CHAPTER ONE
INTRODUCTION

1.1 BACKGROUND OF THE STUDY:

The rural economy of India has until recently been equated with the agricultural economy, as agriculture used to engaged as much as 70% of the rural working population. The significance of rural non-farm micro entrepreneurial activities in generating employment and income to rural household did not receive adequate attention until a few decades back. This is mainly due to excessive focus on the growth of formal sectors relegating the informal sector to the background. Towards the end of 1960s, the importance of rural non-farm activities gained a high policy significance in the developing world. In India too, during seventies, it was realized that the development of formal sector could not take care of the increasing rural unemployment and underemployment problems and the development economist and policy makers started looking for solutions inside the rural areas themselves. As a result, development of non-farm sector received the attention of policy makers as an alternative strategy for rural development (Chadha/1993). Mahajan (1993) put it 'the future impetus for development of rural economy has to come from expanding rural non-farm activities'.

Growing demographic pressure on land has over the year resulted in fragmentation of land among the rural households, which in turn has led to increased landlessness and marginalization of farmers. Along side the employment elasticity in agricultural sector has also been declining resulting in a large surplus of labour in rural areas (Papola/1982). During 1977-1978 and 1999-2000 the share of employment in agricultural sector
decline from 73.9 per cent to 60.2 per cent. Between 1971 and 1981 and between 1981 and 1991, the number of landless workers and marginal workers were 50 per cent more than the growth rate of the total population of the country, which is inductive of not only increasing pressure on land but also increasing number of unemployed in the rural areas (Beohar/2000). Sundaram (2001) has also observed that between 1994 and 2000, the rural population has risen by 9.4% and the workforce in these areas by 3.23%, which indicates that the population growth exceeded the workforce leading to increase in the rural unemployment population.

Even the small industry in rural and semi urban areas have been becoming more capital intensive after 1980s, which in turn has reduced the employment elasticity in the organized industry sector too. The employment elasticity of ‘all sectors’ together reveals that in 1970’s, a one per cent increase in gross domestic product led to a 0.61 per cent in employment. Ten years later, in 1980’s, the same one per cent increase in gross domestic product resulted in a much smaller employment increase of only 0.38 per cent (Bhalla/1993). Similarly, according to Sundaram (2001) the incidence of unemployment, which is defined as ratio of unemployed to labour force, increased from 1.96 per cent in 1993-1994 to 2.25 per cent in 1999-2000.

Therefore, in recent year the burden of providing additional employment to growing labour force has fallen upon unorganized non-farm sector (Chadda/2003). There is evidence from many countries that the extent of secondary employment in non-farm works also is extensive for small and landless families (World Bank/1978, 1991). There is growing recognition that rural non-farm micro entrepreneurial activities in rural areas can play a critical role in extending some services and consumer
goods to the rural households. Further, it is necessary to relieve excess labour pressure on agricultural land in order to arrest further decline in land-man ratio and also to increase labour productivity in this sector. Given the wide diversity of activities in rural non-farm sector, this sector offers a wide range of solution to the problems of rural unemployment in general and to landless and marginalization farmers in particular.

The rural non-farm micro entrepreneurial activities are large and dissimilar to each other. Such activities range from the traditional activities like handloom, handicrafts, to the units operating in non-conventional areas like electronics, repairing and servicing of electronic appliances, etc. But all such activities are generally carried out by the poor and low-income group, which requires small amount of capital, use mostly local raw materials and cater to local market.

