

Development of Village industries in PR

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1. Introduction

Panchayati Raj Institutions (PRIs) are the system of rural local self-governance in India and are very important in fostering economic development at the local level. The concept of Panchayati Raj is based on the principle of democratic decentralization, which means that there is decentralization of power from the central and state governments to the local bodies, enabling the people at the local level to participate directly in the governance and development activities. The PRIs are the third tier of the Indian government and are responsible for planning and implementing various development activities in rural India, including the development of village industries.¹

The modern form of Panchayati Raj was given constitutional sanction through the 73rd Constitutional Amendment Act, 1992, which inserted Part IX to the Constitution of India and provided a three-tier system of Gram Panchayat at the village level, Panchayat Samiti at the block level, and Zila Parishad at the district level. The amendment has also provided the Eleventh Schedule, which includes 29 subjects to be dealt with by the Panchayats, such as agriculture, rural development, small-scale industries, poverty alleviation programs, etc., thus giving constitutional sanction to the role of local institutions in rural economic planning, which would help in the development of village industries.²

Village industries are those small-scale and traditional industries that are located in rural areas and are beneficial in creating employment opportunities in villages. The various activities included in village industries are handloom weaving, handicrafts, khadi production, food processing, pottery, carpentry, and other agro-based industries. As per the Khadi and Village Industries Commission Act, 1956³, “village industries are those industries which are located in rural areas and require limited capital investment per worker.” These industries are very important in creating employment opportunities in villages and preventing migration to cities.

The development of the village industries has always been regarded as an important aspect of the rural development policy of India. Mahatma Gandhi was a strong advocate of the development of khadi and cottage industries to achieve the ideals of self-reliance and economic independence of the villages. In the post-independence period, the Government of India has established organizations like the Khadi and Village Industries Commission to promote rural industries, offer financial support, and provide employment opportunities to the rural populace.

¹ S.R. Maheshwari, Local Government in India (Lakshmi Narain Agarwal, 2018).

² 73rd Amendment of Panchayati Raj in India, <https://secforuts.mha.gov.in/73rd-amendment-of-panchayati-raj-in-india> (last visited Mar. 3, 2026, 10:42 AM).

³ The Khadi and Village Industries Commission Act, 1956.

Panchayati Raj Institutions have a major role in this regard because they are more close to the rural population and can better comprehend the needs of the rural population than the higher government. The planning and implementation of development programs and the supervision of development schemes can help in the promotion of village industries, infrastructure development, and the generation of self-employment opportunities for the rural population through the participation of the Gram Sabhas in the meetings of the Gram Sabhas.⁴

The importance of rural industries has increased further in recent years because these industries can play a significant role in the generation of employment opportunities, the development of regional balance, and the promotion of sustainable development. Therefore, the development of rural industries can become the mainstay for the development of the rural population through the support of the Panchayati Raj Institutions. Hence, the study of the role of PRIs in the development of rural industries becomes essential in this regard.

Historical Development of Panchayati Raj and Rural Industrialization in India

The concept of local self-government is nothing new in the Indian context. The concept of local self-government may be traced to the ancient period when the villages were self-contained. In the ancient Indian system of government, the villages were autonomous units. The villagers were governed by the Panchayats, which were the councils of elders. The Panchayats looked after the law and order situation, the use of natural resources, the settlement of disputes, and the regulation of the local economic activities.

The local economic activities of the villagers were based on agriculture, small-scale industries like weaving, pottery, metalwork, oil pressing, and carpentry. The small-scale industries played an important role in the development of self-contained villages. According to B. L. Fadia, Indian Government and Politics, the system of local government in ancient India was based on the concept of local autonomy, and the economic activities of the villagers were organized at the local level.⁵

However, during the medieval period, this system of self-governance in the villages continued, although its effectiveness varied from region to region. The local bodies were in control of the various activities in the villages, including the production and trade of the goods produced in the villages. But during the British colonial period, the traditional system of villages became weaker.⁶ The Zamindari and Ryotwari systems of the British colonial government affected the traditional system of the villages in India. The main aim of the colonial government was to collect revenue from the Indian territories and not for the development of the villages. This resulted in the decline of the traditional industries in the villages.

It has been observed that after the attainment of independence, the leaders of India were aware of the need for the development of rural administration and the promotion of rural industries for the economic development of the nation. Mahatma Gandhi was of the strong view that India lives in its villages and that the development of cottage and village industries was essential for the attainment of self-reliance in the nation. He also believed in the promotion of Khadi and handicrafts and other small-scale industries for the

⁴ Article on Panchayati Raj Institutions, <https://ilkogretim-online.org/index.php/pub/article/download/8166/7776/15547> (last visited Mar. 5, 2026, 8:15 PM).

