Chapter: 1

INTRODUCTION

1.1: MOTIVATION FOR THE STUDY:

The role of unorganised sector in the dynamics of developmental transition of economies has attracted the attention of theoreticians and researchers over the years. In the post war period it was assumed that the trickledown effect would ensure the development of each and every segment of the economy and ensure employment to all. During those days the informal sector in the economy was regarded as a residual sector or something like a waiting house for the labour (Haris and Todaro, 1970). Along with economic development they would be able to absorb in the organised sector. Later, it is found that the unorganised (informal) sector in the developing countries is neither a residual nor a temporary one. Rather it is a common component of such economies (Mukherjee, 2009). This has changed the view of the economists and policy makers regarding the unorganised (informal) sector. This sector has been playing an important role in the developing and underdeveloped countries both in terms of employment generation and contribution to gross domestic product (Charmes, 1999, NCEUS, 2008). However, the enterprises in this sector have various problems; such as lack of entrepreneurial capacity and skill, lack of training and technical skills, lacking of access to capital and credit, raw materials and market, and technology as well as the absence of an umbrella organisational system. One segment of literature states that among these problems, access to credit is the most important one as other problems are also linked to their access to credit. A large segment of literature states that the unorganised enterprises do not have access to credit from Formal Financial Institutions. As a result they are dependent on their own fund and credit from informal sources
to finance their business (NCEUS, 2007; Fazari, 2014; Bhavani and Bhanumurthy, 2015).

After prolong period of slow economic growth, the economy of Assam has experienced an acceleration in the growth process\(^1\). This acceleration is given mainly by the growth of the service sector, but is also contributed by industrial and agricultural growth. Though Assam still lags behind the country in terms of urbanisation, the census figure indicates a trend towards urbanisation\(^2\) in Assam too. In this context, the investigation into the nature, growth and composition of the urban unorganised sector of Assam has become necessary. Moreover, a number of studies regarding rural nonfarm sector has been made in Assam (Chakravorty, 2014), so this particular study is related to the urban unorganised sector. In this study a special attention is given to the issues of financing enterprises in this sector. This special focus on financing is induced by the observation made by the National Commission for Enterprises in the Unorganised Sector (NCEUS) appointed by the government of India to study the unorganised sector in India and forward policy implication for their improvement.

1.2: SCOPE OF THE STUDY:

This study is limited to urban unorganised enterprises only, which broadly corresponds to Todaro’s informal sector. More specifically this study has followed the definition forwarded by the National Commission for Enterprises in the Unorganised Sector (NCEUS); i.e. unorganised enterprises are those unincorporated private enterprises owned by individual or households engaged in the sale and production

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\(^1\) After stagnating below 3\% throughout the 1990s, the growth of real GSDP in Assam has accelerated to 4\% in 2000-01 and further to 6\% in the later years of the decade (Bezbaruah, 2013).

\(^2\) Percentage of Assam population live in urban areas was 12.90\% and 14.1\% respectively according to 2001 and 2011 census. During this period in Assam, the decadal growth rate of urban population was 27.89\% against the overall population growth rate 17.07\%.
of goods and services operated on a proprietary or partnership basis with less than ten workers.

The rationale for limiting the study to the urban sector is derived from the fact that the issues concerning the urban unorganised sector have some distinct feature from those concerning the rural sector. Limiting the study to the urban sector has enabled better focusing on those issues.

Moreover, while the growth and status of the entire nonfarm unorganised sector in Assam is reviewed in the study, the focus is mainly on the financial aspects of the unorganised enterprises. To the best knowledge of the researcher no study in Assam regarding financial access of urban unorganised enterprises is done till today.

1.3: OBJECTIVES, RESEARCH QUESTIONS AND HYPOTHESIS:

1.3.1: Objectives:

This present study has the following broad objectives;

(1) To review the current status and nature of the nonfarm unorganised enterprises in Assam.

(2) To analyse the pattern of financing of urban unorganised enterprises in Assam.

(3) To identify the factors limiting the financial access of urban unorganised enterprises in Assam.

(4) To identify different sub-sectors of urban unorganised enterprises in Assam with growth prospects.

1.3.2: Research Questions and Hypothesis:

Underlying the above mention objectives of the study, there are two primary research questions;
(a) What are the causes of financial exclusion of the urban unorganised enterprises?

(b) Does better financial access improve financial and growth performance of the urban unorganised enterprises?

Given the research questions the following null hypothesis is to be tested:

Ho: Financial access has no impact on financial and growth performance of the urban unorganised enterprises.