According to 2001 Census the total population of Assam was 26.7 millions, of which about 87% was rural population. Out of the total population, 7.1 millions were main workers, of which about 70 per cent were engaged in agriculture and allied activities. This reinforces the predominance of agriculture and allied activities for the livelihood in the state. But, due to declined land-man ratio, agriculture sector in Assam and also as in most parts of India is not in a position to absorb the increase in the labour force. Thus, the problem of labour absorption has acquired serious dimension in the state. While growing scarcity of land forced the rural population to look elsewhere for livelihood, the inroads of technology, connectivity etc. have inclined the people of non-firm activities. It is therefore no surprise that the rural non-farm sector has expanded and number of non-firm micro enterprises increases steadily in Assam over the last few decades.
In Assam during 1998, there were around 3,87,319 units of rural non-farm enterprises in Assam (Fourth Economic Census of Assam, 1998), of which about 88 per cent of units were rural non-farm micro enterprises. The number of workers engaged by the rural non-farm micro enterprise sector was 6,51,166. But by 2005, number of rural non-farm enterprises in rural areas of the state has increased to 5,98,489 units, of which about 90 per cent units were micro enterprises. During 1998 to 2005, the compound annual growth rate of rural non-farm micro enterprises was around 6.6 per cent for Assam. This shows that rural non-farm micro enterprise sector in the state are expanding and absorbing the labour forces in the non-farm activities.

As the economics of the rural non-farm micro enterprise sector has not been adequately investigated, very little is known about its size, nature, problems and its prospects. The present study has been taken up with the aim of filling the research gap in the area. Though a broad description of the subject encompasses the entire state of Assam, more intensive analysis has been focused on the Sonitpur district of the state.

Sonitpur district has been selected, considering the pattern of land distribution, industrialization and prevalence of micro entrepreneurial activities especially among landless and marginal rural people of the district. Sonitpur district lies in the north bank of river Brahmaputra, having geographical areas of 5,324 square kilometers accounting for 6.79 per cent of the total areas of the state, it is the second largest district of Assam. The district has 1,870 villages, three civil sub-division, seven revenue circles and fourteen community development blocks (Census/2001). According to the census report of 2001, total population of Sonitpur district was 16,81,514 out of which about 89.5 per cent of the population reside in rural areas. In the district about 70.15 per cent of the people have marginal
operational holding with average size of 0.98 hectares, showing that the percentage of marginal holdings in the district is one of the highest among the districts of Assam. The district happens to be one of the industrially least developed areas of the state. The total number of registered small-scale industries (SSI) units in Sonitpur up to 2004 was 2,467, which constitute 5 per cent of the registered SSI units of the state (Statistical handbook, Assam/2005).

In the district, rural people have carried out large numbers of non-farm activities. In 1998, there were about 21,604 rural non-farm enterprises in Sonitpur district, of which about 88 per cent units were rural non-farm micro enterprises. The district rank third among all the district of Assam in terms of number of own account enterprises (OAEs), constituting for 6 per cent of the total OAEs in rural non-farm sector of the state (Govt of Assam /1998). By 2005, the rural non-farm enterprises in the district have increased to 40,164 units, which is almost double as compared to 1998 figure. This shows the importance and acceptance of non-farm activities by the rural people of Sonitpur district.

1.2 MICRO ENTERPRISE- A DEFINITION:

Micro enterprise does not have universally accepted definition and the definition varies from country to country. Experts have based their defined definitions on one or more of the following factors: amount of investment, number of employees, turnover, output and nature of activities.

According to Nowak (1998), micro enterprise may be defined as an entity employing less than five and generating income from non-farm production, services and trade encompasses a wide range of activities filling all the gaps left by agriculture sector. According to Singh (1998) Micro Enterprise means a venture owned and run by an individual.
employing less than five persons including himself. Sundari (2000), defined micro-enterprise in terms of investment up to Rs 1 lakh in plant and machinery.

Mali (2005), suggested and recommended two sets of definitions: one for micro enterprises promoted under poverty alleviation and income generation programmes, and another for self-employment programmes. Under poverty alleviation programmes, micro enterprise may be extremely small units in industry; service and business organized, owned and managed by a person for survival, growth and profit. Under self employment programmes, micro enterprise may be defined where total investment is not more than Rs 2 lakh in case of an individual units, and not more than Rs 10 lakh in the case of partnership units (upper limits fixed under PMRY).