⁵ Economic History of India written by R.C. Dutt.

⁶ K.K. Singh, Panchayati Raj and Rural Development in India (Anmol Publications, 2017).

employment of the rural population of the nation. Inspired by the views of Mahatma Gandhi, the Government of India initiated several policies for the development of decentralized administration and rural industries in the nation. The Community Development Programme initiated in 1952 was the first step taken for the development of rural infrastructure and industries in the nation. It has been observed that the desired success was not attained in this regard because the local population had very little participation in the decision-making process.

To make the system better, the Government constituted the Balwant Rai Mehta Committee in 1957 to look into the working of the Community Development Programme. The committee proposed the establishment of a three-tier Panchayati Raj system to ensure democratic decentralization and the active involvement of the local population in the development programs. The committee proposed the establishment of Gram Panchayat at the village level, Panchayat Samiti at the block level, and Zila Parishad at the district level. This led to the introduction of Panchayati Raj in the states, starting with Rajasthan in 1959.⁷

Later on, the Ashok Mehta Committee was constituted in 1978 to examine the functioning of Panchayati Raj Institutions and suggested that greater powers be given to local bodies, elections be held regularly, and greater financial support be given to Panchayati Raj Institutions. The committee also suggested that Panchayats be actively involved in the promotion of rural development schemes because Panchayats know the needs of the people of the villages better than a centralized government.⁸

The most significant step in the history of Panchayati Raj was taken when the 73rd Constitutional Amendment Act of 1992 was enacted, which provided constitutional status to Panchayati Raj Institutions and entrusted them with the task of planning and executing rural development programmes. This amendment has provided greater opportunities for developing village industries. With the involvement of Panchayats, rural industrialization has been more organized. Various schemes initiated by the government have been implemented in villages.

The historical development of Panchayati Raj and rural industrialization has revealed that local self-government and village industries are closely linked. From ancient self-sufficient villages to the modern constitutional scheme of Panchayati Raj, the objective has been the same—to achieve rural development with local participation and to promote small-scale industries.

Constitutional and Legal Framework for PRI in Development of Village Industries

The promotion of village industries through Panchayati Raj Institutions has a robust constitutional and legal backing in the country. It was realized in the country after independence that the promotion of rural development was not possible without decentralization of power and the involvement of local people. In this regard, the Indian Constitution was amended to provide legal backing to local self-governments to make them responsible for economic development, including the promotion of village industries.

The most important step in this regard has been the introduction of the 73rd Constitutional Amendment Act of 1992, which accorded constitutional status to Panchayati Raj Institutions and added Part IX

⁷ Balwant Rai Mehta Committee, <https://panchayat.gov.in/balwant-rai-mehta-committee> (last visited Mar. 2, 2026, 6:05 PM).

⁸ Panchayati Raj, Government of India Portal, <https://www.india.gov.in/topics/rural/panchayati-raj> (last visited Mar. 4, 2026, 11:30 AM).

(Articles 243 to 243-O⁹) to the Constitution of India. This amendment has made it compulsory for all the states in the Indian Union to have a three-tier Panchayati Raj system at the local level consisting of Gram Panchayat, Panchayat Samiti, and Zila Parishad. It has also provided for the conduct of regular elections in these institutions and the reservation of seats for Scheduled Castes, Scheduled Tribes, and women in the Panchayat institutions at all the three tiers and the setting up of State Finance Commissions for the improvement of the financial position of Panchayats.¹⁰

One of the very important features of the 73rd Amendment is the Eleventh Schedule, which includes 29 subjects to be entrusted to the Panchayats. The subjects include agriculture, rural housing, poverty alleviation, small-scale industries, khadi, village, and cottage industries; animal husbandry; fisheries; rural electrification, etc. The inclusion of small-scale and village industries in the Eleventh Schedule clearly indicates the direct role to be played by the Panchayati Raj Institutions in the rural industrialization process.¹¹ The Panchayats can prepare local plans to provide employment opportunities to the rural populace by promoting the development of village industries.

In addition to these provisions, a number of other laws and policies have been framed to encourage village industries in villages. One of the most important laws is the Khadi and Village Industries Commission Act, 1956. This law established a body called the Khadi and Village Industries Commission (KVIC). The main objective of this law is to promote, organize, and develop khadi and village industries in villages and provide employment to people in villages. KVIC works in close coordination with state governments and Panchayati Raj institutions to promote and organize khadi and village industries.¹² Village industries are defined as industries that are set up in villages and have a low capital investment per worker.

