© June 2026| IJIRT | Volume 13 Issue 1 | ISSN: 2349-6002

Can Economic Growth in Rural and Under-Developed Areas Truly Be Called Progress?

A Critical Analysis of RICM and FLEEM Implementation in Rural India Under SFURTI (Scheme for Fund for Regeneration of Traditional Industries

Hridhaan Bahety
Student Research

Guiding Question
Can economic growth truly be called progress if millions still lack dignity, security, and equal opportunity? Are models like the RICM (Rural Industrial Cluster Model) and FLEEM (Formalized Local Enterprise Economy Model) actually creating a more humane and inclusive economy for all? This research examines issues in current implementations of these models across several Indian states, where pre-existing systemic problems override solutions and tamper with outcomes, directly influencing millions of rurally linked civilians and making implementation effectiveness minimal.

I. DEFINITIONS

Rural Industrial Cluster Model (RICM): A development approach concentrating small-scale, interconnected enterprises in specific rural areas to share resources, knowledge, and infrastructure, boosting local competitiveness, productivity, and innovation.

Formalized Local Enterprise Economy Model (FLEEM): The structured process of transitioning businesses from the informal sector (unregistered, unregulated) to the formal sector (registered, tax-compliant, legal) to drive local economic growth.

II. INTRODUCTION

The basic incentive of the government was to bring light to micro businesses and local economies. However, even after relentless measures, even the most basic privileges for these humans fail to reach them. This is primarily caused by several influencing factors still being prominent in the rural division.

III. ARGUMENTS: SYSTEMIC IMPLEMENTATION FAILURES

1. Systemic Rural Infrastructure Failure and the Persistence of Digital Inequality

Many rural enterprise clusters still function with poor roads, unstable electricity, weak internet access, and outdated technology. While policies promise "Digital India," large sections of rural producers remain digitally invisible. Development often reaches election speeches faster than it reaches villages, leaving artisans disconnected from wider markets and modern opportunities.

2. Institutional Failure in Providing Credit Access and Fair Market Participation

Small businesses and artisans continue struggling for loans, market exposure, and financial security due to excessive paperwork, weak banking outreach, and poor awareness of schemes. Ironically, the people producing economic value often earn the least from it, while intermediaries profit the most. Formal support systems exist largely on paper, not in practice. When loans are not available for the very people who support our economy, we are directly ensuring their liability to loan sharks and other illegal measures. According to a 2023 study conducted by The Times of India, about one-third of rural households still rely on non-institutional sources for credit, and moneylenders account for roughly 23% of all rural loans.

3. Administrative Inefficiency and Politicization of Rural Development Schemes

Many rural development schemes are slowed by administrative delays, understaffed departments, and political interference. Funds are frequently directed where visibility is highest rather than where need is greatest. After all, ribbon-cutting ceremonies appear far more attractive than long-term grassroots reform.

4. Continued Informalization of Labor and Unequal Distribution of Economic Benefits

Despite promises of formalization, many rural workers still face low wages, unstable employment, and lack of social security. Economic "growth" continues, yet the people sustaining that growth remain economically vulnerable. If prosperity is truly increasing, why does security remain a privilege instead of a right? Rural-to-urban migration is at an all-time high, but those rural workers end up in an unaccounted-for database of jobs which are not actually measured by government protocols. For example, people say that once you enter Dharavi you will find over 20,000 registered businesses and a number almost doubling it to be unregistered. These 1.2 crore people have developed a mini economy with no standardization measures and legal aid. So what this basically means is that we have left 1.2 crore people out in the dark to fend for themselves.

5. State Neglect of Human Dignity, Skill Preservation, and Environmental Sustainability

Current models often prioritize production statistics and industrial output over dignity, skill development, and environmental protection. Governments celebrate rising economic numbers, but can progress really be measured only through graphs while workers face exploitation and traditional industries slowly decline?

With these factors of influence, we cannot possibly expect holistic development in such minute districts.

IV. IMPACT

The failures in implementing rural enterprise models do not merely affect statistics on paper; they directly shape the lives of millions who remain trapped between economic participation and economic insecurity. For many artisans, laborers, and small-scale entrepreneurs, "employment" exists without stability, dignity, or protection. Can a nation truly claim progress when the hands sustaining its industries still struggle to sustain themselves?

Economically, these structural failures weaken local production systems, reduce productivity, and discourage long-term entrepreneurship. Small enterprises collapse under debt, market isolation, and policy inconsistency, while wealth continues concentrating among intermediaries and large corporations. Ironically, the economy grows, yet those contributing most to grassroots production often remain excluded from its rewards. Growth for whom, if not for the people creating it?

From a humanitarian perspective, the consequences are even more severe. Workers face unstable incomes, lack of healthcare and social security, limited educational opportunities, and declining living standards despite participating in the workforce. What does "development" truly mean if communities must sacrifice dignity merely to participate in the economy?

V. GOVERNMENT FAILURE & CORRUPTION

Corruption within rural enterprise and MSME development models often turns welfare schemes into systems of selective privilege rather than genuine public empowerment. In Odisha, the District Industries Centres (DIC) under the Ministry of Micro, Small and Medium Enterprises faced criticism for staff shortages and delayed subsidy approvals in districts like Koraput and Mayurbhanj, leaving many rural entrepreneurs without promised support. When funds are sanctioned but industries still lack infrastructure and aid, where exactly does the development go?

A similar issue appeared in Ludhiana, where industrial bodies accused MSME support systems and the Punjab Small Industries and Export Corporation of excessive bureaucracy, political favoritism, and corruption in approvals and incentives. Ironically, institutions created to support rural enterprise often become the very barriers preventing its growth.

