CHAPTER TWO
THEORETICAL BACKGROUND AND CONCEPTUAL ISSUES

2.1 THEORETICAL BACKGROUND:

It has universally been well recognized that in a situation where the increasing trend of population, its sizeable addition in labour force on one hand and unprecedented increasing fragmentation of land holdings leading to decreasing availability of per household cultivated land area. As a result, the agriculture sector alone, as expected, would hardly be in a position to create additional employment opportunities according to existing increasing rate of rural labour force and to sustain the livelihood of rural households even in the high growth and agriculturally potential states in India. (Mehata, 2005)

In India, marginal and small holdings together account 78.2 per cent of total operational holding in the country and operational holding is only 32.4 per cent of the total area. Chadha (1993) pointed out that landless labour and sub marginal cultivating households, accounts for 55% of total rural households and it has been seen that due to fragmentation of land among the household, rural landless household have grown in large number. For instance, according to Diwakar (2003), marginal, small and semi-medium farmers have increased 12.90, 12.11 and 5.06% respectively within 5 years (1985-86 to 1990-91). On the other hand, medium and large farmers have reduced 4.24 and 13.76% respectively.

In Assam, the average size of holding is worsening intensively year after year. In 1961-62 the average land holding was 1.46 hectares, but in 1995-96 the average holding reduced to 1.17 hectares, even the NSSO
50th and 55th rounds of data indicate that more and more people are being alienated from land and land is the prime factor that provides access to better livelihood in rural areas. (Baruah and Dutta-2004).

But, with passing of time, the situation is likely to be worsen due to growing pressure of population, lack of alternative occupations in rural areas and limited scope for increasing area under cultivation (Diwakar 2003). The average size of land holdings is so less that it cannot generate adequate employment and income to the family members for their sustenance. This skewed distribution of holdings is the main cause for wide income disparities, malnutrition and other socio-economic problems among majority of the rural population.

At present, the above problem is more acute than it was ever before due to less attention that has been paid in this direction. According to Adam Smith, 'the process of sub-Division of holdings start when land like moveable is considered as the means only of subsistence and enjoyment, the natural law of succession divides it like them among all children of the family, of all of whom the subsistence and employment may be supposed equally dear to the father'. This tends to have small and fragmented holdings. This process of sub-division and fragmentation is persisting in big way now a day. The enlarging process of holdings started, when land was considered as the means, not of subsistence merely, but of power and protection, it was thought better that it should decent undivided to one. The law of primogeniture, therefore, enforces to take palace in the succession of landed estates. Thus tending to pressure large holding. This process does not take place usually now a days due to various reasons.

In India, majority of holdings (78%) are marginal and small holdings of below two hectares, and the marginal and small farmers are cultivating
the small piece of land not because of their standard of living is low but because it is the only source of their livelihood. If they have something, more profitable to do they would never prefer the small piece of land for cultivation. Even some of these farmers are leaving the agriculture occupation due to various problems like low productivity, low income, malnutrition, etc and dwelling in slum areas for search of job in cities.

According to Diwakar (2003), idle labour has some economic effects also. It adds to the tremendous amount of pressure that our agricultural population exerts on land. Average density of population per square mile of cultivated area is very high. Such a high pressure of population on land may lead to sub-division and fragmentation of land, which will lower the productivity. All these large number of idle labour is calamity on agriculture because idle labour, earning or not, consumes in order to live. Thus, these idle labours have been the canker of India, which are gnawing at its vitals.

Under our existing social system, the effort made in consolidation and enlargement of smallholdings are bound to be failed. All these army of marginal, small and landless dispossessed men are giving frustrating situation, which is hopeless for individual and very grave to our nation. This situation will not change unless we make effective efforts to change our social economy. If we succeed in siphoning these surplus labour in non-agricultural occupations, we will at one stroke lessen the pressure on agricultural land. Moreover, if these labors are productively employed in rural non-farm micro enterprise sector, they will not only earn but will give us surplus too. That means an economic process will start, that is more surplus, more income, hence more money will be available for adoption of modern technologies and there by creating more capital formation. Therefore, the future impetuous for development of rural economy has to come from expanding Rural Non-Farm Activities (Mahajan 1993). It is in
In this context, micro enterprises (M.Es) particularly in rural areas, being mainly labour intensive, play an important role as for as growth and employment are concerned besides service sector. Thus, the development of Micro Enterprises in rural areas will naturally sponge surplus laborers from the agriculture and employ them gainfully in diversified Non-Farm Activities.