Another significant legal development in the sphere of rural industries is the Micro, Small and Medium Enterprises Development Act, 2006, which offers support to small-scale and village industries by promoting credit facilities, skill development, and marketing¹³. The Panchayati Raj Institutions are helpful in identifying the beneficiaries of such policies and implementing the policies at the village level. By working in coordination with the district authorities and development agencies, the Panchayati Raj Institutions ensure that the rural population derives the benefits of such laws and policies.¹⁴

Besides the aforementioned laws, various rural development policies are implemented through the Panchayati Raj Institutions with the guidance of the Ministry of Rural Development. The policies concerning self-employment, skill development, and infrastructure development are useful in creating an environment conducive to the development of village industries. The involvement of the Panchayati Raj Institutions in preparing plans, identifying the beneficiaries, and implementing the policies makes the system of decentralized governance effective.

The constitutional and legal framework also indicates that Panchayati Raj Institutions are not only administrative bodies but also economic development agencies. The Constitution, by granting powers to

⁹ INDIA CONST. arts. 243–243O.

¹⁰ 73rd Constitutional Amendment Act, <https://www.india.gov.in/my-government/constitution-india/amendments/constitution-india-seventy-third-amendment-act-1992> (last visited Mar. 6, 2026, 9:12 PM).

¹¹ Eleventh Schedule, <https://panchayat.gov.in/eleventh-schedule> (last visited Mar. 1, 2026, 7:55 PM).

¹² KVIC Act, <https://www.kvic.gov.in/kvicres/aboutus/act.jsp> (last visited Mar. 8, 2026, 2:40 PM).

¹³ MSME Act 2006, <https://msme.gov.in/msme-act-2006> (last visited Mar. 7, 2026, 4:18 PM).

¹⁴ Ministry of Rural Development, <https://rural.nic.in> (last visited Mar. 9, 2026, 5:02 PM).

PRIs in planning, implementing, and supervising rural programs, ensures that village industries receive adequate support from the grassroots level. The legal backing to Panchayati Raj Institutions and their participation from the grassroots level also make them an important instrument for the growth of village industries and self-reliance in India.

Role of Panchayati Raj Institutions in Promotion of Village Industries

Panchayati Raj Institutions have a major role to play in the promotion and development of village industries because they are at the grassroots level and are closely associated with the people in the village. The real objective of decentralization is not only administrative efficiency, but economic development is also an important aspect. Village industries form a part of economic development¹⁵. As Panchayats are aware of the needs of the people, the availability of resources, and the employment pattern, they can do better in the promotion of small, cottage, and agro-based industries in the village.¹⁶ The Constitution has entrusted the Panchayats with the work of rural development, khadi, village and cottage industries, poverty alleviation, through the Eleventh Schedule.

One of the most important roles of Panchayati Raj Institutions in the development of village industries is local planning. The Gram Panchayats prepare plans for development according to the requirements of the village. The plans may include the establishment of small-scale industries, providing land for workshops, developing the roads, providing electricity, water supply, etc. The involvement of the Gram Sabha is ensured to take the decisions with the consent of the villagers. This would make the development programs more effective. The Ministry of Panchayati Raj has stressed the importance of decentralized planning to provide employment opportunities to the rural masses.¹⁷

Panchayati Raj Institutions have a major role to play in the implementation of government schemes related to village industries and self-employment. Schemes such as the Prime Minister's Employment Generation Programme, National Rural Livelihood Mission, and Khadi and Village Industries Commission come under the aegis of Panchayati Raj Institutions. In such a way, the government ensures the proper implementation of the schemes through the help of local bodies to reach the rural population.¹⁸

Another important role played by Panchayati Raj Institutions is the promotion of traditional industries. In India, there are many traditional industries in the rural areas. For example, in many districts of India, weaving is a traditional occupation. In the same way, pottery, handicrafts, food processing, leather work, and carpentry are the traditional industries of rural India. In such a way, the local bodies help the rural population to sell their products through the help of rural fairs. In such a way, the rural population increases their earnings through the help of local bodies. The Ministry of Micro, Small, and Medium Enterprises has realized the importance of local bodies in the implementation of rural industrial development programmes.¹⁹

¹⁵ A.K. Singh, "Role of Panchayati Raj Institutions in Rural Development," *Indian Journal of Public Administration* Vol. 58, No. 3 (2012).

¹⁶ Eleventh Schedule, <https://panchayat.gov.in/eleventh-schedule> (last visited Mar. 3, 2026, 1:25 PM).