These are only the cases that are reported. Even more so go left unnoticed. Maybe the model isn't wrong. The people conducting it are (similar example: decennial census conduction). Day by day, the transparency and trust that bridges we, the people, and the government is starting to fade. It is time we question ourselves: as the economic numbers and reach seems eccentric, however, what reports show happening behind the curtains is way more blinding. Can an economy built on manipulated data and hidden inequalities truly represent national progress?

VI. CONCLUSION

The concept behind models such as the RICM and FLEEM is not inherently flawed, as localized industrialization and the formalization of rural enterprise possess the potential to generate employment, strengthen local economies, and preserve traditional industries. However, this research demonstrates that implementation remains the greatest barrier to their success. Corruption, bureaucratic inefficiency, political favoritism, infrastructural neglect, and weak institutional accountability continue overpowering the humanitarian and economic objectives these models were designed to achieve.

EXPOSURE MUST BE GAINED ON THE PROBLEMS, IMPACT AND CORRUPTION.

VII. RURAL ENTERPRISE CLUSTERS: IMPLEMENTATION DATA & DOCUMENTATION

Cluster Location	State	Industry	Data Source
Ramanagara (Channapatna Cluster)	Karnataka	Wooden toys and lacware industry	Government of India Parliamentary Data on SFURTI Toy Clusters
Barpali	Odisha	Ikat handloom and textile weaving	Odisha handloom and artisan cluster case documentation (Exporter Community Case Study on Barpali Ikat Weavers)
Kanchipuram	Tamil Nadu	Silk weaving and textile production	District-wise SFURTI cluster implementation data
Morbi	Gujarat	Ceramic and small-scale manufacturing	Gujarat MSME and industrial cluster records
Ludhiana	Punjab	Textile, hosiery, and bicycle manufacturing	MSME industrial cluster development references and Punjab industry reports (Times of India Report on Punjab MSME Concerns)
Varanasi	Uttar Pradesh	Banarasi silk weaving and handicrafts	Government of India Parliamentary Cluster Identification Data
Jaipur	Rajasthan	Handicrafts, gemstone, and artisan industries	Government of India Parliamentary Cluster Identification Data
Murshidabad	West Bengal	Silk production and cottage industries	SFURTI and traditional textile cluster development record

VIII. ISOLATED INCIDENTS OF FAILURE

Issue / Indicator	Exact Incident / Region	Evidence & Relevance
Delayed MSME subsidies and weak institutional support	Koraput and Mayurbhanj districts, Odisha	District Industries Centres (DICs) faced criticism for staff shortages and delays in subsidy approvals, leaving rural

		entrepreneurs without promised financial support and slowing enterprise development.
Bureaucratic inefficiency and corruption allegations in MSME support	Ludhiana, Punjab	Industrial associations accused MSME support systems and the Punjab Small Industries & Export Corporation of excessive bureaucracy, favoritism, and delayed approvals affecting small manufacturers and exporters.
Dependence on informal lenders despite banking schemes	Rural districts in Bihar and Uttar Pradesh	Surveys and financial reports showed continued dependence on moneylenders due to limited banking accessibility, excessive paperwork, and low awareness of government schemes.
Digital inequality and poor internet infrastructure	Tribal and rural belts of Jharkhand and Chhattisgarh	Weak broadband connectivity and unreliable digital infrastructure restricted artisans and rural enterprises from accessing e-commerce markets and digital payment systems.
Rural artisan decline due to weak modernization support	Varanasi silk weaving sector	Traditional Banarasi silk weavers reported declining incomes, rising competition from power looms, and inadequate institutional support despite cluster-based development schemes.
Informal labor and lack of worker protection	Dharavi	Thousands of small-scale and informal enterprises operate without standardized labor protections, contracts, or legal security, reflecting the persistence of informalization despite formalization efforts.
Environmental and industrial sustainability concerns	Morbi ceramic manufacturing cluster	Rapid industrial growth in ceramic industries raised concerns regarding pollution, worker safety, and unsustainable industrial practices within MSME clusters.
Weak market linkage and artisan exploitation	Barpali Ikat weaving cluster	Artisans faced difficulties accessing wider markets and often remained dependent on intermediaries who captured most profits from traditional textile production.
Infrastructure limitations affecting enterprise productivity	Rural enterprise belts in Assam and Northeast India	Poor transportation networks, unstable electricity, and logistical challenges restricted industrial growth and market connectivity for local enterprises.
Gender inequality in informal employment	Rural handicraft sectors in Rajasthan	Women workers in handicraft and textile sectors often worked without formal contracts, social security, or wage protections despite contributing heavily to production systems.

REFERENCE

[1] Times of India – Rural households dependent on non-institutional loans
[2] Business Standard – Half of farm households in debt
[3] The Wire – Farmers still rely on moneylenders
[4] Reserve Bank of India – Financial inclusion and rural credit data
[5] Economic Times – Informal finance persists despite financial inclusion

[6] Piramal Foundation – Non-institutional borrowing report PDF
[7] PIB Government Data – Rural infrastructure and financial inclusion
[8] Times of India – Rural household debt statistics (NSO)
[9] CivilsDaily – Rural debt trap and informal credit analysis
[10] Times of India – Private moneylenders in Vidarbha
[11] KNN India – Staff shortage affecting MSME implementation in Koraput
[12] Times of India – Staff shortages in Odisha DICs affecting MSME schemes
[13] New Indian Express – MSME units in Koraput deprived of subsidy
[14] Times of India – Rural Pune water infrastructure crisis