According to Gill and Sawhnui (2003), micro enterprise refers to the non-farm sector covering agro related industries, services and businesses in rural and urban areas, promoted by individual or in groups. Non-farm rural activities, which are undertaken by rural workforce outside agriculture, can be included in non-farm activities and these broadly constitute the category of non-farm employment, while persons engaged in these activities constitutes the category of non-farm workers.

According to Santhanam (1998), in Indian context, micro entrepreneurs would broadly comprises (though there is no specific definition) of, small and marginal farmers engaged in various economic activities under both farm and non-farm sector, rural artisans and craftsman and those engaged in cottage industries those covered under khadi and village industries sectors, and tiny industry with investment in plant and machinery not exceeding Rs 2.5 million.
With reference to Sri Lanka, Kumaradasa (1998), founds that it is difficult to find common definition of small and micro-enterprises. It has been observed that many organizations defined them as it suit their own requirements. These definitions are based on investment, annual turnover and the number of person employed. In Nepal, according to Singh, Thapa and Guthier (1998), micro-enterprise are defined in the context of our work as small, predominantly off-farm enterprises with total investment ranging from NRs 3,000 to NRs 100,000 (NRs means Nepal Rupees). They employ less than five people, mostly family members. Income derived from the enterprises may not be the only source of income of the entrepreneur of the entrepreneur’s family. In Indonesia, according to Rudjito and Nazirwan (2005), micro and small enterprise sector (MSE) is a dynamic and widely diverse in term of activities, business size, ownership, etc. In Indonesia the definition of MSE is quite open. Generally this sector is run by poor people who have very low income particularly in the sub-urban and rural areas. Several main characteristics of these enterprises are managed and owned by family members, self-employed oriented, using obsolete and simple technology, relayed on local resources and raw materials, high competition and dynamics. Other significant characteristics of MSE are high variability in terms of sector, strategy and motivation, location, owner background, market orientation, employment structure and financial orientation.

From the above literature, it is clear that that the term micro-enterprises eludes a concrete definition. For the purpose of this study, micro enterprises have been identified on the basis of two criteria, viz. (1) employment criterion, & (2) investment criterion. According to employment criterion, micro enterprise means a venture owned and run by family member(s) or by an individual employing less than five persons other than
the family members. On the other hand, if we look from the investment criterion, micro enterprise may be defined where total investment in fixed capital is not more than Rs 2 lakh in case of an individual unit, and Rs 10 lakh in the case of partnership units. It was decided that any units that fulfill one or both criteria will be counted as micro enterprise. Incidentally in the field study all enterprises which were qualified as on the employment criterion have also been found to be within the limit of the above total capital investment.

1.3 OBJECTIVES AND RESEARCH QUESTION:

The specific objectives adopted for the study are as follows:

1. To examine the contribution of rural non-farm micro enterprises to the rural economy of Sonitpur district

2. To find out the factors responsible for the growth of the rural non-farm enterprise sector in the district

3. To identify the constraints on the sector, especially those related to finance, marketing and infrastructure

4. To identify forward and backward linkages of rural non-farm micro enterprises with other sectors of the economy

5. To identify capacity building requirements of rural non-farm micro enterprise

The study being exploratory in nature, no specific hypothesis was taken up. However, in tune with the above mentioned objectives and the survey of available literature on the subject, the following research queries were formulated for pursuing in course of the study.
1. How do micro enterprises deal with their financial resources?

2. How can the market channel be strengthened to ease marketing constraint of such enterprise?

3. Are micro entrepreneurial activities taken up primarily because of push factors rather than pull factors?

4. To what extent have government and non-governmental organizations been facilitating the growth of micro entrepreneurial activities?

1.4 METHODOLOGY:

1.4.1 Data Source and Sampling Framework:

The study is based on both secondary and primary data. The secondary data for the state level information have been collected from different government offices like Directorate of Industries, Khadi and Village Industries Board, Directorate of Economics and Statistics and State Institute of Rural Development. Even the related reports and publications of various institution and organization like, Indian Institute of Bank Management, Indian Institute of Entrepreneurship, Omio Kumar Das Institute of Social Change and Development, National Bank for Agriculture and Rural Development, National Sample Survey Organization and Central Statistical Organization have been collected. The data collected from these sources have been used to describe the status of rural non-farm micro enterprises in Assam and in the Sonitpur district.