¹⁷ Ministry of Panchayati Raj, <https://panchayat.gov.in> (last visited Mar. 2, 2026, 9:48 AM).

¹⁸ DAY-NRLM Portal, <https://aajeevika.gov.in> (last visited Mar. 10, 2026, 6:10 PM).

¹⁹ MSME Ministry Portal, <https://msme.gov.in> (last visited Mar. 5, 2026, 12:33 PM).

Panchayats are also instrumental in the generation of employment and the eradication of poverty by encouraging the development of small industries. Village industries require less capital, and a large number of people, including women, are employed in these industries. Hence, if the Panchayats are encouraged to develop these industries, migration of people from the villages will decrease, and the stability of the rural economy will increase.

The importance of the role of the Panchayati Raj Institutions has been recognized by the judiciary through several judgments passed by the courts. In the case of *Kishan Singh Tomar v. Municipal Corporation of the City of Ahmedabad*,²⁰ the Supreme Court held that the local self-government institutions are a vital part of the democratic structure of the Constitution, and it is a must to hold regular elections to these institutions for the efficient governance of the country. This has given a boost to the development of local bodies, including the Panchayats, which are responsible for implementing the development programs at the village level.

In another significant case, *State of U.P. v. Pradhan Sangh Kshetra Samiti*²¹, the Supreme Court made an observation regarding Panchayati Raj Institutions that these institutions are to bring democratic decentralization to the people and to directly involve them in the process of development. The Supreme Court also emphasized that these institutions should be provided with sufficient powers to enable them to discharge their duties effectively. This decision was also in favor of the proposition that Panchayats should take an active part in rural planning and development activities such as village industries.

Likewise, in *Bhanumati v. State of Uttar Pradesh*²², the Supreme Court reiterated that “Panchayati Raj Institutions are constitutional bodies created to ensure participation of people in governance and development.” The Court further observed that “decentralisation is a strengthening feature of democracy and is helpful for proper administration of welfare programmes.” Such observations of the Supreme Court are indirect support to the role of Panchayats in economic activities, including village industries.

Thus, we find that Panchayati Raj Institutions play an important role as a link between the government and the rural people. Through planning, implementation of schemes, encouragement of traditional skills, and proper utilisation of local resources, PRIs can play a significant role in the development of village industries. With legal support and active participation of villagers, Panchayats can become powerful institutions for rural industrial growth.

Government Schemes and Challenges in Development of Village Industries through Panchayati Raj Institutions

The connection of the development of village industries in India with various government schemes is through the implementation of such schemes through the Panchayati Raj Institutions. As the Panchayats are at the grassroots level, they have a major role to play in the proper implementation of the government’s rural development programmes. The Government of India has launched several schemes to provide self-

²⁰ *Kishan Singh Tomar v. Municipal Corporation of Ahmedabad*, Appeal (Civil) 5756 of 2005 (India).

²¹ *State of U.P. v. Pradhan Sangh Kshetra Samiti*, AIR 1995 SC 1512.

²² *Bhanumati v. State of Uttar Pradesh*, AIR 2010 SC 3796.

employment to the rural population through the promotion of village industries. Panchayati Raj Institutions have played an important role as a link between the government and the rural population in the proper implementation of such government schemes.²³

One of the major government schemes to promote village industries is the Prime Minister's Employment Generation Programme, which is implemented by the Ministry of Micro, Small, and Medium Enterprises with the assistance of the Khadi and Village Industries Commission, State Khadi Boards, and the District Authorities. The major objective of the Prime Minister's Employment Generation Programme is to provide employment opportunities to the rural/urban population through the establishment of micro-enterprises.²⁴

Another significant programme is the Deendayal Antyodaya Yojana – National Rural Livelihood Mission (DAY-NRLM), which aims at promoting self-help groups and motivating rural people, particularly women, to establish small businesses and industries. The Gram Panchayats are assisting in the formation of self-help groups and motivating people to establish small businesses and industries. Under this scheme, many rural people are able to establish small-scale industries such as food processing units, handicrafts, tailoring, and dairy businesses.

The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), 2005²⁵, also indirectly supports the development of village industries by creating employment and infrastructure such as roads, ponds, storage facilities, and work sheds in rural areas. These facilities are useful to rural entrepreneurs in establishing and running small-scale industries in an effective manner. The Gram Panchayats are mainly responsible for implementing the MGNREGA scheme in the rural areas, making it an important institution in strengthening the rural economy.

