000mn, for the benefit of SMEs. Commitments under TRIPS to promote technology transfer to developing countries remained only on paper. Either collective investments or public investments should spur the research and development activity. While India rides the wave of science and technology development in South Asia, it fades out into insignificance compared with NIEs viewed in terms of number of scientists and technicians engaged in R&D activity as also in terms of high-technology exports.

b) Cluster Development Initiatives

A cluster is defined as a geographically bound concentration of similar, related or complementary businesses. A UNIDO study defines clusters as 100 registered small scale units.[21]

In India, clusters have been in existence for decades and they came up naturally. Some names that occur instantaneously are: Tirupur (knitware), Muradabad (Brassware), Narsapur

[20] *APJ Abdul Kalam & Rajan 1998: 47.*

[21] *Gulati, Mukesh (1998), SME Development Cluster Development Programme- Prospects, problems and strategies in Small Industries in India, Yerram Raju, 2004.*

(Lace), Panipat (Cotton blankets), Sivakasi (Matches and fireworks), Agra (Foundry), Gems (Gujarat) and there are 350 such clusters. These naturally formed clusters could not, however, enter wider markets due to the absence of synergies that existed elsewhere in the world to acquire both product edge and cost competitiveness.

Effectively coordinating with the Union Ministries of Industry & Commerce and SSI, UNIDO put the Tirupur Cluster on international map firmly with quality exports jumping by more than 100 per cent during the last seven years to cross the US$11billion in the year 2003-04. Similar was the experience in Pune Food processing cluster, Jaipur (textile printing), Ludhiana, Panipat, Ambur (leather), Ahmedabad (Pharmaceuticals) and Bangalore (Machine tools). Swiss Agency for Development and Cooperation has also lent its support in the leather, pharmaceuticals and machine tool clusters. Several institutions that included export houses, common service centres, non-governmental organizations/Associations, have been revitalized and several government officials and promoting institutions have been sensitized to the initiatives. Planning Commission has included this as a major initiative in SME Development strategy and Employment – oriented strategy. Two parallel initiatives are currently on stream – one, through the Ministry of Industry and Commerce and the other through the Ministry of SSI with the DCSSI as the nodal officer. SIDBI is also playing a major role in the development of textile clusters initiated by the Textiles Committee in its countrywide effort. A little over 1000 firms have benefited from this initiative so far. Five State Governments (Andhra Pradesh, Tamilnadu, Karnataka, Madhya Pradesh and Rajasthan have adopted cluster development within the framework of their State industrial policies with UNIDO support. Numerous nation-wide support institutions joined , most prominent among them the State Bank of India, Development Commissioners--Handicrafts and Handlooms and the Chambers of Commerce. Innovative financial practices in the Consortia (Bangalore Machine tool cluster), Entrepreneurial development programme in Bagru (Jaipur), introduction of ICT in Ludhiana, building bridges of understanding between the regulators and the entrepreneurs in food processing sector in Pune on quality stipulations and legal requirements are some worthy interventions so far.

Clusters are found to have direct impact on the economic development of the region through enhancement of export potential, foreign direct investment, greater market penetration in export markets, quality standard assurance, higher income generation for SMEs, increasing employment opportunities in the cluster based services, productivity and competitiveness. The focus shifts to the capacities and capabilities of the SMEs to improve their competitiveness.

Competitiveness at the micro level is functionally related to the skills and capabilities of the persons running the enterprises and the fuller utilization of the capacities installed in the enterprises. It, however, as of now measured and benchmarked at the industry, sectoral and national level (Porter, Sachs and McArthur 2001: 21). It is also unfortunate that the data and information needed to monitor and compare the evolving capabilities and potential of the top players of SMEs in priority sectors and industries over time.[22] Such an exercise is crucial for developing an information bank on the core competencies of the Region.

[22](Ms) Thitapha Wattanapruttipaisan, Promoting SME Development: Some Issues and suggestions for Policy Consideration; Bulletin on Asia-Pacific Perspectives 2002/03, pp 57-67

c) Enhancing SME Competitiveness through Cluster Development

Box. 5: Enhancing SME Competitiveness through Cluster Development	
Nature of deficiencies in SMEs	**Remedies sought through Cluster initiative**
Individualistic and non-sharing	Awareness and Trust building interactions among the cluster participants
Lack of collective thinking	Industry Associations are associated to bring about effective ideanization and participation; networking both within and outside the cluster.
High Costs	Consortium approach in procurement of raw materials, contracts and financing; sharing of costs of common services
Low Quality	Common testing and R & D facilities; Awareness programmes on quality management; bench marking
Low Market penetration	Product innovation; product diversification; market information and market diversification strategies; and Market research
Lack of or poor brand image	Brand building; Brand imaging; cobranding; and brand management
Low capital, low debt and Poor financial management	Improved access to debt markets; Skill building in financial and accounting management; Build bridges of understanding between the financing institutions and entrepreneurs for better facilitation;
Brand building; Brand imaging; cobranding; and brand management	Innovation of new financial products to suit the specific products and markets.
Lack of Institutional supports	Institution building and building strong public-private partnership in building product specific and general infrastructure
Lack of enthusiasm and disinterested second generation entrepreneurs	Entrepreneurship Development programmes specifically designed for the cluster

The necessity for training and capacity building stems from the fact that governmental efforts to reduce poverty through direct interventions have yielded mixed results and particularly so in the SME sector. Provision of services and capital is necessary but not sufficient condition for the growth of the sector in the region. Building social capital is extremely crucial. Social capital is defined as network of associations and organizations at community levels (McGregor 1999).[23] The concept applies as much to SMEs as to the micro-enterprises.

The lower factor productivity in SMEs is attributable in large part to lack of knowledge, knowledge of latest technologies and their application as also the quality stipulations and skills. There can be no denying the fact that a plethora of training institutions exist both in the government and non-government sector for entrepreneurship promotion and skill development. But the output from these institutions remains suspect because of the ground level results. For sure, the SMEs have been providing hands-on experience and skill, which had a spread-effect in human resource development. The other important facet is that owner-driven enterprises hardly had time to devote for self-development and many a time functioned in a world of their own that led to inefficiencies and lags in factor productivity. "A healthy, educated workforce is a productive workforce."[24] Investments in human resource development and entrepreneurship are crucial for private sector development that constitutes the core of SMEs.

Nearly four to five decades of existence of a few institutions engaged in entrepreneurship promotion and development reveals that only 10 to 11 per cent of the trained persons have set up the small enterprises in the country. Most of the cottage and small industries in the rural areas in our country sprang up under traditionally inherited skills or out of livelihood protection necessity. These enterprises continue to remain distant from the type of training required in the current market environment. They hardly possess knowledge relating to maintenance of accounts, preparation of business development plans and emerging technologies. In India, Entrepreneurship Development Institute of India (Ahmedabad) promoted jointly by leading financial institutions and Government of Gujarat, National Institute for Entrepreneurship and Small Business Development, National Institute of Small Industries Extension and Training- both promoted by the Government of India, several Universities in the country with the assistance of SIDBI have ventured into entrepreneurship promotion and development. These apart, some Banks like Syndicate Bank have set up Rural Entrepreneurship Development and Training (RUDISET). Realising that these efforts are proving inadequate, Industry Associations and Chambers have come up with their own ventures within the resources available to them. Bharatiya Yuvajana Seva Trust (CII), TANSTIA-FNF, FAPSIA-APSSI Centre (A joint venture of Federation of AP Small Industries Association and Government of Andhra Pradesh) are cases in point. Leading financing institutions like the IDBI, SBI, OBC, Bank of Baroda, Punjab National Bank etc (e.g.,JNIDB, State Bank Staff College) have set up their own training networks to train their manpower in financing the SMEs through specially designed programmes on credit appraisal and risk management. However, there is no data and information on the evaluation of the programmes conducted at all these institutions in terms of the impact on the sector. The ground level perception is that there is a vast gap between what is required and what is imparted. There are a number of Consulting institutions and individual consultants who are working in this area both through institutional interactions and handholding efforts. The National Small Industries Corporation has a programme to render mentor and advisory services to the SMEs through accredited individual Consultants. Their bureaucratic delays and apologetic cost subventions make the scheme almost a non-starter in several SME-dominant States.

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[23]McGregor Allister (1999), "Micro-finance and Social Capital: A Social Resource Perspective", Paper presented at the Asia Microfinance Workshop, Action Aid, December 1999, Hyderabad.
[24]Unleashing Entrepreneurship 2004 UNDP, Geneva

Cluster and network development threw up challenges and opportunities in human resource development benefiting the SMEs. Small enterprises have come to increasingly realize that their investment in training is worth its while as they led to improving the value chain management and core competences.

Most Management schools and technology institutes in India (IIMs and IITs, Technology Universities) have their own curriculum based programmes for the SMEs though they just scratch the surface and their interaction with the SMEs is at a very low level as most of them consider that the SMEs cannot afford the salaries of their graduates at the entry point excepting the IT – related enterprises. Trainer training programmes and academia-industry interactions are interventions that deserve immediate attention of the policy makers.

The poor pick up in HRD efforts arise from (a) structural deficiencies of the enterprises and (b) high costs. The sector needs more handholding efforts through peripatetic training and consulting teams at affordable costs or at subsidized costs.

The saga of SMEs in India is a mixed bag of successes but has lessons for developing an integrative model built on cluster concept and sustainability, which is outlined here. Strategy outlined here will reduce spatial socio-economic disparities and enhances opportunities for enterprise and employment promotion.

Section - III

Sustainable Development of Rural Areas-Rural Entrepreneur Nucleus Estates (RENE)

The rural poor can be described as one of the most disadvantaged sections of the society in terms of not only their low socio-economic situation and access to information, resources and opportunities but also their degree of vulnerability to economic shocks. Vulnerability is a constant companion of the rural poor since they have precarious employment in the formal and informal sector.

Therefore, enhancing security by reducing the rural poor's vulnerability to risks and putting in place mechanisms and institutions to help them cope with adverse shocks is the key to reducing rural poverty.

i) The Unsustainability of Rural Areas

Innovative, workable, practical and functional paradigms of rural development are urgently required in the quest for sustainable rural communities- communities in which economic development is achieved in harmony with improvement in the quality of human life; and where a healthy economy supports the quality of both human and ecological systems. The majority of rural areas in India are vortices of unsustainability and social and economic distress. Communities seeking to become more sustainable must begin to view their towns and villages as living systems with solid economic foundations. Sustainable community planning in the past often did no more than add up the separate interests of stakeholders without ever achieving an integrated view of the community systems embedded in the local environment.

A new development perspective is needed, which provides fresh insights and tools for improving a community's industry, commerce, infrastructure, and household

behaviour as a whole system. The goal should be to support business competitiveness and job creation through strategies that also improve quality of life in all dimensions.

The rural-urban connect emerges from the farm sector. Several of the small farmer families utilize their farm output for conversion into ready-to-eat foods although most of them do not conform to health and hygiene standards. While the earlier DWCRA and self-help groups endeavored to empower these vulnerable groups and reasonably succeeded these have not proved to be sustainable. Another window of opportunity became available for MNCs to use these groups to take their products at least cost to rural markets while the MNCs did not make any effort to change the production pattern to suit the ever-demanding market standards.

ii) Value Addition

The potential for achieving higher levels of value addition in Indian agriculture is substantial. At present, the value addition in our agricultural sector is estimated at about 10 per cent against a level of 25-30 per cent in China and the South East Asian countries and over 75-100 per cent in some of the developed countries. The 10 per cent value addition in Indian agriculture works out to US $114 bn (V. Venkateswarlu, 2001). It has further been estimated that an increase in value addition in agriculture by 50 per cent would result in a 1 per cent growth in the country's GDP.

Increasing value addition in the production and marketing of agricultural produce, therefore, should be a major thrust of future agricultural policy. There are several links in the value chain that links production on the farm to the last retail point that reaches the consumer. The production chain and the value chain extend from the farmer's field to the retailer's shelf through a set of links that include post-harvest technologies and marketing interventions. (See Chart). Policy attention needs to focus on the weak links in the chain for agricultural production to be made competitive and cost-efficient. A story put out by the World Development Report 2003 is worthy of quote: "A typical story of fisheries development starts with the discovery of new fish stock. As fishermen make good money, more capacity rushes in. Though scarcity and wasteful competition ensue, fishermen do not coordinate management. Over time, the catch falls, first per hour of effort, then in total with individual fishermen barely breaking even. This wasteful race to exploit the resource wastes labour and capital, since fish that should have been allowed to spawn and grow are caught. Government involvement can make matters worse, if subsidies distort signals and prolong over fishing. Contrast this story – of waste and no profit – with alternatives in which the value of the resource is maximized. A cooperative of fishermen could manage a resource well if it could control its members, if its members could control their organization, and if the cooperative could control entry into the industry – all big ifs." (WDR 2003: 43)

The "ifs" can be realized through setting up institutions that respect accountable democratic processes. There is a broad realization that value addition to agriculture would take place only through agro industries and agribusinesses. The UPA Government has announced incentives for setting up agri-enterprises with support from the banks and financial institutions. All these efforts are still in embryonic stages. Failures of earlier institutional mechanisms and the tardy progress in the new initiatives, the jobless growth in agriculture and industry wherever growth occurred, reflect the need for modern management and promotional ability. RURAL ENTREPRENEUR NUCLEUS ESTATES could provide the answer.

Traders having conflicting interests with the producers provide linkages of traditional village producers to the outside world. One approach that occurred to us is the development of nucleus estates in the rural hinterlands where all the existing schemes of assistance by both the farm and small and rural industry departments have a scope to converge. Briefly the nucleus estate approach involves the development of a processing and marketing centre linked to a number of satellite producers. Basically the idea is to provide a linkage between the traditional producers, such as rice-growers to rural domestic food product manufacturers like the rice-flakes, rice condiments, pryums, etc.

The goals of the nucleus estates project can be identified as follows:

1. To link mass of the population, tied to traditional means of production, into modern commercial sector of the economy;
2. To enhance the development of traditional agriculture by linking them to broader market and technological opportunities;
3. To bridge the gap between the development of the modern and the traditional sector of the economy; and
4. To stimulate the development of entrepreneurship based on health and hygiene.

It is imperative to realize that most farmers and women in the related households can only work and aspire towards what they can see, reach and understand. The cultural climate surrounding them has been characterized by its static and restrictive nature and their inability to see beyond their nose. The project unfolds a strategy to change their mindsets not by preaching but by handholding to make them see profit in their domestic enterprises while following hygienic practices in production of the same old goods they were used to producing in a different way.

The project helps to reduce the vulnerability of the rural poor and contribute to improvement in the quality of life of the disadvantaged communities living in rural areas of States like Andhra Pradesh, Karnataka, Tamilnadu, Maharashtra, UP, West Bengal, Orissa, where crop diversity is taking roots, on a sustainable basis. By doing so, economic empowerment occurs through a workable and practical model of integrated rural development that would demonstrate best practices in community capacity building and could also influence the donors, government and other agencies for their promotion and replication. The success would depend upon the provision of necessary wherewithal within their existing domestic environs instead of shifting them to common work places. Agro-processing, therefore, assumes critical importance in this regard.

iii) Agro-processing

There are several agricultural products that can serve as raw material for the food processing industry as a wide variety of processed products can be made with their input. Rice, wheat, maize, sugarcane, soybean are some of the products that can enter into the value addition chain. Several types of Fruits and vegetables have immense potential to be processed for domestic and global markets. Growth in demand is projected for: frozen/dehydrated/

canned fruits and vegetables, Fruit juices/concentrates/pulps, Pickles, Jams, Jellies, Squashes, etc. apart from ready to eat vegetables. A significant share of consumption in developed markets – almost 60 per cent in the US - is for fruits and vegetables in processed form.

The constraints that the farmer faces in the agro-processing link of the supply/value chain are related to lack of adequate information about the possibilities of processing agricultural products, the importance of price and quality. Finance should not prove a constraint once the risks are properly addressed and insured.

iv) Proposed Intervention

As mentioned above, several by-products of agricultural crops get processed into either intermediary products or ready-to-eat products in the small farmers' households. Women produce most such items. These household production centers in the food processing industry – broadly classified as Self-employed Non-farm Enterprises – do not generally follow hygienic ways of producing, mostly because of lack of awareness. They do not have what can be called a working platform in the household.

a) In each village of a product cluster of, say, 10-15 villages, the block/mandal level Industries Extension Officers should be able to locate 20 promising households willing to go in for hygienic production given certain basic resources and training. With as little an investment as Rs.5,000/- per household, a working platform can be built within the house and hand-gloves can be supplied at regular prescribed intervals to these households. Within a short period of 3-6 months of intensive supervision and extension, such units can be houses of quality production.

b) For this cluster of 10-15 villages, a packaging unit can be established with very little investment of about Rs.5lakhs. Depending upon the quantum of production per day, a self-employed person can be commissioned for transporting the products to the nearby markets (either through a Tempo or parcel van). The same person can bring in the raw materials and packaging materials.

c) Such clusters, if they get developed in a block/mandal, say 10 to 15, then, a Brand supervisor can be employed to ensure that the standards of health and hygiene (HACCP) are appropriately taken care of. There can also be another small-scale unit for printing, labeling and computer coding. Thus, the whole food processing activity generated out of the farm produce closer to the farmstead can attain standards of excellence.

d) Since the investments required for such interventions are very minimal, it is worthwhile to consider giving them by way of subsidy, mainly because such cost cannot be recovered through price by these tiny units. The village enterprises have the potential to become global players under such a scenario.

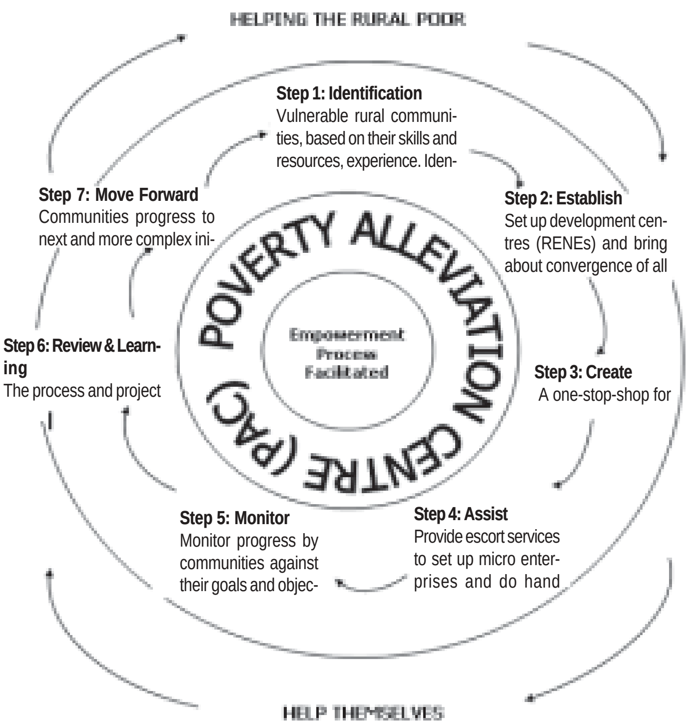
e) Packing of fruits and vegetables can be done manually or by machines. Packaging material can consist of plastic/polythene material or aluminum foils, fiberboards or cardboard material of durable quality. The objective is ease of handling in loading and transit to the destination as well as minimizing loss or damage to the horticultural produce. Coordinating with the Regional office of the Indian Institute of Packaging will be quite helpful.

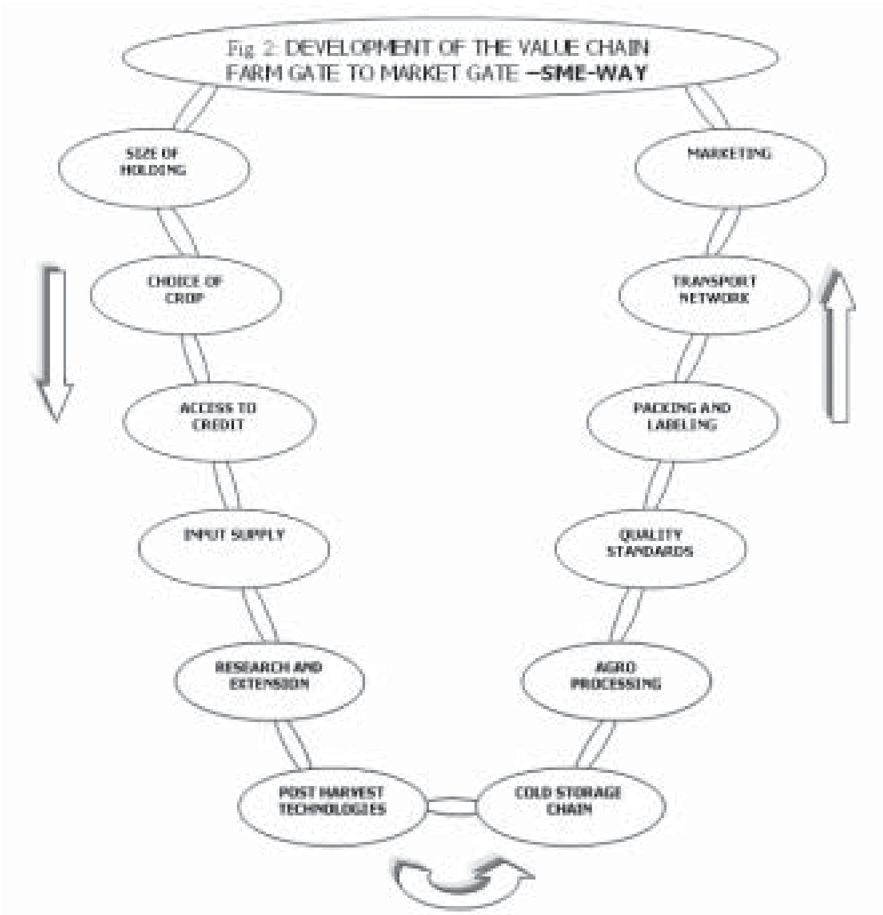
f) Labeling of several products is being made mandatory with growing concern over genetically modified organisms in the food chain and concerns about threats to the environment through certain practices (marine food production, for example). A specific WTO Agreement – the Agreement on Technical Barriers to Trade (TBT) - deals with these issues and failure to meet the requirements set could have an adverse impact on exports of farm produce. Suitable interventions in this area of Packaging & Labeling can enable household producers to cater to the needs of the market in a better way. In short, the project empowers the rural poor not through just grants or subsidies but through establishing commercial viability of their household enterprises and through capacity building. This is clearly illustrated in the charts appended.

v) Funding Pattern

The project envisages utilization of existing funding mechanisms under SGSY, PMRY, CMEY, and Employment Guarantee programmes dovetailed with the credit institutions' programmes. In effect the project aims at convergence of all the existing schemes for delivering through a single window- not as eleventh but as one. We would like to have a Special Project Vehicle for this purpose called RENE managed by a team of professional executives with ambition to work in the rural environment. I envisage the project to become self-generating and self-sustaining within a period of three years after which all the funding institutions would withdraw and the mentoring services would continue on pay-as-they-able basis by the user population. Animators of this project should be utilized for replicating this project in other regions with such modifications as the evaluation leads to.

Fig. 1: THE CYCLE OF EMPOWERMENT OF RURAL POOR





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The Rural Entrepreneur Nucleus Estates can act as focal points for convergence of all the programmes to bring about synergy between the various ongoing poverty interventions. The main objective of these centers is to provide a 'one-stop-shop' for the local user population by strengthening every link in the value chain that leads to a commercial gain.

The formulation of project Strategy would essentially follow the process shown below:

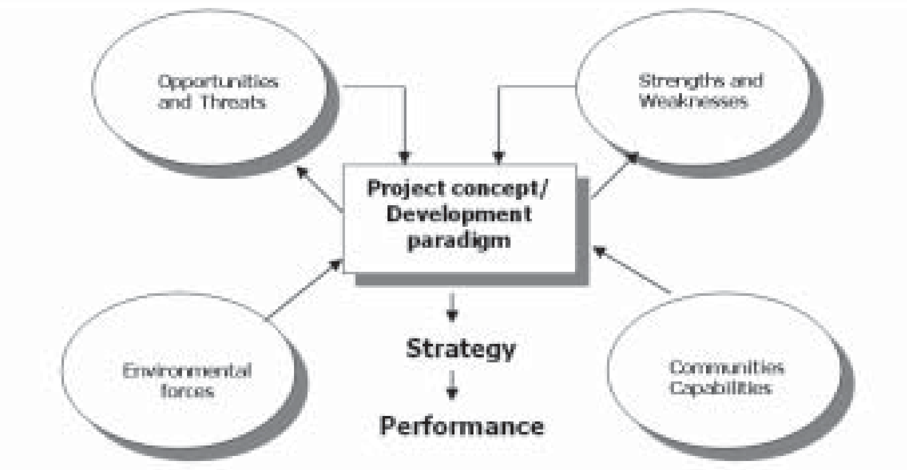


Fig. 3: Strategy

The project strategy is essentially an iterative process and will, therefore, follow the process given below:

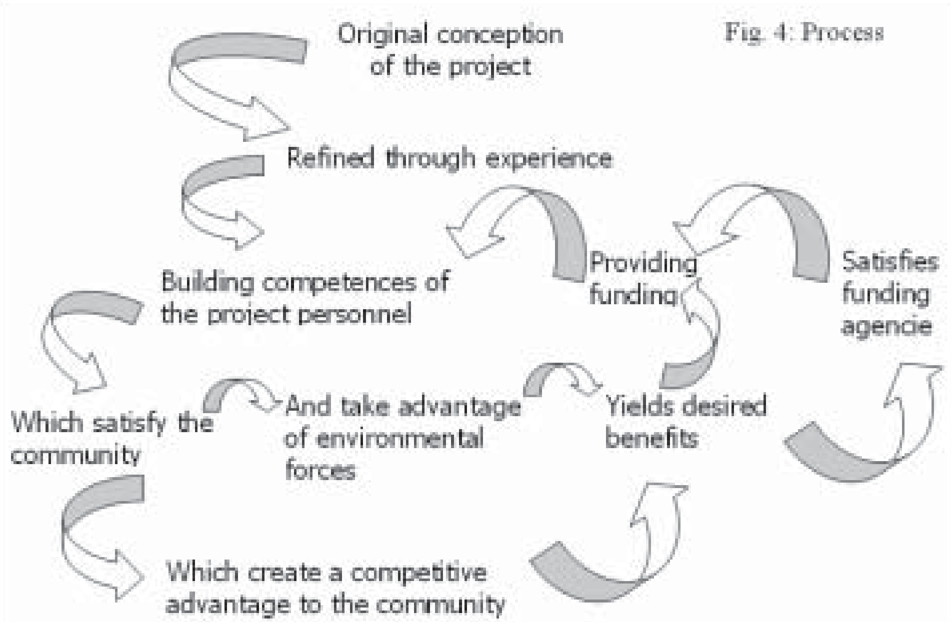
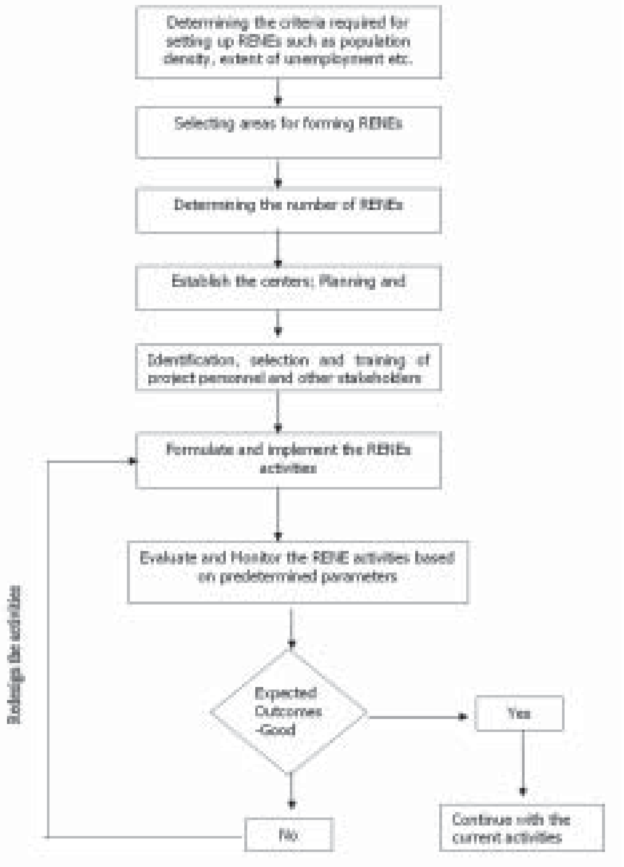


Fig. 4: Process

Institutional Framework: The overall functions of RENE are depicted below:

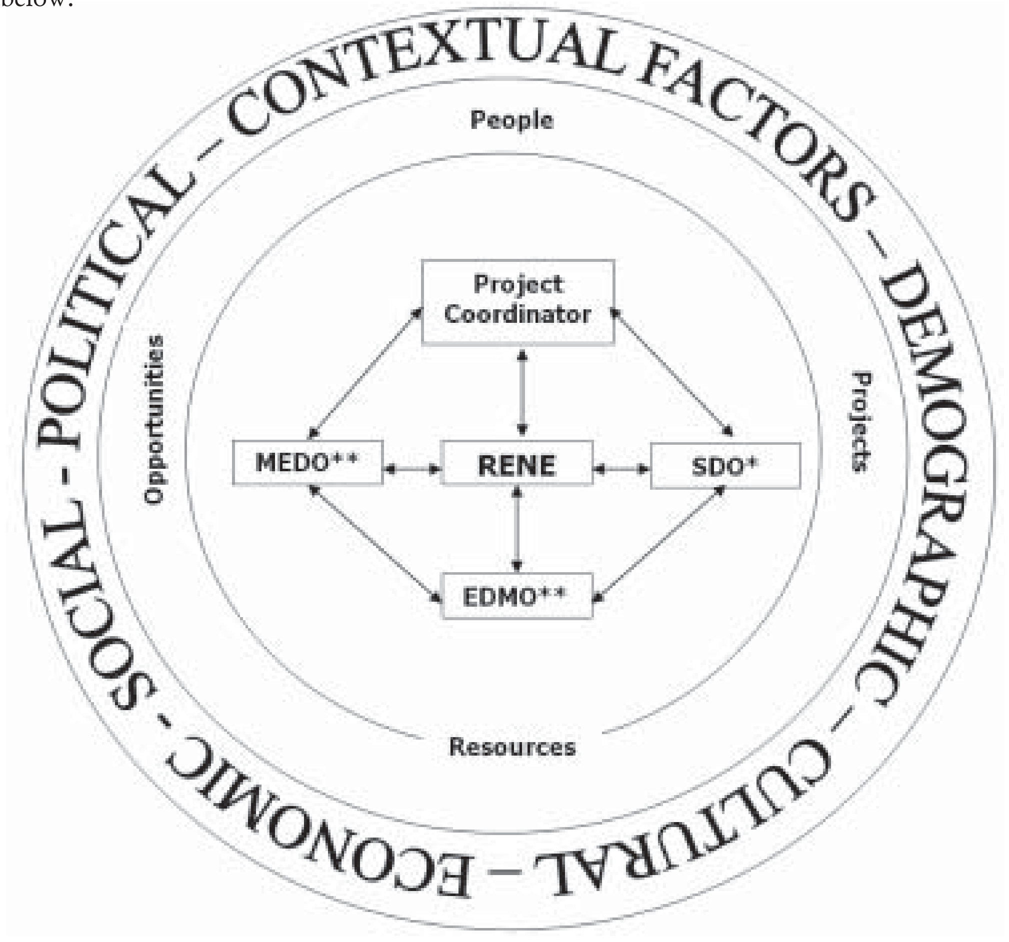
Fig. 5: Institutional Framework

Fig. 6: Flow Process for planning, formation, operationalzing and maintaining the RENEs



Contextual Framework for Operationalising and Maintaining RENEs

The contextual framework in which the RENEs will operate is illustrated in the diagram below:



* Social Development Officer

** Micro Enterprise Development Officer

*** Entrepreneurial Development and Marketing Officer

Fig. 7: Contextual Framework for Operationalising and Maintaining RENEs

The operationalzing and maintenance phase of RENEs involves setting in motion a chain of activities shown below. The cycle of empowerment of rural poor (shown above) illustrates these activities in a more holistic perspective.

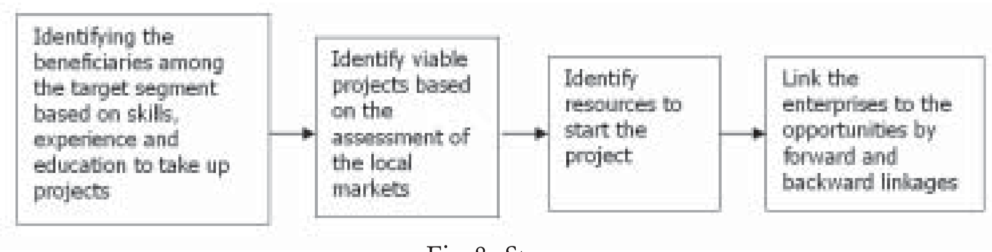


Fig. 8: Stages

The RENEs should be manned by a Project Coordinator, Social Development Officer, Micro Enterprise Development Officer and Entrepreneurial Development and Marketing Officer and supported by office staff. The second tier officials would not be appointed in the first phase. The first phase would consist of a Project Manager, Quality managers for every 10-15 households and plant personnel to run the grading, packaging and transporting unit. The tempo to transport the goods back and forth between the RENEs and the packaging units and from there to the retail Malls/Superbazars would be run by a qualified/trained tenth class self-employed person. The first task of RENE would be assessing the market potential of the local area for various products and services. This involves a comprehensive assessment of the demand and supply for such products/services. Based on this study, supply-demand gaps are identified. Project profiles to match the local demand conditions are then collected from various agencies. The next step involves identifying people among the target group with requisite skills, education and aptitude to take up these projects. RENE plays a very vital role during this stage by identifying people and providing escort services such as preparing proposals, liasoning with institutions for financial support, implementing the projects, providing forward and backward linkages (procurement and marketing tie-ups) and training the entrepreneur and project personnel. It is extremely important that bureaucrats should not man RENE. There should not be a regulatory overhang on RENE. Effective monitoring and supervision should ensure quality and accounting standards in conducting RENE.

RENE's Vision:
"Economic empowerment of the rural poor through effective value chain management."

Stage I

The first stage in developing the village level development strategy is to do a comprehensive environmental scanning to understand the social, economic, cultural and political dimensions of the local area, which will impact and influence the project implementation and outcomes. In addition to this, an overall resource audit and mapping and identifying the resource linkages will have to be carried out. Based on these assessments, micro-levels plans need to be developed for the local community. However, for such plans to have legitimacy, the active involvement of all the local and state level stakeholders is necessary. At the same time, the plans cannot simply be the "wish list" of a given community. Hence, brokering the balance between the strategic and the local issues is the core concern of the entire project.

The Four Components of Integrated Rural Development

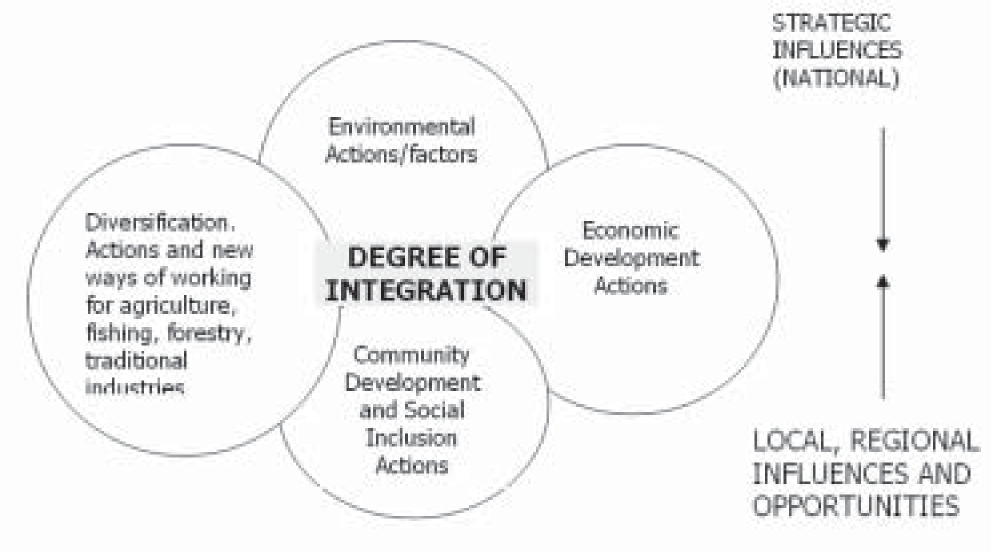


Fig. 9: The Four Components of Integrated Rural Development

Stage II

Use the local map emerging from stage I as the basis for developing a local plan in consonance with the project goals of bringing out products based on health and hygiene.

Stage III

This stage would require identification of and establishment of market linkages for the products.

Stage IV

This stage involves the application of the usual monitoring and evaluation apparatus with feedback to the local implementation group (and also to strategy group). During this phase the lesson learnt from the project will be compiled, which will then be disseminated to all the stakeholders and various funding agencies for scaling-up the project or replicating it in other places.

Monitoring the performance and evaluating the impact of this project

The objective of the entire project is to ensure sustainable reduction in rural poverty and empower the rural poor to decide their own destiny. It is imperative to measure the performance of the project and, particularly, of RENEs against some preset milestones to evaluate and monitor the impact of the RENEs. The impact of the project can be broadly measured by the:

- Performance of the project
- Impact on the rural micro enterprises and livelihood options

- Social and economic benefits from the project

The performance can be more specifically measured by using a set of tangible and intangible indicators.

The tangible indicators include:

- Number of market enterprises established
- Number of people gainfully employed
- Number of people counseled
- Number of trained under various categories, skilled, unskilled – in-house/institutional
- Number of clearance camps
- Number of networks
- Quantum of marketing tie-ups
- Number of marketing events
- Number of job works provided

The intangible indicators include:

- Social security
- Capacity building
- Single-window mechanism (utility of financial and physical)

RENE has potential to become an independent brand for several household enterprises in the rural areas manufacturing agro-based products and ready-to-eat products within the project maturity period.

Some measurable benefits to the community include:

- Economic benefits through
- Increased access to the market and linkages
- Increased access to the investment and technology
- Increased use of local resources
- Better linkage between SHG/DWACRA with RENE
- Value addition to the existing micro enterprises.

CONCLUSION:

India is a cynosure for investor's eyes both within and outside the country. UPA government's new Common Minimum Programme, National Manufacturing Competitiveness Council's draft report unleashing an agenda for attaining global competitiveness of Indian firms, the new policies giving thrust to farm and SME sectors, the enactment of NREG and Right to Information Bills, the SME Development Bill waiting to be enacted, the capital market reforms and a host of other initiatives are responsible for upgrading the country's ranking by international rating agencieslike the Moodys', Fishers' Standard & Poor etc. Implementation concerns, however, border on endemic issues like all-pervasive corruption, bureaucratic apathy to change, new regulatory institutions led not by professionals but bureaucrats of yester years (concept and not competence in question here) and the poor getting bypassed in the process. This contextual frame made me look at the mosaic of Rural India where 700mn of India's population still reside through the prism of PURA that APJ Abdul Kalam, President of India unveiled before the nation in 2004.

One of the thrust areas for policy intervention is to facilitate increase in value addition in agriculture with a view to stimulate rural employment, generate higher incomes for rural households, promote exports and, at the same time, increase the knowledge and skill base of those living in rural areas. Opening up the agricultural sector to global markets within the framework of the WTO trade regime calls for innovative strategies to face changes in consumer demand patterns, meet international quality standards, and intense competition in the market place.

Issues of enterprise, employment and efficiency are viewed as critical to the growth of the economy. A strong SME sector well integrated with the large enterprise sector on one side and micro enterprises on the other has potential to unleash the energies of 'bottom of the pyramid' enterprises and employment-oriented growth of the economy. The Rural Entrepreneurship Nucleus Estates envisaged in this article would convert pro-poor initiatives into concretized action projects resulting in a paradigm shift. They carry the prospect of reducing spatial socio-economic disparities and enhance opportunities for private enterprises, employment and development taking the economy closer to attaining the Millennium Development Goals.

The enlightened among the rulers know where the dirt and stink lie. They also know that spraying a perfume or lighting an Agarbati would not remove them. It is courage of conviction, speed of action, and expending resources where they need most subject to social audit, that would be the broad-spectrum antibiotics to the planning body politic.

Table-1: Employment and its growth in Public, organized private and SSI sectors

(In Millions)

Year	Public Sector	Organized Private Sector	SSI Sector	Growth Rate in Public Sector	Growth Rate in Organized Private Sector	Growth Rate in SSI Sector
1973-74	12.73	6.75	3.94			
1974-75	13.13	6.79	4.04	3.14	0.59	2.54
1975-76	13.63	6.79	4.59	3.81	0	13.6
1976-77	14.18	6.95	4.98	4.04	2.36	8.5
1977-78	14.73	7.11	5.4	3.88	2.3	8.43
1978-79	15.58	7.23	6.38	5.77	1.69	18.1
1979-80	15.12	7.24	6.7	-2.95	0.14	5.02
1980-81	15.48	7.4	7.1	2.38	2.21	5.97
1981-82	16.2	7.53	7.5	4.65	1.76	5.63
1982-83	16.75	7.39	7.9	3.4	-1.9	5.33
1983-84	17.22	7.36	8.42	2.81	-0.4	6.58
1984-85	17.58	7.43	9	2.09	0.95	6.89
1985-86	17.68	7.37	9.6	0.57	-0.8	6.67
1986-87	18.24	7.39	10.14	3.17	0.27	5.63
1987-88	18.32	7.39	10.7	0.44	0	5.52
1988-89	18.51	7.45	11.3	1.04	0.81	5.61
1989-90	18.77	7.58	11.96	1.4	1.74	5.84
1990-91	19.06	7.68	15.83	1.55	1.32	32.4
1991-92	19.21	7.85	16.6	0.79	2.21	4.86
1992-93	19.33	7.85	17.48	0.62	0	5.3
1993-94	19.45	7.93	18.26	0.62	1.02	4.46
1994-95	19.47	8.06	19.14	0.1	1.64	4.82
1995-96	19.43	8.51	19.79	-0.21	5.58	3.4
1996-97	19.56	8.69	20.59	0.67	2.12	4.04
1997-98	19.42	8.75	21.32	-0.72	0.69	3.55
1998-99	19.41	8.7	22.06	-0.05	-0.6	3.47
1999-00	19.31	8.65	22.91	-0.52	-0.6	3.85
2000-01	19.14	8.65	23.91	-0.88	0	4.36
2001-02	18.77	8.43	24.91	-1.93	-2.5	4.18
2002-03	18.58	8.42	26.01	-1.01	-0.1	4.42

Data Source: Hand Book of Statistics on Indian Economy, RBI. 2004-05

Table-2: Five Yearly Average of Employment in Public, Organized Private and SSI sectors

Year	Average employment in public sector	Average employment in organized private sector	Average employment in SSI sector
1973-74 - 1977-78	13.68	6.878	4.59
1978-79 – 1982-83	15.826 (15.687)	7.358 (6.978)	7.116 (55.032)
1983-84 – 1987-88	17.808 (12.523)	7.388 (0.407)	9.572 (34.513)
1988-89 – 1992-93	18.976 (6.558)	7.682 (3.979)	14.634 (52.883)
1993-94 – 1997-98	19.466 (2.582)	8.388 (9.190)	19.82 (35.438)
1998-99 – 2002-03	19.042 (-2.178)	8.57 (2.169)	23.96 (20.888)

Note: Values in the parentheses give percentage growth over previous period.

Table – 3: Average Annual Growth in GDP

	1981-2 to 1990-1	1992-3 to 2001-2	1992-3 to 2002-3	1997-8 to 2001-2	1997-8 to 2002-3
GDP	5.6	6.1	5.9	5.5	5.3
Agriculture	3.8	3.3	2.7	2.0	1.2
Industry	7.0	6.3	6.4	4.6	5.0
Service	6.7	7.8	7.8	8.1	8.0

Source: India Development Report 2004-05

Table – 4: Growth of Employment (Usual Status)

(Per cent per annum)

	Rural		Urban	
	1983-93	1993-2000	1983-93	1993-2000
Agriculture and allied	1.38	0.18	1.54	-3.40
Mining and quarrying	3.84	-2.28	4.15	-3.71
Manufacturing	2.14	1.78	2.21	1.83
Electricity, gas and water supply	4.70	-5.65	4.46	-4.19
Construction	5.18	6.43	6.20	6.26
Trade, hotels and restaurants	3.72	1.18	3.94	5.54
Transport, storage and communication	4.58	7.29	2.90	3.91
Finance, insurance real estate	5.99	2.51	5.63	7.05
Public administration, community and personal services	3.13	0.32	4.16	0.13
Total non-agriculture	3.23	2.31	3.54	2.96
All sectors	1.75	0.66	3.27	2.27

Table - 5:

Population, urban population, rural population and degree of urbanization, India 1901-2001

Census Year	Population			Degree of urbanization	
	Total	Urban	Rural	Per cent urban	Urban-rural ratio
1951	361,088,090	62,443,934	298,644,156	17.3	21
1961	439,234,771	78,936,603	360,298,168	18	22
1971	548,159,652	109,113,977	439,045,675	19.9	25
1981	683,329,097	159,462,547	523,866,550	23.3	30
1991	846,387,888	217,551,812	628,836,076	25.7	35
2001	1,027,015,247	285,354,954	741,660,293	27.8	39

Note:

1. The total population and urban population of India for the year 2001 includes estimated population of those areas of Gujarat and Himachal Pradesh where census could not be conducted due to natural calamities during the appointed period.
2. The total population and urban population of India for the year 1991 includes interpolated population of Jammu and Kashmir where 1991 Census could not be conducted.
3. The total population and urban population of India for the year 1981 includes interpolated population of Assam where 1981 Census could not be conducted.

Source: http://www.censusindia.net/results/eci14_page2.html

Box. 6:

Major Poverty Alleviation, Employment Generation and Basic Services Programmes

National Food for Work Programme

In line with the NCMP, National Food for Work Programme was launched on November 14, 2004 in 150 most backward districts of the country with the objective to intensify the generation of supplementary wage employment. The programme is open to all rural poor who are in need of wage employment and desire to do manual unskilled work. It is implemented as a 100 per cent centrally sponsored scheme and the food grains are provided to States free of cost. However, the transportation cost, handling charges and taxes on foodgrains are the responsibility of the States. The collector is the nodal officer at the district level and has the overall responsibility of planning, implementation, coordination, monitoring and supervision. For 2004-05, Rs.2020 crore have been allocated for the programme in addition to 20 lakh tones of foodgrains.

Swaranjayanti Gram Swarozgar Yojana (SGSY)

SGSY, launched in April 1999, aims at bringing the assisted poor families (Swarozgaris) above the poverty line by organizing them into Self Help Groups (SHGs) through a mix of Bank credit and Government subsidy.

Sampoorna Grameen Rozgar Yojana (SGRY)

SGRY, launched in 2001, aims at providing additional wage employment in all rural areas and thereby food

security and improve nutritional levels. The SGRY is open to all rural poor who are in need of wage employment and desire to do manual and unskilled work around the village/ habitat. The programme is implemented through the Panchayati Raj Institutions (PRIs).

Rural Housing – Indira Awaas Yojana (IAY)

The Indira Awaas Yojana (IAY) operationalised from 1999-2000 is the major scheme for construction of houses for the poor, free of cost. The Ministry of Rural Development (MORD) provides equity support to the Housing and Urban Development Corporation (HUDCO) for this purpose.

Pradhan Mantri Gramodaya Yojana (PMGY)

PMGY launched in 2000-01 envisages allocation of Additional Central Assistance (ACA) to the States and Uts for selected basic services such as primary health, primary education, rural shelter, rural drinking water, nutrition and rural electrification. For 2003-04 as well as 2004-05, the annual allocation of ACA for PMGY was Rs.2, 800 crore.

Rural Employment Generation Programme (REGP)

REGP, launched in 1995 with the objective of creating self-employment opportunities in the rural areas and small towns, is being implemented by the Khadi and Village Industries Commission (KVIC). Under REGP, entrepreneurs can establish village industries by availing of margin money assistance from the KVIC and bank loans, for projects with a maximum cost of Rs.25 lakh. Since the inception of REGP, up to 31 March 2004, 1,86,252 projects have been financed and 22.75 lakh job opportunities created. A target of creating 25 lakh new jobs has been set for the REGP during the Tenth Plan. 8.32 lakh employment opportunities have already been created during 2003-04. For 2004-05, a target of creating 5.25 lakh job opportunities has been fixed.

Prime Minister's Rozgar Yojana (PMRY)

PMRY started in 1993 with the objective of making available self-employment opportunities to the educated unemployed youth by assisting them in setting up any economically viable activity. So far, about 20 lakh units have been set up under the PMRY, creating 30.4 lakh additional employment opportunities. The targets for additional employment opportunities under the Tenth Plan and in 2004-05 are 16.50 lakh and 3.75 lakh, respectively. While the REGP is implemented in the rural areas and small towns (population up to 20,000) for setting up village industries without any cap on income, educational qualification or age of the beneficiary, PMRY is meant for educated unemployed youth with family income of up to Rs.40, 000 per annum, in both urban and rural areas, for engaging in any economically viable activity.

Pradhan Mantri Gram Sadak Yojana (PMGSY)

The PMGSY, launched in December 2000 as a 100 per cent Centrally Sponsored Scheme, aims at providing rural connectivity to unconnected habitations with population of 500 persons or more in the rural areas by the end of the Tenth Plan period. Augmenting and modernising rural roads has been included as an item of the NCMP. The programme is funded mainly from the accruals of diesel cess in the Central Road Fund. In addition, support of the multi-lateral funding agencies and the domestic financial institutions are being obtained to meet the financial requirements of the programme. Up to October, 2004, with an expenditure of Rs 7,866 crore, total length of 60,024 km. of road works has been completed. The National Rural Roads Development Agency (NRRDA), an agency of the Ministry of Rural Development registered under the Societies Registration Act, provides operational and technical support for the programme.

Drought Prone Areas Programme (DPAP), Desert Development Programme (DDP) and Integrated Wastelands Development Programme (IWDP)

DPAP, DDP and IWDP are being implemented for the development of wastelands/degraded lands. During

2004-05 allocation of Rs. 300 crore, Rs. 215 crore and Rs. 368 crore were provided for DPAP, DDP and IWDP, respectively. So far, during 2004-05, 2,550 projects covering 12.75 lakh hectares, 1,600 projects covering 8 lakh hectares and 165 projects covering 8.32 lakh hectares, have been sanctioned under DPAP, DDP and IWDP, respectively.

Antyodaya Anna Yojana (AAY)

AAY launched in December 2000 provides foodgrains at a highly subsidized rate of Rs.2.00 per kg for wheat and Rs.3.00 per kg for rice to the poor families under the Targeted Public Distribution System (TPDS). The scale of issue, which was initially 25 kg per family per month, was increased to 35 kg per family per month from April 1, 2002. The scheme initially for one crore families was expanded in June 2003 by adding another 50 lakh BPL families. During 2003-04, under the AAY, against an allocation of 45.56 lakh tonnes of foodgrains, 41.65 tonnes were lifted by the State/UT Governments. Budget 2004-05 expanded the scheme further from August 1, 2004 by adding another 50 lakh BPL families. With this increase, 2 crore families have been covered under the AAY.

Swarna Jayanti Shahari Rozgar Yojana (SJSRY)

The Urban Self Employment Programme and the Urban Wage Employment Programme are the two special components of the SJSRY, which, in December 1997, substituted for various extant programmes implemented for urban poverty alleviation. SJSRY is funded on a 75:25 basis between the Centre and the States. The expenditure during 2003-04 was Rs.103 crore. For 2004-05, the allocation is Rs.103 crore, out of which Rs.90.38 crore were utilized by December 31, 2004.

Valmiki Ambedkar Awas Yojana (VAMBAY)

The VAMBAY launched in December 2001 facilitates the construction and upgradation of dwelling units for the slum dwellers and provides a healthy and enabling urban environment through community toilets under Nirmal Bharat Abhiyan, a component of the scheme. The Central Government provides a subsidy of 50 per cent, the balance 50 per cent being arranged by the State Government. Since its inception and up to December 31, 2004, Rs. 753 crore have been released as Government of India subsidy for the construction/upgradation of 3,50,084 dwelling units and 49,312 toilet seats under the scheme. For the year 2004-05, out of the tentative Central Fund allocation of Rs.280.58 crore, up to December 31, 2004, an amount of Rs. 223.66 crore has been released covering 1,06,136 dwelling units and 20,139 toilet seats.

Notes

1. The Millennium Development Goals

1. Eradicate extreme poverty and hunger: reduce by half the proportion of people living on less than $1 a day; reduce by half the proportion of people who suffer from hunger.
2. Achieve universal primary education: ensure that all boys and girls complete a full course of primary schooling.
3. Promote gender equality and empower women: eliminate gender disparity in primary and secondary education by 2005, and at all levels of education by 2015.
4. Reduce child mortality: reduce by two-thirds the mortality rate for children under five.
5. Improve maternal health: reduce by three quarters the maternal mortality ratio
6. Combat HIV/AIDS, malaria and other diseases: halt and begin to reverse the spread of HIV/AIDS; halt and begin to reverse the incidence of malaria and other major diseases.
7. Ensure environmental sustainability: integrate the principles of sustainable development into country policies and programmes; reverse the loss of environmental resources; reduce by half the proportion of people without sustainable access to safe drinking water and basic sanitation; achieve significant improvement in the lives of at least 100 million slum dwellers by 2020
8. Develop a global partnership for development

2. ADB Report

The poor are still being left behind because of limited access to education, land, credit and infrastructure such as irrigation, roads and electricity, the bank said. Going forward, the ADB provided a number of scenarios for future poverty reduction.

In the best-case scenario, economic growth in Asia continues at the rates seen between 1999 and 2003. Extreme poverty would drop as a result, with the total number of people affected cut to 150 million by 2015, from 690 million in 2002. South Asia, however, would still be the most poverty stricken, accounting for 140 million of the total.

The worst-case scenario provides a more sobering picture. Growth in Asia would only have to dip by one percentage point below the 1999-2003 levels for the number of people living in extreme poverty to be 429 million by 2015.

The ADB report concludes that "policy makers must focus on generating high rates of sustainable growth while ensuring that at a minimum the distribution of income does not worsen to any significant degree".

"The fight against poverty in Asia will be protracted."

Source: http://news.bbc.co.uk/2/hi/business/3600762.stm

3. "Who can make their way easily in Micro Finance institutions has been nicely presented at a seminar on Micro Finance 2008 held with DFID support by the APMAS"

- Organizations with relatively large outreach & large volumes.10 out of 94 organizations have access to market finance
- Institutional Development (ID) partners are on the way to linkage but only after 3 to 4 years such linkage happens. Only 2 partners out of 16 ID POs linked to Financial market
- To majority, fund is difficult to link due to low capital adequacy, negative ROA, inefficient MIS and poor information on market & products
- Risk assessment is missing scenario. Even if it is there, allocation of fund to take care of it (by way of loan loss reserve) is seldom.
- Fund management skill is very poor when more than 2 funding sources are in the picture.
- Competent staff at accounting & operations are a boon for organisational effectiveness

Source: Friends of Women's World Banking, India - 2004

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List of Abbreviations

APMAS	: Mahila Abivruddhi Society, Andhra Pradesh
BDS	: Business Development Services
CEO	: Chief Executive Officer
CMEY	: Chief Minister Employment for Youth
DC SSI	: Development Commissioner, Small Scale Industries
DPR	: Development Policy Review (of World Bank)
DWCRA	: Development of Women and Children in Rural areas
ECGC	: Export Credit Guarantee Corporation
FDIs	: Foreign Direct Investments
FIIs	: Foreign Institutional Investors
GBS	: Gross Budgetary Support
GDP	: Gross Domestic Product
HRD	: Human Resource Development
ICT	: Information and Communication Technologies
IDBI	: Industrial Development Bank of India Limited
IIMs	: Indian Institutes of Management
IIP	: Index of Industrial Production
IITs	: Indian Institutes of Technology
IRMA	: Institute of Rural Management Anand
IT	: Information Technology
ITC	: India Tobacco Company
ITIs	: Industrial Training Institutes
JNIDB	: Jawaharlal Nehru Institute for Development Banking
MDG	: Millennium Development Goals
MNCs	: Multi-National Corporations
NCMP	: The National Common Minimum Programme
NPAs	: Non-Performing Assets
NSSO	: National Sample Survey organisation
OBC	: Oriental Bank of Commerce
PMRY	: Prime Minister's Rozgar Yojana
PURA	: Providing Urban amenities in Rural Areas
RENE	: Rural Entrepreneurship Nucleus Estates

RNFEs	: Rural Non-Farm Enterprises
RUDISET	: Rural Entrepreneurship Development and Training
SBI	: State Bank of India
SGSY	: Swaranjayanti Gram Swarozgar Yojana
SHGs	: Self Help Groups
SIDBI	: Small Industries Development Bank of India
SSIs	: Small-Scale Industries
SSSBEs	: Small-Scale Service and Business Enterprises
TIFAC	: Technology Information, Forecasting and Assessment Council
TVEs	: Town and Village Enterprises
UNIDO	: United Nations Industrial Development Organisation
UPA	: United Progressive Alliance
VC	: Venture Capital
WDR	: World Development Report