1.4: DATA SOURCE AND METHODOLOGY:

1.4.1: Secondary Data Source:

This study is based on both secondary and primary data. The principal (as well as reliable) source of secondary data of the unorganised enterprises in India is the surveys conducted by National Sample Survey Organisation (NSSO). National Sample Survey (NSS) on unorganised enterprises is done from time to time and the survey reports are published. The main drawback of NSS data is that these surveys do not cover all the sub-sectors of the unorganised enterprises. The definition and coverage of such surveys is also changed from time to time. For example, the 57th round of NSS on unorganised service sector enterprises excluded enterprises in trade and financial services. Moreover, NSSO surveys unorganised manufacturing and service sector enterprises at different point of time; so a combined analysis of the enterprises in these two sectors based on NSS data is not feasible. This study collects data on unorganised manufacturing enterprises from the published reports of NSS 51st, 56th and 62nd rounds. Data on unorganised service sector enterprises were collected from NSS 57th and 63rd rounds. Data available from the 67th round of NSS on unincorporated non-agricultural (excluding construction) enterprises in India is also used to analyse the status of the unorganised enterprises. Secondary data was also collected from
the published reports of national commission for enterprises in the unorganised sector, economic survey of Assam for different years and statistical handbook of Assam for different years.

1.4.2: Need for Primary Data and Sampling Design:

Location Selection: For pursuing the third and a part of the second objectives primary data is collected, as secondary data is not sufficient to fulfill these objectives. The primary data is collected by conducting a sample survey in Guwahati and Silchar during June-September, 2015. These two locations were selected as according to 2011 census, these two are the largest urban locations in Assam.

Activity Selection: Based on NSS data on sectoral composition of urban unorganised enterprises in Assam and a preliminary field observation of Guwahati four sub-sectors of unorganised manufacturing enterprises and five sub-sectors of service sector enterprises were selected. The sub-sectors selected from the manufacturing sector were manufacture of wooden furniture, manufacture of textile and wearing apparels, manufacture of food and beverages and fabricated metal products. The sub-sectors selected from the services sector were retail trading, trade and repairing of motor vehicles, land transport activity, food service activity (restaurants) and internet cafes. These selected sub-sectors have relatively higher share in the total number of urban unorganised enterprises in Assam. Although the percentage share of the enterprises engaged in information and communication services is not very high in the total number of urban unorganised enterprises, some internet cafes were selected; as it is a modern/ sophisticated type of business, taking places in the recent decades only.

Cluster Selection: At the first stage, both Guwahati and Silchar were divided into some clusters on the basis of location. Then some non-continuous clusters were selected covering different locations of the city to make the sample more representative.
Ultimate Sample Unit Selection: Although random sampling is the best sampling, it is not feasible here as the sampling frame could not be constructed. This is because a large segment of unorganised enterprises are not registered with any agency and no record is available regarding the total number of urban unorganised enterprises in Assam. So, sample enterprises were selected from the clusters using non random method akin to accidental sampling. Utmost care was taken to minimise the limitations of non random sampling.

1.4.3: Analytical Framework:

The first and a part of the second objective is fulfilled by compiling, assimilating and comparing available secondary data. The exercise is done using ratios, averages and figures.

The pursuit of the second objective is completed by analysing the data collected in the field study on the financial aspects from the enterprises.

The third objective is fulfilled by examining the variation in the financial access of different enterprises covered in the field study and regressing the same on various background factors of those units. To measure the financial access of each unit an index of financial access/ inclusion is formulated.

To address the fourth objective, first the relative importance of each sub-sector is discussed on the basis of their share in the total number of urban unorganised enterprises and their contribution in the GVA made by the urban unorganised enterprises. Moreover, on the basis of discussion with the informed sources, a strength, weaknesses, opportunities and challenges (SWOC) analysis of the different sub-sectors of urban unorganised enterprises is conducted.

The analysis of the pattern of financing the unorganised sector and the factors affecting the financial access of the unorganised enterprises
has given an insight into the first research question i.e. what causes the financial exclusion of the unorganised enterprises.

To fulfil the second research question, different measures for financial performance, growth performance and productivity are devised. Then these measures are regressed on financial access and other explanatory variables.

1.5: STRUCTURE OF THE DISSERTATION:

This dissertation consists of nine chapters. The second chapter based on selected literature discusses different issues related to the unorganised sector, specially on unorganised enterprises.

The third chapter based on secondary data discusses the present status of unorganised enterprises in Assam.

The fourth chapter prepares a profile of the sample urban unorganised enterprises, the primary survey covered.

The fifth chapter analyses the pattern of financing sample urban unorganised enterprises.

The sixth chapter analyses the depth of financial access of the sample urban unorganised enterprises and factors determining their financial access.

The seventh chapter examines the impact of financial access on financial and growth performances of the urban unorganised enterprises.

The eighth chapter investigates into the growth prospects of different sub-sectors of urban unorganised enterprises in Assam.

The ninth chapter summarises the discussion and concludes with policy suggestion.