In addition, the Khadi and Village Industries Commission Act, 1956²⁶, provides support to the promotion of khadi, handicrafts, and other village industries. There is cooperation between the Panchayats and the KVIC to find suitable areas where village industries can be established. In addition, the KVIC provides training and financial assistance to the villagers. Hence, the development programs are suitable to the local needs.²⁷

It is evident that there are a number of schemes to promote village industries. However, the development of village industries through the Panchayati Raj Institutions has several problems. First, there is a scarcity of financial resources at the Panchayati level. Most of the Panchayats rely on the grants provided by the state and central governments. Hence, it becomes difficult to start their own development programs. There is a scarcity of technical knowledge, which has a major impact on the growth of village industries. In addition, there is a scarcity of training facilities. In some instances, there is a scarcity of coordination between the government departments.

²³ PMEGP Portal, <https://www.kvic.gov.in/kvices/pmegpeportal/pmegphome/index.jsp> (last visited Mar. 6, 2026, 3:27 PM).

²⁴ R. Radhakrishna, "Rural Industrialization and Employment in India," *Indian Journal of Labour Economics* Vol. 47 (2004).

²⁵ The Mahatma Gandhi National Rural Employment Guarantee Act, 2005.

²⁶ The Khadi and Village Industries Commission Act, 1956.

²⁷ Khadi and Village Industries Commission Act Portal, <https://www.kvic.gov.in/kvices/aboutus/act.jsp> (last visited Mar. 4, 2026, 8:22 PM).

The importance of strengthening Panchayati Raj Institutions for proper rural development has been emphasized in various judicial pronouncements. In *Rajendra Singh Rana v. Swami Prasad Maurya*²⁸, the Supreme Court has laid emphasis on the proper functioning of democratic institutions at the grassroots level to ensure proper governance under the constitutional scheme. The proper functioning of Panchayats is essential to ensure proper implementation of development schemes, including those related to rural industries.

In *Union of India v. R.C. Jain*²⁹, the Supreme Court has emphasized the importance of local institutions to discharge various functions to render services to the people. The importance of local institutions has been recognized to discharge various functions to render services to the people. This includes local-level economic development programs, which is relevant to village industries.

Another noteworthy observation was made in *Bhanumati v. State of Uttar Pradesh*³⁰, wherein it was stated that Panchayati Raj Institutions are established to ensure participation of people in governance and development. Strong local bodies are required to ensure successful execution of welfare and development schemes. This observation also indicates that rural industrialization is successful when Panchayats are given due authority and power.

Government schemes help to provide opportunities to develop village industries, and their success depends on the efficiency of Panchayati Raj Institutions. Financial strength, better training facilities, and coordination can help Panchayati Raj Institutions play a more effective role in promoting rural industries and providing employment.

Conclusion and Suggestions

The development of village industries through Panchayati Raj Institutions is an important step towards the achievement of self-reliance in the villages of India along with economic growth and regional balanced development. Panchayati Raj Institutions, as constitutional bodies constituted in the country through the 73rd Constitutional Amendment, have been entrusted with the responsibility to plan and implement economic development and social justice in the country. As the development of village industries demands local resources and local skills along with local participation, Panchayati Raj Institutions can be the most appropriate bodies to develop village industries effectively in the country. The inclusion of village and cottage industries in the Eleventh Schedule of the Constitution is clear proof that rural industrialization is an important function of Panchayati Raj Institutions.

Government schemes such as PMEGP, NRLM, MGNREGA, and other schemes through the Khadi and Village Industrial Commission have provided opportunities for employment and entrepreneurship in the rural areas, and the success of these schemes depends upon the proper functioning of Panchayats. The lack of financial resources, technical knowledge, and infrastructure in many areas has hindered the

²⁸Rajendra Singh Rana v. Swami Prasad Maurya, AIR 2007 SCW 1455.

²⁹ Union of India v. R.C. Jain, AIR 1981 SC 951.

³⁰ Bhanumati v. State of Uttar Pradesh, AIR 2010 SC 3796.

development of village industries. Hence, the development of Panchayati Raj Institutions is essential for the achievement of decentralized development in the real sense.

For better development of village industries, more financial powers should be vested in Panchayats so that they can prepare and implement local development plans without any further delay. Training programs should also be arranged to enhance the technical and managerial capabilities of villagers. Special emphasis should also be laid on training women and youth to enable them to take part in small-scale industries. Also, coordination between Panchayats, government agencies, and financial institutions is required to ensure that the benefits of development plans reach the actual beneficiaries. If Panchayat Raj Institutions are made efficient, village industries can become a powerful weapon to eradicate poverty, create more employment opportunities, and achieve sustainable development in India.

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