In rural areas, why are Rural Non-Farm Economic Activities (RNFEAs) important? According to Berbeque et al (2000), RNFEAs are a part of the solution to at least three major problems in rural areas in developing countries, namely, modernization of the farm sector, transformation of the rural environment and alleviation of poverty. The three major problems are interrelated.

The decision of the rural households to participate in RNFEAs is determined by a combination of push and pull factors. According to Ho (1986), the push factors highlight the limited capacity of agriculture to absorb labour, especially given limited availability of land. The push factors basically include an inadequate farm output to sustain the livelihoods, the risks of farming, and also an absence or failure of farm input markets or inputs credit markets. The pull factors, on the other hand, are related to availability of attractive and more profitable opportunities of working in the non-farm sector. Ho (1986) further argues that the relative importance of these factors depend partly on the stage of economic development. It may also vary from country to country and among regions in a given country.

In broader level, Reardon (2001) reveals that the decision of rural households to take part in RNFEAs depends on two factors, namely- (1) The incentives structure within which they carry out the farming activities, and (2) The capacity of the households to undertake the RNFEAs. The
capacity of households is determined by the factors including the level of education, income, credit, infrastructure facilities, access to assets including land and other demographic characteristics.

Recent studies for India, Latin America and Caribbean countries have illustrated that the level of income, age, education, land size and access to infrastructure are all significant factors of RNFEAs (Elbers and Lanjouw 2001, Escobar 2001, Fisher 1997, Lanjouw and Shariff 1999). Besides these, demographic characteristics such as age and gender are powerful determining factors to access to RNFEAs (Simon 1999, Swift 1998). It is also important to notice that there are very significant links between gender and other factors that always help to determine access to RNFEAs (Berdeque et al 2000). Last but not the least, access to land and infrastructure facilities such as electricity, water, road, etc are widely recognized as very important determinants of access to RNFEAs.

In India, there is no comprehensive policy for the rural non-farm sector in India and as such, this sector has been treated as a residual sector between agriculture and industry. However, in mid 1991, a comprehensive structural adjustment program was initiated by the Government of India in order to stabilize and reform the Indian economy. A number of important policy measures have been adopted during 8th, 9th & 10th five year plan and have contributed to improve economic performance and development prospects specially the rural non-farm sector. The main reforms, which fuel the growth of rural non-farm economy, are reforms in agriculture, consolidating trade liberalization, accelerating financial sector reforms, employment and poverty alleviation programmes, etc.

In the recent past, many rural villages have been connected through all weather rural roads under the Pradhan Mantri Gramin Sadak Yojana
Even Pradhan Mantri Gramin Yojana (PMGY) has been extended to cover total electrification of rural areas by 2007. The development of efficient infrastructure services in rural areas, "markets" have been enlarged, which act as a catalyst for the marginal and unemployed workers to undertake ventures in the rural non-farm activities.

2.2 RURAL NON-FARM MICRO ENTERPRISE SECTOR-A CONCEPT

Though there is no formal definition of rural non-farm micro enterprise sector. But, for the present study an attempt has been made to demarcate rural non-farm micro enterprise sector from the rural non-farm sector. The demarcation of rural non-farm micro enterprise sector has been made on the basis of broad definition of rural non-farm sector (RNFS) used by Census of India with slight modification in scale (The size of enterprises) only.

Basically, three dimensions of the RNFS that need to be specified, they are -

1. Sub sectoral; the various types of activities covered.
2. Spatial; the location in the rural urban continuum.
3. Sale; the size of enterprises.

The census of India has categories all workers into one of the following nine main categories.

I. Cultivators.
II. Agricultural laborers.
III. (Workers engaged in) Livestock, forestry, fishing, plantation, orchards and allied activities.
IV. Mining and Quarrying.

V. Manufacturing, processing, servicing and repairs.

VI. (a) In household industry.

(b) Other than in household industry.

VII. Construction

VIII. Trade and Commerce.

IX. Other Services.

The categories from III to IX is regarded as the “Rural non-agriculture” (RNA) sector. However, categories IV to IX fall under RNFS, which is set for the study. This definition partly tallies with NABARD as it excludes allied activities from RNFS.

The spatial dimension leads to differences of opinions. The tightest definition would include only village, which are defined in the census of India (Report of study group of RNFS), as habitats with a population of less than 5,000, which are not notified as urban areas or cantonments, and are below a specified density of population.

In terms of scale, the RNFS can be put in the following categories, which are used by the Central Statistical Organization (CSO).

- "Own account enterprises" (OAEs), which are enterprises employing only the owner-worker or his/her family workers.

- "Non directory establishment" (NDEs) which are enterprises with at least one and at most five workers, of whom at least one is hired worker.
• Directory Establishments" (DEs) which are enterprises with at least six workers, including at least one who is hired within DEs and NDES, those units which are engaged in manufacture are called DMEs and NDMEs respectively, the M representing manufacturing

• "Factories" are manufacturing enterprises, which employ at least 10 workers if they use power or at least 20 if no power is used.

For the purpose of the present study, the above definition has been accepted with marginal modification regarding the scale or size of the enterprise. Because, if the same scale as given in the definition is accepted for the study without modification than tiny, medium and small scale enterprises will also fall within the purview of rural non-farm micro enterprise sector. Therefore, rural non-farm micro enterprise sector covers two types of enterprises, namely Own Account Enterprises and Non Directory Establishments (employing less than five hired workers).

In short, Rural non-farm micro enterprise sector comprises of wide ranging activities namely, mining and quarrying, household and non household manufacturing, processing, repairs, construction, trade, transport and other service, which are generally carried out by the family member(s) or by an individual employing less than five hired workers, in rural areas having population less than 5000.

2.3 ROLE OF RURAL NON-FARM MICRO ENTERPRISE:

2.3.1 Generation of Employment and Income:

The most valid generalizations about the poor are that they are disproportionately located in rural areas, primarily engaged in agricultural and associated activities. Besides, the growing population pressure as well as extreme poverty in the developing countries has brought about a
situation wherein the means available with the rural poor are not sufficient for them to live a normal human life. So the challenge is to generate employment and income opportunities, but in the sustainable manner. Micro enterprise development provides opportunities for gainful employment, which enhance the quality of life. Even micro enterprise development provides ample prospects for illiterate and poor rural women to make a livelihood, leading to social and economical empowering the rural women.

2.3.2 Spin-off Effects on Agriculture Productivity and Output:

The rural non-farm micro enterprises can stimulate the agricultural growth through inter sectoral linkages. Rural micro enterprises supply various agricultural equipments and transportation. In addition to equipment and transportation, rural micro enterprise also supply other farm inputs such as improved seed and plant, fertilizers and pesticides, which helps to enhance agricultural productivity. Micro enterprises have equally important for adding value to agricultural output through processing activities.

2.3.3 Expansionary Effects on the Local Market:

Under present conditions, market size in the rural areas is limited by low household incomes. However, the development of rural micro enterprises leads to creation of local trading networks hence there are expansionary effects on the local markets. According to Nowak (1998), the few existing surveys of rural budgets and consumption show that locally manufactured products have highest elasticity of expenditure.
2.3.4 Contain Rural-urban Migration:

Most of the developing countries face the problem of uncontrolled urban population growth, which in turn creates infrastructure, supply, employment and environmental problems. One of the reasons for the rapid expansion of population in urban areas is due to migration of unemployed or marginal labour from rural to urban areas in search of employment, because of declining employment elasticity in agricultural sector in rural areas. The only possibility of slowing down the rural exodus is through creation of rural non-farm employment. The most spectacular results in this regards are those achieved by China, whose rural enterprises presently employs 20 per cent of the rural labour forces and accounts for 25 per cent of total output. (Nowak/1998)

So effort has to be made for the development of micro enterprises to broaden the economic base of the rural economy, which will naturally minimized rural-urban migration for creating an appropriate rural-urban economic balance, and minimizing environmental degradation. In short, micro enterprise can play a vital role for minimizing poverty, unemployment, gender gap, etc. This will ultimately lead to economic growth and social justice.
REFERENCES:


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