

Decentralising Institutional Support for Small-Scale Enterprises

Dr. Veer Virendra Singh

Assistant Professor, Department of Economics, J.S.Hindu P.G College Amroha, INDIA

ABSTRACT

The purpose of this paper is to review the existing state of knowledge on decentralisation as a strategy of rural development and examine empirical evidence on decentralisation efforts with particular reference to rural industries.

Keywords--- Legal dimension, informal sector, rural development

I. INTRODUCTION

In its broad sense, the word institution consists of, inter alia various policies in the form of official government statements or measures, programmes and projects, and organisational arrangements which are meant for promoting socio-economic development in any given country. Most often the policies and measures are economic and include industrial, agricultural, financial, technological and marketing instruments. There are also legal dimensions which ensure that the various institutional arrangements are implemented. However, to the extent that the various arrangements do not have impact at the grassroots, rural industries and forest-based small enterprises would be greatly handicapped. A major reason for the ineffectiveness of existing policies and measures is inadequate or total lack of decentralisation of institutional facilities.

The purpose of this paper is to review the existing state of knowledge on decentralisation as a strategy of rural development and examine empirical evidence on decentralisation efforts with particular reference to rural industries. An attempt will be made to identify factors which are crucial for decentralising facilities for forest-based industries. Finally, some conclusions will be drawn on possible lines of action.

II. OBJECTIVES OF AND PROGRESS IN DECENTRALISATION

Any decentralisation strategy must identify factors or objectives which give rise to such efforts, examine various forms of decentralisation and in what context it can take place. In countries where a decentralised development strategy has been adopted, a combination of factors has been responsible. Rondinelli

(1983) has identified at least five of such factors, namely, deficiency of central planning and management, a shift of emphasis from growth to an equity-maximisation objective in the promotion of the heterogeneous and extensive informal sector, need for expeditious action, and emphasis on principles of mass mobilisation and self-reliance.

In spite of the expressed desire of many countries to decentralise government services in general, and small-scale industry support facilities in particular, little progress has been made so far. The preliminary results of a study in progress on eighteen institutions in developing countries show the extent of decentralisation of essential services for rural industries. Our survey results show that none of the eighteen institutions have decentralised their facilities to divisional or district levels. Twelve out of eighteen institutions operate at state, regional or provincial levels without further decentralisation to rural areas. Only three of our responding institutions use some form of village level organisations (rural cooperatives, youth brigades, village councils, etc.) to promote rural industry. Not only may such organisations have a potential for facilitating a participatory role of rural entrepreneurs in the development process, they may also lead to a reduction in the cost of delivering essential services to large numbers of small rural producers.

III. PROCESSES OF DECENTRALISATION

Four major forms of decentralisation process have also been identified (Rondinelli, 1983). The first process, namely deconcentration involves shifting of workloads within the central government hierarchy to field projects. In Thailand deconcentration was achieved through the provision of special financial grants for certain projects, in Pakistan through local co-ordination of various ministerial efforts at the grassroots, in Sri Lanka through district administration and in Indonesia through provincial development planning. Delegation is the second process: it attempts to transfer functions to semi-autonomous field units like the 1970 Small Farmers' Development Agency in Malaysia. A third process of decentralisation known as devolution attempts to transfer functions to government agencies at state, provincial, district or local government level. The 1980

District Development Councils in Sri Lanka constitute an example. Finally, private non-government agencies have been used as avenues for decentralisation.

Experience from Asia shows that decentralisation has, in most cases, taken the form of deconcentration and delegation. The District Development Council (DDC) is probably the only example of devolution as a form of decentralisation in the region. However, by denying rural producers important decision-making roles, the DDC's in Sri-Lanka faced numerous problems. The use of non-governmental agencies is poorly documented and perhaps not well understood. Thus the achievement of mass mobilisation and self-reliance as a key factor in any decentralisation process is far from being realised.

Village-level organisations have been studied by Brown (1982) with regard to their role in rural industries. Two major types of village-level organisations which have the potential for promoting rural industry in developing countries, are community-based and group-based organisations. A central feature of community-based organisations is the fact that they address more fully the need for grassroots participation in order to bring about real change at the village level. Integrated community-based organisations are the most successful at achieving integration and participation at the grassroots. There is emphasis on programmes which integrate various projects, different levels of ministerial inputs and services of various organisation. Other forms of community-based-industries, Chinese brigades, and Israeli Kibbutzim; all three share the positive quality of being highly efficient, and integrated with agriculture. Another type of community-based organisation, namely village cooperatives, have been reasonably successful in promoting rural industry. A major accomplishment of such cooperatives has been their ability to reduce dependence on the exploitative tendency of middlemen. The key to their success also seems to rest on strong leadership, and high income level of the villagers to foster the purchase of shares and other activities. The ability of low income villagers to participate and benefit has not yet been demonstrated.

Group-based organisations have achieved varying degrees of success in promoting rural industry. Organisations such as cooperatives can more effectively promote rural industries if they serve as an effective two-way channel of communication between the people and the government, and if they receive the needed raw materials, have access to efficient marketing channels, and members are trained in pertinent skills. As an example, the youth brigades in Botswana have a genuine concern for financial viability. However, most brigades in Botswana (with the exception of the builder's brigade), have problems in securing a market for their products as well as defining their relationship with government. What appears crucial is to determine how village-level organisations fit into a country's development plan and how this relationship can be best utilised.

IV. HAULING LOGS - A MIXTURE OF OLD AND NEW

Approaches in rural industrialisation and decentralising services for it

In addition to the question of form of decentralisation process, a major issue that has to be addressed is the context in which services for small enterprises have to be decentralised. In many countries several approaches have been utilised for the promotion of rural industries (Chuta and Sethuraman, 1984). The problem-oriented approach tends to focus on constraints and so we have credit loan schemes, raw material banks, industrial areas, etc. The sectoral approach covers the broad spectrum of problems for small enterprises without distinguishing between specific activity types in the sector. Most small enterprise or rural industry programmes include agro-based or forest-based enterprises. A third alternative approach has been to develop rural industry within the frame-work of Community Development Programmes. An example of this approach is the Integrated Rural Development Programme. The unique characteristics of forest-based small enterprises and the relative merits of alternative processes and approaches will have to be understood before determining their appropriate mix in any decentralised and integrated efforts.

Although the Chinese model of rural industrialisation may not be transferable in its entirety to other developing countries, there are a few insights. First, maximum use of local resources is crucial. Second, promotional strategy considers important sectoral linkages which constitute a basis for future growth of the enterprise. Third, the role of the subsector (in our case, forest-based enterprises) in overall industrial development strategy should be clearly understood.

Despite the relative importance of rural industries in the development process, there are only a handful of developing countries where specialised rural industry institutions have been established. Notwithstanding their paucity in developing countries, rural industry institutions continue to face a unique and difficult task of inducing change in a rural milieu. Since the development of rural industry is part and parcel of the entire process of rural development (including agricultural development), rural industry institutions have to consider issues relating to the linkages between farm and rural non-farm activities (especially, food processing, agricultural tools and implements, etc.) while at the same time cater to the promotional needs of other non-farm rural small-scale enterprises (such as artistic and utilitarian handicrafts) which constitute productive employment in rural areas.

Since rural industrial production units have to depend on some nearby towns for marketing and other special services (such as banking, etc.), rural industry institutions have to consider problems related to the accessibility of essential services to their clients (Chuta, 1985). Decentralisation of services is essential for this. The general poverty of rural people and the presence of sectoral (farm, rural non-farm) and locational (village-town) linkages characteristic of rural industry promotion, present difficult problems which cannot be solved without the cooperation, coordination and collaboration of government ministries or departments at all levels of administration (national, provincial, district and village).

Strepping bark from *grewia mollis* - used for tying house rafters

In some countries, rural industry institutions exist alongside parallel organisations which are specifically designated to promote cottage industries, handicrafts and small enterprises. The lack of existence of rural industry institutions in most developing countries and their coexistence with parallel institutions in a few others raise questions which need to be addressed. One major issue is whether existing institutions and the services which they provide are decentralised enough at the grassroots to have the desired impact on the numerous and heterogeneous small enterprises which exist in rural areas. Furthermore, it would be important to ascertain the nature of constraints which hamper the capacity of institutions to service the needs of rural industry.

From the survey of eighteen institutions referred to earlier, responses show that the range of services needed by rural enterprises is wide. Our survey results show that technology training and management services seem to be the major areas of need. The need for credit, raw material and marketing services are also important. However, almost all the responding institutions are unanimous on the greatest obstacles encountered while delivering services to rural enterprises. Such obstacles include lack of adequate infrastructure, namely roads, electricity, transportation or vehicle and communication facilities. In two countries, Malaysia and Ecuador, a major obstacle identified is the poor receptivity of rural producers to new ideas. Gabon is the only country which points out that the lack of a well-defined rural development policy is a major obstacle in the promotion of rural industry.

In terms of suggested remedies, most institutions emphasize the need for greater decentralisation of promotional efforts at the grassroots, and general infrastructural development. But it is also clear that in some developing countries promotional efforts will have to focus on the development of innovative attitudes and profit motivation. For example, in Malaysia the adoption of innovative schemes which include training in the proper use of idle time and increased awareness of monetary values has been emphasized. These training components seem also to be crucial for Malagasy where the existence of an extreme subsistence economy is mentioned as a major obstacle in promoting rural enterprises.

Notwithstanding all this, the lack of adequate finance continues to be one of the major constraints. However, the Indian experience points to the fact that organisational and administrative problems, if not solved, can become a major obstacle in delivering services to rural enterprises.

An important question to ask is how rural industry institutions can have an impact on rural enterprises without their being located in villages. Our survey shows that all the institutions which returned completed questionnaires relied on extension mechanisms for delivering services to rural enterprises. The extension methods which proved the most effective are, first, on-the-spot individualised interaction with production units, and second, group demonstrations at

the premises of institutions. Other outreach avenues mentioned include radio, workshops, trade fairs, television and handouts, and their use varied between countries. In India for example, all such means of outreach are utilised.

Both the individualised and group-oriented extension approaches have inherent problems. While the former has been shown to be too costly and insufficient to have the desired impact on large numbers of rural enterprise, the success of the later depends on how convenient it is for rural entrepreneurs to assemble in urban-based facilities for group demonstrations.

V. IMPLEMENTATION FACTORS

Rondinelli (1983) has suggested four factors which can make for a successful implementation of any decentralisation process. First, there has to be political and administrative support. The promotion of forest-based industries should be an integral part of forestry development policy of governments. Administrative machinery should also be provided for practical implementation of policy. Lack of administrative support and coordination was a major weakness of Integrated Rural Development Programmes in Pakistan. The second important factor deals with attitudinal and cultural variables. Without mutual trust and confidence, it is inconceivable that village cooperatives and associations can succeed. The right leadership for village level organisation is a pre-requisite for successful decentralisation. Training in this regard is vital.

Third, there are organisational factors which impinge on the linkage of decentralised units with higher level authorities. This linkage is important for the effectiveness of implementing agencies at the grassroots. The nature of the linkage will of course depend on the form of the decentralisation process. The Integrated Rural Development Programme would be the link in a case of deconcentration process. Finally, there are resource factors. Without the necessary finance, skill of trainers and raw materials, decentralisation effort will be constrained. No matter how efficient field officers might be, if they cannot receive their salaries regularly, mobilise local raw materials and have access to important tools and equipment at the grassroots, the success of any process of decentralisation will be very limited.

VI. CONCLUSIONS

Table 28 summarises issues related to decentralisation and lists the main forms decentralisation can take. The need for decentralised support for forest-based small industry stems from the need to ensure distributional equity and promote self-reliant development. The pursuit of these objectives need not however, exclude goals of achieving the growth of the subsector.

Services to be decentralized should focus on technology and skill development in the context of either the problem-oriented, sectoral or community development strategies. In fact, there is no reason why

forest-based industries cannot be promoted within existing sectoral programmes.

The exact pattern of decentralisation deserves careful consideration. At the provincial level the methods of deconcentration and/or delegation can be effective. Entrepreneurs in these locations will have the requisite education, finance, and management capacity to fit into the bureaucratic system of government agencies. Thus industrial estates or common services facilities located at the district level could effectively be utilized by furniture and wood-processing enterprises. However,

at the grassroots, channels of decentralisation should include community-based organisations, village cooperatives and trade associations which allow for democratic identification of problems and solutions in the most informal manner. Thus, participation can be engendered by clear perception of benefits to be derived (Holcroft, 1984). Afforestation campaign programmes could become more effective if such efforts are tied into the activities of village-level forest-based enterprise cooperatives who can now produce their own inputs.

Table 28: Summary of issues and approaches to decentralisation

OBJECTIVE:	- Should be mass mobilisation & participation at grass-roots level; self-reliance.	
RATIONALE:	- Deficiency of central planning and management to achieve set objectives. - Lack of acquaintance with problems at grass-roots. - poor transportation and communications in rural areas.	
FORMS: Type	Description	Remarks
Deconcentration	Central control through district/provincial administration	- economic - but ineffective form of remote control - unduly beaurocratic
Delegation	Semi-autonomous field units (integrated rural development project)	- beaurocratic bottlenecks - takes over decision-making role of small producers
Devolution	Transfer of functions to government at local level (e.g. District Development Council)	- beaurocratic bottlenecks - Takes over decision-making role of small producers
Non-Governmental Organisations (NGOs)	Includes village-level group - and community-based organisations (cooperatives, associations)	- the only form aimed at achieving objectives of decentralisation - cost-effective
SUITABILITY OF FORMS OF DECENTRALISATION:		
- The NGO forms are most suitable for promoting rural-based cottage & handicraft activities		
- Delegation forms are suitable for promoting small workshop/factory types of enterprises via autonomous units such as rural technology centres, industrial development centres, etc.		
- The effectiveness of deconcentration and devolution forms is questionable		
ISSUES:		
1. How to decentralise without caking away the decision-making role of small manufacturers.		
2. What criteria to use for determining the superiority and appropriateness of any decentralisation process.		
3. What costs and benefits are associated with centralised promotional effects versus decentralised ones.		
4. Whether FB-SSEs can be effectively promoted within existing framework of rural industrialisation/small industry programmes.		

It is conceivable that processes of deconcentration and delegation could incorporate the use of government agencies in delivering the needed service at the grassroots. This can be achieved through the medium of efficient on-the-spot extension mechanisms.

No decentralisation process which ignores infrastructural development can succeed (Lele, 1975). Since products of rural sawmills must reach secondary forest-based industries located in small and large towns, provision of necessary access roads is important. Infrastructural development will also reduce input prices and therefore prices of finished products. Other factors,

administrative, organisational, cultural and resource-wise, which affect the implementation of any decentralisation programmes should also be addressed. The need to establish regional centres for economical production of equipment and execution of training programmes needed at the grassroots should be given serious consideration.

REEFERENCES

- [1] Brown, R., 1982 "Village-level Organisations which have potential for rural industry promotion," Geneva, ILO, (Mimeographed).
- [2] Chuta, E., 1977 "A Linear Programming Analysis of Small-Scale industries in Sierra Leone," an unpublished Ph.D. thesis, Michigan State University.
- [3] Chuta, E. and S.V. Sethuraman., 1984 "Rural Small-Scale Industries and Employment in Africa and Asia," Geneva, 120, 144-149.
- [4] Chuta, E., 1985 "The role of rural industry institutions in developing countries", in Public Administration and Development, Vol. 5, No. 4, pp. 363-372.
- [5] FAO., 1985 "The contribution of small-scale forest-based processing enterprises to rural non-farm employment and income in selected developing countries," Rome.
- [6] Freeman, D.B. and Glen B. Norchiffe., 1985 "Rural Enterprise in Kenya", The University of Chicago, pp. 109-128.
- [7] Holdcroft, Lane E., 1985 "The rise and fall of community development, 1950-65: A critical assessment" in Carl K. Eicher and John M. Staatz (eds.), "Agricultural Development in the Third World," The Johns Hopkins University Press, Baltimore, pp. 46-58.
- [8] Lele, Uma., 1975 "The Design of Rural Development," The Johns Hopkins University Press, London, pp. 143-161.
- [9] Rondinelli, D.D., 1983 "Implementing Decentralisation Programmes in Asia: A comparative Analysis" in Public Administration and Development, Vol. 3, No. 3, pp. 181-208.