However to make the analysis more comprehensive and to fulfill the objectives of the study, detailed grassroots level information was necessary. Hence a field study was taken up in Sonitpur District in the year
2005-06 to collect primary data. The district is comprised of fourteen Community Development (CD) Blocks and 1,870 villages according to census report, 2001. From these fourteen CD Blocks, three CD Blocks, namely Dhekiajuli, Biswanath and Behali have been purposively selected to capture the ethnic composition, geographical spread and connectivity variation within the district. Altogether there are 413 villages in those selected CD Blocks.

In the field study, data have been collected at two levels. At preliminary level, village was the unit of observation. At the subsequent level, a rural non-farm micro enterprise was a unit of observation. For sampling at the preliminary level, the villages in each of the selected blocks were stratified in three categories according to the size of population recorded in the census report 2001, namely, villages with less than 750 population, villages between 750 to 1500 population and villages having more than 1500 population. Five villages were then selected at random from each of the three blocks subject to the condition that at least one village from each strata is included. In total 15 villages have been randomly selected from the three sample blocks.

At this stage, an activity mapping of the sample villages was carried out in the sample villages. In the activity mapping, information regarding types and number of non-farm micro entrepreneurial activities undertaken in the sample villages has been collected from village headmen. However for the authenticity of the data, cross checking has been done with other informed persons especially school teachers of the locality. In total 102 types of non-farm activities have been identified in which 2,652 units of micro entrepreneurs have been engaged. The activities found in the sample villages have been classified into five broad sub-sectors, namely, Manufacturing, Servicing/Repairing, Trade, Transport and Other Services.
For the next level of the field study, about 5 per cent of the categorized non-farm micro enterprises (5% of 2652) mentioned above in the sample villages have been selected at random for detailed investigation. A standard and systematically designed questionnaire has been used for the purpose of collection of information from the selected non-farm micro entrepreneurs.

1.4.2 ANALYTICAL FARMWORK:

Data collected in the field study have been first analyzed using common statistical tools like ratio, per centage, average etc. In the process of these analyses, some objectives and research question of the study have been fulfilled. More specific analytical tools and methods have been used as and when required. For instance, Chi-square test has been used to investigate association between performance level of enterprises and participation in training programmes. A multiple regression analysis has been applied to explain the performance level of the entrepreneurs.

To measure the contribution of rural non-farm micro enterprise sector to generation of income and employment to the rural economy of Sonitpur district, a methodology has been specially developed, which has been spelt out in details in chapter eight. To examine the prospects of a few selected activities in the micro enterprise sector, case studies have been done.

1.5 LAYOUT OF THE THESIS:

The thesis is divided and organized into ten chapters. The first chapter gives brief description about the background of the study, definition of micro enterprise, objectives and research question of the study and the methodology. In chapter two conceptual issues and theoretical
background of the study have been furnished along with discussion on the role of rural non-farm micro enterprises. The third chapter deals with empirical studies pertaining to the problems encountered by micro enterprises. Chapter four presents the status of rural non-farm micro enterprises in Assam and in Sonitpur district.

Chapter five to nine are based on field investigations. Chapter five deals with profile of the broad field study area. Chapter six deals with the procedure of sample selection of CD blocks, villages and rural non-farm micro enterprises along with their respective profile. In chapter seven, factors behind the growth of sample micro enterprises, linkages with other sector of the economy. Pattern of finance, marketing aspects, government training and organizational linkages, performance of sample micro enterprises and needs for capacity building have been incorporated. Chapter eight deals with the contribution of rural non-farm micro enterprise sector to income and employment generation in the district. Chapter nine includes reviewed of prospective non-farm micro entrepreneurial activities in the study areas along with a case study.

In the concluding chapter, findings of the study have been summarized and the broad inferences drawn, and then on the basis of the summary and the inferences, policy implications have been discussed.
REFERENCES:


