

**Role of Micro Small & Medium Enterprises (MSMEs) in Rural
Development through Backward and Forward Linkages-
A case study of North-Eastern Region of Rajasthan**

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Dedicated to my Grandparents

Late. Shri Shiv Lakhan Yadav and Smt. Prabhavati Devi



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DECLARATION

I, Deepti Yadav, do hereby declare that the dissertation entitled "ROLE OF MICRO, SMALL, & MEDIUM ENTERPRISES (MSMEs) IN RURAL DEVELOPMENT THROUGH BACKWARD AND FORWARD LINKAGES - A CASE STUDY OF NORTH-EASTERN REGION OF RAJASTHAN" submitted by me for the degree of MASTER OF PHILOSOPHY is a bonafide work and that it has not been submitted to any other university for the award of any other degree.

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It is hereby recommended that the dissertation may be placed before the examiners for evaluation.

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Chapter 1

INTRODUCTION

1.1 Introduction

The economic structure and condition of Rural India is undergoing change but has not changed much even after six decades of economic planning and has undergone slight shift over the same period. Though measures have been adopted to advance the outlook of rural areas mainly in the agricultural sector which employs about 70 percent of the country's population and contributes about 40 percent to the national income. The problems of unemployment and poverty still are the persisting on the rural scene. The possibility of extending the cultivable land which is the key source of providing the employment in agriculture, is somewhat limited. Improvement in employment opportunities in agriculture through changing the agrarian structure and upgrading the agricultural technologies does the job but to a lesser extent. The scenario of rural workforce is not very enticing. Even today, a considerable portion of the rural workforce is either unemployed or underemployed or disguised employed and for agriculture dependent population, employment is mostly seasonal. This scenario is accentuated due to a concern of low productivity of both land and labour. The impact of all these factors results into low level of income as well as the low level of living in rural areas and among rural inhabitants.

The rural economy faces the twin problem, one is of providing productive employment to the unemployed, underemployed and seasonally unemployed workforce and the other is to diversify the employment structure so as to reduce the pressure on the limited agricultural land. The efficacious method to tackle this issue is to develop enterprises on the face of the rural economy among other things. This goal can be attained through the expansion of non-agricultural small-scale sector in rural areas. The development of micro, small and medium enterprises would go a long way in solving the rural economic problems like employment, under-employment, low productivity and low-level of income by absorbing the local resources, human capital as well material, and meet local needs. The rural industrialisation by absorbing the job-seeker can also benefit the rural region by preventing the distress and out-migration of rural workforce to urban region which has its own negative social and economic implications. Thus, rural Enterprises can provide the means to mitigate the various economic problems by possessing the potential for the utilisation of local resources and skills, of the country in general and the rural economy in particular (Cook, 2001).

In present time, business activities especially related to MSMEs, entrepreneurship have significantly contributed not just in alleviating poverty and unemployment problem, but immensely impacted on both social and economic stability as well as to innovation and competitiveness as highlighted by Wennekers and Thurik, (1999). The increasing apprehension about entrepreneurship being as a social good has been recognized as a driving force for MSMEs, and an essential restructuring spectacle for economic growth (Audretsch & Thurik, 2000).

Presently, known as micro, small and medium enterprises (MSMEs) which manufactures approximately over 10000 products, have been formerly known as small-scale industries (SSIs) till, then small and medium enterprises (SMEs) till before the present nomenclature. Over the years, MSMEs, has captured the vision and idea of numerous stakeholders such as government and its agencies, policy-makers, business associations, non-governmental organizations, academician and researchers and 'development' advisors. Since 1990s, Indian economy has adopted the path of reforms and has been globalizing and opening to global market. MSMEs have grown to prominence not only because of their continuous involvement in job generation, development of local income sources, and boost in foreign earnings from the export of products manufacture by MSMEs, but also due to their ability to be quite sensitive, flexible and responsive to fluctuations taking place in technological and market (local, regional, and global) arena. Moreover, the evolution of MSMEs have been apparently to be in the direction of the requirements of interdependence and internationalization in the domain of market, business policies and origination, together with the structure of production and has been one of the preferred channel for improving bilateral investment and trade relations of India with other global countries (Das, 2008).

1.1.1 Understanding of Rural Development

Development is cherished by all and is the ultimate goal of everyone such as people, societies and countries, regardless of their traditions, faith and belief and situation in space. The phrase development is a subjective notion and, therefore, there cannot be a consensus on what development means. The term development finds different uses in wide-range of contexts. In crude terms, the word development indicates a change that is desirable leading to positive growth. United Nations also talks about where it reflects on the multidimensionality of development process which tries to attain an progressive and well-being of all people.

The idea of Development has itself undergone through several changes and has gained thrust particularly after World War II. New dimension got added to the idea of development with the establishment of United Nations (UN) and came to be typically understood in terms of economic growth. But, with the changing time and evolution of vision and understanding of different dimensions of people's personality and need, it has undergone through many changes and phases. With the culmination of the Cold War and appearance of globalization a new idea came up, signifying development as multi-dimensional and a multitude process under the framework of Sustainable Development (Momeni & Shahbazi, 2019).

The term rural development implies the total development of rural areas having thrust on improving the quality of life of rural masses. The strategy of development of rural areas is a measure to empower and enlargement of the capabilities of people as well as different section of society such as rural poor, marginalised and economically backward groups of people to meet their needs of lives and livelihood and achieve better quality of life in terms of health, education and others things. The approach of Rural development tries to diversify the income source of the group such as small and marginal farmers, tenants, labourers and the landless. With this idea, rural development connotes a comprehensive and multidimensional concept, and encompasses the development of all the sectors of rural areas such as agriculture and allied sector; small-scale industries; public services and amenities, social and physical infrastructure, as well as human capital.

Rural development can be understood by reflecting on different dimensions. The diverse dimensions are process, phenomenon, approach and policy. From the lens of process, rural development suggests the participation of the people and groups in different ventures that expedite the accomplishment of the cherished goals over a period of time. From the lens of phenomenon, it is an appraisal of quality of life emanating from interplay of numerous physical, social, economic, technological, institutional and cultural factors. From the lens of approach, it is formulated to advance the socio-economic and political welfare of individuals and particular section of population. From the lens of policy, it is multifaceted in essence instituting an interaction of social, political, agronomic, economic, management and behavioural, sciences (K. Singh, 1999).

Different approaches have been adopted for the rural development such as Sectoral Approach, Area Approach, Participatory Approach, Target Group Approach, Basic Needs Approach, Gandhian Approach, Employment-focused Approach, Integrated Approach, Community

development Approach. These approaches have been influenced by time, space and culture to bring out the desired change.

In this context the thrust has been given on Small Scale Industries and later on MSME for the development of Rural areas because the contribution of MSME is immense to the development process through expansion of entrepreneurial network and utilisation locally available raw materials and indigenous skills, it serves as a dynamic link for industrial development in terms of employment, manufacturing, and exports for economic growth.

1.1.2 Rural Industry and Rural Industrialisation

Rural industrialisation is a development strategy which is employment-oriented focuses on small-scale activities. Small-scale activities not only provide employment and income opportunities to rural people but also enable their involvement and contribution in development.

“Rural industrialisation should imply industrialisation of the country as widely dispersed, at as small a scale, with as high an employment potential as is compatible with an efficient technique and the requirement of the process of development, He was emphatic about rural industrialisation to comprise not just the development of traditional industries but also processing and transformation of agricultural produce, rural building and construction activity, new consumer goods particularly in food industries and large scale industries having scope for ancillarisation” (Gadgil, 1964).

However, the phrase ‘rural industries’ or ‘rural industrialisation’ is a complex term to explain. There is no consensus on the exact definition of the term. It is also hard to distinguish amid rural and non-rural industries. The term ‘rural industries’ majority of the time is identified with cottage and artisanal industries and, therefore, ‘rural industrialisation’ is associated with the development and upgradation of cottage and artisanal industries. This interpretation might be too naïve and narrow (R. Islam, 1987). Presently, rural industries incorporate wide range of activities along with cottage industries. Manufacturing enterprises are also included in rural industries consuming modern machineries and innovative technologies. Moreover, modern rural industries are not required keep a direct linkage with agriculture sector. R. Islam, (1987) emphasis that rural industrialisation must focus on diversification of the rural economy with the establishment, promotion and advancement of small-scale enterprises (not necessarily cottage and coir-based ones only) in rural areas. However, the size and volume of production of the enterprises is crucial to make it profitable. Saith, (1991) has contended that it is not

possible to promulgate universally recognized definition because of the miscellaneous process and trajectory of 'rural industrialisation' in the process of economic growth and development. In a research based on rural based industry, UNDP et al, (1988) has defined enterprises based on number of employees where micro-enterprise consist of 0-4 workers, small enterprise consist of 5-25 workers, situated in villages, rural areas and towns as rural industry. The study incorporates enterprises engaged in manufacturing (utilisation of raw resources to make intermediate or final good or products) and some other activities which consist of repair and metalworking enterprises as rural industry. Majority of the time the work of repairing, manufacturing and production are executed by the same enterprises. The location factor also holds important place. It emphasis that industries ought to be situated in rural areas in order to make rural industrialisation a successful process it must engage rural population, either as worker or as entrepreneurs. The definition of rural given by United Nations is based on population size and implies that term 'rural' would include region or boundaries consisting of population up-to 20,000. However, the actual classification rural differs from nation to nation according to numerous criteria. It has been found in many instances that, few of the urban based enterprises are also included as rural industries by the policy-makers and scholars, researchers. It happens because the thin boundary line existing on the margins of a rural and urban region is overlooked. The argument forwarded is: "Where transport infrastructure and the marketing and trade network are well-developed, or where general urbanisation is very marked, larger urban areas may be regarded as locations for rural industries, as long as such areas provide a comparable environment to small towns" (Netherlands, G. O., UNDP., 1988). Frequently newly settled areas of urban (shantytowns) keep several features of the 'rural' originated from the village or rural regions. Therefore, as emphasised by researchers in such settings, small scale industries of urban areas must be included in rural industries, regardless of actual size of the population. Islam, (1987) contends that "if people in villages have access to employment opportunities available in nearby small rural towns or market centres (or the so called 'rural growth centres', as they are often termed), such locations should also be covered by the term rural, in the present context". Another concept is of 'village industry'. In India, Mahatma Gandhi's attention moved towards 'village industries' in 1935. In that period, there exist no precise classification for village-based industries. The enterprises situated in rural regions utilising and transforming locally available raw material using simple technology, tools and methods aimed for rural markets were delineated as 'village industries. The "Khadi and Village Industries Commission (KVIC), was established under an act of parliament in 1956" after

independence for encouraging the growth and expansion of khadi, cottage, village and other industries based on the utilisation of indigenous artisans and skill industries in rural areas.

As per the Expert group of the United Nations Organization (UNO), the prime objective of rural industrialisation must be to enhance the gainful employment in non-agricultural sectors of the region. Therefore, its emphasis is on rural industries in general or small-scale enterprises or cottage industries in particular which can manoeuvre the local resources present in the region and absorb the surplus local work force in order to realize the exigencies of the region and local markets and this process of setting up of innumerable enterprise in villages and vicinal towns results in rural industrialisation. (Misra, 1985).

Therefore, rural industrialisation refers to the growth and advancement of non-agricultural enterprises in rural areas.

It has been argued that industrial environment and outlook is necessary for rural industrialisation. This requires the reorganisation and rationalise the pattern of agricultural employment and making policies and implementing programmes to shift the surplus rural labour force to non-farm employment activities (Agarwal, 1983). Also the rural economy would initiate to grow only if industrialisation of the rural areas and villages is earmark as prime outcome aimed at by the various rural developmental programmes and no longer regarded as a complementary and ancillary” (Gadgil, 1966)

Therefore, Small-scale industries/Micro, Small and Medium Enterprises (MSMEs) have major contribution in the growth and developmental process and are significant element in the rural industrialisation (Kaur, D., Khokhar, P., & Pandey, 2022).

1.1.3 MSME and its linkage to Rural Development

MSMEs play an enormous role in the economic growth of India and contribute 30% of Gross Domestic Product (GDP) (2019-20) and 49.5% of exports (2020-21). According to Confederation of India Industry (CII) MSMEs provide employment to around 120 million persons through 63.4 million enterprises, and are the second largest employer after the agriculture sector. MSMEs act as an ancillary unit to large industries and play significant part in the value chain for building a facilitative environment for the development and improvisation of indigenous skills, local innovations and entrepreneurship.

There are around 324.88 lakh MSMEs (51.25 percent) in rural areas and around 497.78 lakh (44.8 percent) employment is provided by rural MSME (Annual report of ministry of MSME)

and produce an extensive range of products varying from simple goods and products aimed for consumers to highly meticulous, standard final goods and products for other purposes. Appreciating the capability of MSMEs in the growth of rural areas, this sector of economy has been promoted in both “pre- and post- reform period” to accomplish the Gandhian goal of self-sufficiency along with rural industrialisation. In India, MSMEs comprises of both ‘traditional’ as well as ‘modern’ small scale enterprises and is categorised into eight subgroups. These subgroups are handicrafts, handlooms, khadi and village industries, coir, sericulture, power looms and small-scale industries. “The Khadi and Village Industries and Coir sector are foremost player among eight subgroups of MSME. There has been increase on the trend where international players are looking towards Indian MSMEs for strategic partnerships which would be mutually beneficial for both the countries in the field of innovation, low-cost production, niche of local skills for comparative advantage and workers which would provide competitive advantage.

The Rural Development with the help of Micro, Small and Medium Enterprises (MSME) is viable because of their socio-economic viability suiting to the needs of people, tradition and culture. After agriculture, MSME come next when it comes to employing human resources. They help in generating a large scale employment prospects per unit of capital investment when equated to large scale industries (Baldwin & Picot, 1995). Thus, they are less capital investment and more labour intensive which can help in absorbing the increasing rural workforce. The employment opportunities help in channelising the latent and indigenous skills of rural population which can be further streamlined into small scale business prospects to bring economy of scale.

The setting up of MSME is free from locational constraints to a large extent since their production process employs simple technologies to produce simple products and utilises local resources and can be established wherever in the region. Also, the required capital investment is very less and nil formalities process is very conducive to start a small business Thus, they aid different region generally and backward region particularly to reap the benefits of industrialisation and facilitate balanced regional development.

Rural industries also give the benefit of low cost of production process because it makes possible the utilisation of resources which are locally available and have competitive advantage due to low cost of processing and transportation. Due to low overhead expenses, establishment

and running costs of small businesses are less and this becomes the competitive strength of MSMEs and can help in survival and growth of MSMEs in the long run.

The time elapse in decisions making is less because in this sector consultation process is fast due to small size of the association and arrangement of enterprises facilitating quick decision. MSMEs are also free from different stages of decision making as compared to large industries or organisations.

1.1.4 MSMEs in India and its history

Seeing the importance industries in the economic growth of region or a nation small scale industries were promoted in pre as well as post-independence era. Prior to the of “Micro, Small and Medium Enterprise Development (MSMED) Act, 2006”, the non-farm MSME sector was heterogeneous and dispersed in nature primarily comprising of traditional enterprises such as khadi, cottage and village Industries, coir, small scale manufacturing and service Enterprises, and silk and they all were widely acknowledged as Small-Scale Industries (SSI).

MSMEs have always been recognised as a vital player for providing a means for the inclusive economic development in a country and since Independence series of measures have been adopted over a period of time to give thrust to MSMEs. MSMEs have been defined multifariously. In India the definition of MSMEs has changed from time to time. Rajamohan and Sathish, 2018) has traced the evolution of MSMEs prior to independence till present. They have informed that before the independence, Small-Scale Industries were composed of complex assemblage of small and village enterprises consisting of industries such as textile, leather goods, dairy farming, beekeeping, sericulture, handloom and so on. For the first time in 1938 National Planning Committee (NPC) was established to analyse the problems, issues, challenges and merits of SSI. After independence, Industrial Conference was held in 1947 which divided Small Scale industries (SSI) into three groups called Auxiliary, Service Enterprises and Manufacturing Enterprises. Also, a cottage industries board was established for the development of small industries which further got divided into six boards namely “Khadi and Village Industries Board”, Handlooms and Handicrafts Board, Power loom Board, Central Silk Board, Coir Board, Small Scale Industries Board. Due to these measures and setting up of boards, SSI has shown remarkable growth in terms of size, employment, and products. But over the years the industry has shown sluggish growth rate and due to which modification has been made in the categorisation of SSI to achieve the desired result of development of a region. In this process a new concept of "Tiny Industry" emerged in 1977 on

the recommendation of Bhatt committee in 1971. of District Industries centre (DIC) were set up in every district and Industrial Development Bank of India (IDBI) was established to meet the needs of SSI.

Due to the rise of a large service sector, both “Small Scale Industries (SSI)” and service-related enterprises were covered under the same organisation. Over the period of time, the size of small-scale enterprises started increasing turning them into medium scale enterprises which necessitated to take up complex set of innovation and technologies to maintain their competitive advantage in the ever-changing connected and globalised world. under such scenario, it became obligatory to address the issue and concern of these enterprises about their classification into different categories of micro, small and medium provision of a single legal framework to promote business environment. This resulted in the outcome of “Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 which came into force w.e.f., October, 2006”. This Act helped in resolving several issues such as concern about definition of enterprise and its categorisation, innovation, credit availability, technology advancement and marketing as well as brought under its extent medium scale and Services related enterprises which were earlier not incorporated in the enterprise definition and resolved discrepancies related to it.

In the present time, there is two broad categories of MSMEs in India largely known as manufacturing and service industry. They are also classified as “micro, small and medium enterprises” created on the level of investments. Lokhande, (2011) informs about the “Micro, Small and Medium Enterprises Development (MSMED) Act, 2006” which tries to focus on the expansion and development of these enterprises and aims to improve their competitive advantage of cost and labour. Recently in July 2020 the definition of MSMEs has changed and MSMEs has been described according to the level of investment in plant and machinery and turnover of the enterprise. This step has been taken to suit the the socio-economic atmosphere of India where labour is abundant and capital is scarce and the world is changing rapidly.

1.2 Literature Review

Enormous and diverse natures of studies have been steered on MSMEs of other countries as well as on MSMEs of India. The available literature has been reviewed and separated in different sections on the basis of subject-matter that is to be investigated in the literature.

Micro, Small and Medium Enterprises (MSMEs) have been defined variously. The definition of MSMEs, in India, has undergone a change many times since independence. The evolution

of MSMEs has been traced by Rajamohan & Sathish, (2018) prior to independence till present. They have informed that prior to independence SSI compose of only village and small industries. For the first time in 1938 National Planning Committee (NPC) look into the issues and challenges of SSI. After independence Industrial Conference was held in 1947 which divided SSI into three categories namely Auxiliary, Service Enterprises and Manufacturing Enterprises. Establishment of cottage industries board also took place to encourage the development of small industries. Due to these and further more steps SSI has shown an amazing growth in terms of size, employment, technology and products. But over the years the industry has shown sluggish growth rate and due to which modification has been made in the definition of SSI to address the challenges. in this process a new concept of "Tiny Industry" emerged in 1977 on the recommendation of Bhatt committee in 1971. Establishment of District Industries centre (DIC) in every district and "Industrial Development Bank of India (IDBI)" took place for coping up with the needs of SSI. After that "MSME Act, 2006" consolidated all the dispersed industries as well as encompassed the medium scale enterprises and service sector under the act. Till July 2020, MSME sector was majorly categorised under two classes namely "manufacturing and service industry". They are also classified as "micro, small and medium enterprises based on investments". (Lokhande, 2011) informs about the "Micro, Small and Medium Enterprises Development (MSMED) Act, 2006" which tries to focus on the identification of the problems and obstacles faced by MSMEs and different approach and method to be adopted for growth and expansion of MSMEs. It also aims to improve their attractiveness by enhancing their competitiveness. The Act offers one of the first legal background for appreciation of the notion of 'enterprise' composed of both manufacturing as well as service units. In this Act the three classes of enterprises have been formed which are "Micro, small and Medium" based on the criteria of investment made on plant and machinery for manufacturing enterprises and equipment for service enterprises.

This section attempts to review the available literature on MSMEs and their role in rural development has been presented. This review will try to develop the discourse on the numerous ways in which MSMEs plays its role in rural development.

There are different aspects of development and one of the most highlighted perspectives on development is related to economic development of a region which is extremely determined by the development of industrial sector in the region. Industrial sector in India, comprises of Micro, Small, Medium and Large enterprises. Being important for economic development, India, since independence has been striving towards building stable and strong industrial base.

The expansion of the industrial base in a country helps in raising the general standard of living. Having huge contribution in economic growth, large industries are favoured. However, when it comes to distribution of the national income large industries play a little role. In this context, comes the contribution of the Micro, Small and Medium Enterprises (MSMEs) which reduces the inequality through generation of employment Neumark et al., (2011), industrial production with locally available resources at low cost and exports (Dhar, P. N., 1961; Manikandan, 2000; Rajeevan et al., 2017; Trivedi, M. P., & Gaur, 2015) and also played a vital role in planned development with its strategic advantages of low investment. The expansion and advancement of SSIs/MSMEs is being given due importance by different government of developing countries to achieve objectives of generation of employment opportunities, channelizing physical capital and indigenous skill, saving of rural population from diverse regions of the nation specially backward regions; to facilitate an assisting link for large enterprises in their production and to achieve the objective of equitable distribution of resources present in the country. (Bachama, 2010).

Having the benefit of low investment, low-cost technology, labour intensiveness and short incubation period MSMEs are favoured (Singh, Rana, & Singhal, 2009). "SME sector plays a significant role in the Indian economy. A catalyst for socio-economic change for the country, the MSME sector is crucial in achieving the national objectives and targets of generating employment, reducing rural poverty, improving lives of people and retarding rural-urban migration. The entrepreneurial eco-system is also developed by these enterprises in addition to promoting the use of indigenous technologies. The sector has exhibited consistent growth over the last few years, but it has done so in a constrained environment often resulting in inefficient resource utilization" (IFC, 2017).

"In macroeconomics, an industry is a branch of an economy that produces a closely-related set of raw materials, goods, or services". "An industry is regarded as a homogeneous group of enterprises of companies" (F.E., 1967). The term 'industry' consists of three major division - Primary, Secondary and Tertiary (Ghosh S, 1946).

The classification of MSME covers a wide array of definitions and categorisation changing from one nation to another and differing among the sources characterising MSME figures and data (Gonzales et al., 2014). The commonly used standards are the number of employees, investment level and total net assets. Geographical situation, level of economy along with the type of economic activities undertaken determines the classification small scale enterprises

depends on both the (Oboniye, 2014) . IFC, (2017) says that the classification of MSME into Micro, Small and Medium is done on the basis of the size of the firms. However, there is a wide heterogeneity in each of these segments due to variation in the structure ownership, type of enterprise, size and area of operation and the stages of development of an enterprise.

There is positive relationship between the existence of SMEs and income level and with the countries getting richer, there is an increase in the employment of the labour force in small and medium manufacturing in contrast to large industries and thus SMEs have an overall large contribution towards GDP (Ayyagari et al., 2007).

Crisis is one of pressures and threat to the performance and survival of a business (Boin, 2009; Comfort, 2002; Williams et al., 2017). MSMEs are highly resilience and excel in surviving economic reverses due to their inherent properties. First, typically, MSMEs provide consumer-based products and services which are basic needs of the community in a region. Second, MSMEs majorly depend on local resources such as raw materials, capital, labour, equipment and simple machinery. Third, usually, MSMEs require comparatively small capital as compared to large industries. With these advantages, MSMEs are able to cope-up even in the situation of a global crisis (Suwarni & Handayani, 2021). Entrepreneurial spirit and government support and policies and Risk Analysis and Management also impact MSMEs resilience positively (Hidayat et al., 2020; Sindhvani et al., 2022).

Due to globalisation and economic reforms small scale industry has been impacted in terms of growth of units, employment, output and exports but has also been thrown open to new opportunities and markets for which the thrust must be on technological innovation as well as on consolidation of financial infrastructure (Subrahmanya, 2004).

1.2.1 Employment

In the framework of rural economic development, non-farm sector comes first and centres around the its capacity in absorbing surplus labour from the emanating from agricultural sector and urban-rural migration (Buchenrieder, G., Knerr, B., & Kirk, 2004; Davis & Pearce, 2000; Vijaya Kumar, 2016) . To deal with problem of unemployment MSMEs are considered a major tool as highlighted in the paper (S. Singh & Paliwal, 2017). ADB, (1995) which says that unemployment can be solved through the generation of opportunities for self-employment with the creation of micro scale enterprises, and the increase in the number and size of small-scale business enterprises which are generating employment as well as engaging rural women at high rate in the non-farm economic activities and in the development process. In India around 95

percent of MSMEs are in informal sector and have significant effect in generation of employment opportunities, revenue, and income in both rural and urban regions. MSMEs provide the means for entrepreneurship development which plays a crucial role in driving economic development and job creation. The paper by ILO says that governments of different countries have started giving attention to self-employment through the promotion of entrepreneurship. Countries such as Oman, Syria, and Yemen have recently recognized the significance of encouraging self-employment prospects for youth and they have designed framework for educating youths for vocational and technical education in the formal education systems (Azita Berar Awad, Graeme Buckely, Tariq Haq, Mary Kwar, 2008). In India, MSMEs has shown a significant increase in the generation of employment year over year in the period 2001-2015 (Bhuyan, 2016; Sinha, 2016). There is significant role of MSMEs in employment generation in the country of Peru. Due to growth of MSME sector in Peru there has been large increase in jobs, which has also become the source of income for a significant proportion of Peruvian families (Chacaltana Janampa, 2003). MSMEs have an significant role in entrepreneurial progress because they are able to engage workforce with partial training, and utilisation of locally available raw materials which would have else been ignored (Hussain, 2000). Small-scale units are growing segment of manufacturing sector and form a significant source of manufacturing sector employment (Ramaswamy, 1994). However, majority of the small enterprises are part of the unorganised sector and are able to offer employment opportunities to a large section of people but are unable to have large contribution in output. In Indian there is huge employment potential in small-scale firms and found that employment generations have to be in small and medium enterprises (Holmstrom, 1999). (Bishwanath Goldar, 1993) concluded that the growth of small-scale sector during 1972-88 was faster than the large-scale sector but the majority of the employment took place in units which were of small size.

Another perspective related to employment has been presented where problems related to small-scale industries has been highlighted in MSMEs such as, the production process has become capital intensive, labour productivity has remained high because of capital deepening process. However, the capital productivity has persisted to be very low (Singh, Lakhwinder and Jain, 2006). Also, in the same time period employment per unit fell markedly, wage rate declined but increase in the productivity was seen. However (Davis, S. J., Haltiwanger, J., & Schuh, 1996; Sandesara, 1988) concludes differently and points out that small-scale enterprises

performed badly on employment-generation and capital-saving criteria as compared to large enterprises and firms.

1.2.2 Gender

There has been wide gender gap in the employment opportunities as highlighted in different reports which can be bridged by MSMEs. “There are three categories of women entrepreneurs, i.e., “chance”, “forced” and “created” entrepreneurs. These different categories are based on how their businesses got started, or what are their main reasons or motivations to open their own businesses.” (Singh, A., & Manisha, 1998).

Women have to face numerous obstacles in their fight against poverty and diversion from farm to non-farm sector and regularly involve targeted support and assistance to initiate or expand their enterprises. Different projects of International Labour Organisation, targeting development of women’s entrepreneurship and employment are promoted through small enterprises which also help in mainstreaming gender equality (Vandenberg, 2006). Pull as well as push factor, both affect women entrepreneurs. Pull factors comprises of ambition for self-sufficiency, and self- dependence, contentment and approval, accomplishment, success stories of women and their approach to tackle challenges, repudiate gender stereotypes, identification of gap present in the market and ways to handle them, etc. Push factors comprises of discontent with the functioning of labour market, requirement for better and more income source, non-employment, household responsibilities majorly in rural areas, financial constraints and non-functioning of initiative taken by government/schemes for assistance, low profit margins, etc (Neha Dangi, 2014). MSMEs in the category of in informal Micro enterprise, particularly trading, have significant participation of women (Hussain, 2000). Similarly, micro enterprises in the category of textiles, knitting and embroidery, food and beverages, retail trade, pottery, basket weaving, tailoring, and handicrafts, etc are gender sensitive with numerous economic and subsistence opportunities for women (Tieguhong et al., 2012).

Numerous barriers have been highlighted by Shah, (2013) for women entrepreneurs such as access to raw materials, entry into the market and availability to finances, access to information and knowledge such as information and communication technology and discernment in perception of women's capability for entrepreneurship as compared with male entrepreneurs.

The rural based women entrepreneurs already possess primary indigenous skill and knowledge, talent, and resources in the form of saving and their mobilisation through self-help groups (SHG) for establishing and managing small-scale enterprise. But they need knowledge

regarding different organisation to be sought in case of need, availability and technical know-how to access loans, numerous financial institutions and methods concerning certification, alertness and response to different livelihood and welfare schemes, technical innovation and skill, motivation and support and assistance from family, society, and different organization concerned with development of MSMEs and entrepreneurs. Additionally, there is requirement for the creation and consolidation of network of rural-based women entrepreneurs to extend their reach to wider market as well as institutions. Networks of women entrepreneur are major source of knowledge sharing about women's entrepreneurship and methods adopted behind such success stories which are progressively recognized as a treasured instrument for promotion and encouragement of women entrepreneurship. Networks of such kind encourage other women of rural areas to involve themselves with micro-enterprises or as entrepreneurs under proper guidance and support which can strengthen their capabilities in addition supplementing household income and industrial productivity (Sharma et al., 2012).

1.2.3 Poverty Eradication

Micro, small and medium enterprise development plans have emerged as innovative and significant research topic to reduce the poverty worldwide. Majority of the researchers, policy-makers, and institutions involved with the subject of growth and development profess to provide support and assistance to small-scale enterprises or MSMEs majorly in low-income nations to decrease poverty level and bring equity (Acs & Malecki, 2003; Lichtenstein et al., 2016; Smilor, 1997; Winders, 1997). Hussain, (2000) says that the micro-enterprise sector is not only important because it create jobs; it can also be an instrument of "participatory development" since it enables a wider section of the population, particularly the poor, to participate in the process and benefits of development. Non-farm activities have a distributional impact and prevent the poor from falling into greater destitution (Lanjouw, 2001). Vandenberg, (2006) studied the "Small Enterprise Development Programme (SEED) of International Labour Organization (ILO)" aimed for reduction in poverty level. Numerous difficulties have been underlined in the evaluation of the influence created by enterprise growth and expansion on the enterprise itself, entrepreneurs, income workers especially poor workers, and their household. Different strategies and approached have also been suggested to be implemented by SEED to give thrust to poverty reduction schemes and programmes.

Verma et al., (2020) citing the data from "Global Multidimensional Poverty Index" (2018) published jointly by United Nations Development Programme (UNDP) and Oxford University

that 364 million poor were present in India and central to the problem of poverty is the declining employment opportunities which can be solved by MSMEs as they provide employment to mostly underprivileged section of population in society by engaging them in numerous categories of enterprises. The paper by Vaishnav and Surya, (2020) supports the fact with the data that MSMEs provide prospect for self- as well as wage-employment in rural areas with the entrepreneurial development and engage around 11.09 crore people through more than 6.33 crore MSME establishments.

1.2.4 Building Entrepreneurial Capacity

Starting of new business activity or in reorganization of existing structure in order to adjust to fluctuations occurring in the social, economic, and political environment is the trademark of entrepreneurial development. The specified objective of the entrepreneurship development action is to reinforce the aptitude of underprivileged section of rural population to undertake innovatory, citizen-led, all-inclusive, long-term approaches for socio-economic and political development. Given its local utilisation of resources, entrepreneurial activity is extensively acknowledged as a method to provide stimulus to advancement and progress of economy in conventionally underserved regions and population. These are the motives which explain reason for the prospering of entrepreneurial activity in rural areas where strategies for the progress of rural areas, the ‘top to down’ and ‘bottom to up’ balance each other. Growing entrepreneurship needs a complex set of strategy and approach to initiate the development of themselves as well as rural areas rather than most of the case in practice. It involves not only building of local entrepreneurial capacity but also a comprehensive locational strategy. Studies have shown that, individual and social entrepreneurship have a central part in community and socio-economic development of rural areas (Gorgievski, 2011).

Entrepreneurs are required by each and every country, whether low-income or high-income however, a low-income countries desires entrepreneur to induce the process of growth and development, the high-income countries want entrepreneurship to sustain and endure it. In India where on one hand the employment opportunities are dwindling in public sector as well as in large industries, on the other huge prospects are ascending from ever increasing globalisation and connectivity; entrepreneurial skill can certainly make India to the achieve the dream of becoming a global economic power. Therefore, the necessity for entrepreneurship is accentuated by the roles the entrepreneurs execute in the arena of business enterprise and in relation to the course of socio-economic development.

1.2.5 Regional Development

The economic growth plays a crucial influence on development but is not sole factor since development is conceptualised purely on economic factors. Development must incorporate notion of welfare and wellbeing along with physical gains and financial improvement in the lives of population. Therefore, development must be recognised as a multi-dimensional phenomenon and the process assuming the rearrangement, restructure and re-establishment of social, economic and political systems.

While the factors which facilitated large-scale production have a tendency to encourage accumulation of production process and capital (as highlighted by Marxian theory) in a limited hands as well as it is also found that it encouraged the concentration of production function in a limited region of the country. This phenomenon of concentration of capital, resources and production function leads to a unbalanced regional economy where a few of the individuals possess a large sum of resources in a sea of poverty. This effect is observed to be socially unwanted and strategically endangered. In this scenario a balanced approach of growth of economic prospect and industrial activities with respect of geographical locations has been promoted as significant link for achieving balanced regional development. In this background, small scale industry or MSMEs are proposed which can have a chief role in structuring a decentralised society.

Numerous policies, programmes, planning aim for the development but what actually is development. Sengenberger, (1994) has provided a suitable framework in this context. There are four basic standardizing targets that the notion of development preferably needs to meet. They are Endogenous, Balanced, sustainable and Comprehensive. These four notions are defined as follows - 'Endogenous' connotating that a region endeavours to assemble its local resources to the completest degree as possible so that it can gain some sort of self-dependence and variety in economic activities along with diminishing of susceptibility in relation to a particular good, product or business cycles. 'Balanced', which connotes that several units, such as adjacent regions or places, synchronize their economic activities, and utilise their resources cooperatively for the common benefit and advantage of each participating entities, and with an idea of levelling the probabilities of long-run development process which would encourage social and regional cohesion. Sustainable, which connotes an attempt to build beneficial results not simply for the present generation or present era, but for succeeding generation and time as

well. 'Comprehensive' which means that it should be pitched to achieve numerous objectives, counting not only quantifiable objectives such as employment, export and growth, but qualitative objectives as well, such as wide participation of different stakeholders in decision making; no discrimination based on caste, creed, gender, society or nationality; a dynamic and vibrant environment; possibilities for cultural and social recognition; or resolution of conflict on cooperation.

MSMEs also work in the same manner trying to bring development in the region which is endogenous, balanced sustainable and comprehensive. Patil, (2014) analysed the importance of entrepreneurship for the development of rural areas and role of assistance and support provided by governmental agencies to entrepreneurs. In this analysis it has been suggested that programmes of rural entrepreneurship must be designed in such way that they promote innovation and encourage youth population to select entrepreneurship as a profession. He also emphasised on providing enticements and financial reimbursements to farmers which would promote rural entrepreneurship. A study of MSMEs in Indonesia Suwarni and Handayani, (2021) shows that higher degree of elasticity is found in MSMEs in the situation of market variations, even in economic disorder or crisis and they have been able to withstand those critical situations. The accomplishment of MSMEs being recognised as the backbone of the economy is undeniable, both in terms of labour engagement and the capacity to contribute to the rural or national output. It is also proved in case of Indonesia which met with an economic crisis in 1997. Hussain, (2000) talks about the importance of MSMEs in the growth of African Nations where it is highlighted that the countries observed a successive decline in budget deficits and inflation growth rates, the attainment of reasonable exchange rates and elevated growth rates of GDP. These macroeconomic improvements as well as the gains in economic growth discourse should be reinforced by vigorously encouraging the expansion of small and medium scale enterprises, having capability to be a prominent role in product diversification formation of employment opportunities, income generation and growth, (Lokhande, 2011). Kanitkar et al., (1994) study indicates a shift between two generation where the occupation pursued by their parents and the family were different and mainly agricultural and they are the first-generation entrepreneurs which would augment and supplement the rural development.

The division between developed and underdeveloped countries is majorly made on the basis of their economic growth stage as well as status of industrial infrastructure and the share of labour force involved in industrial activities (Sharma, R., & Afroz, 2014). In developed countries large proportion of workforce take part in industrial activity whereas, in underdeveloped and

developing countries large size of population is engaged in agricultural activity. In developing countries such as India where large industries are majorly absent from rural areas Micro, Small and Medium Enterprises offer an opportunity to build industrial infrastructure in those areas and provide stimulus to economic growth. Being a diverse nature of activity performed and wide range of MSMEs in terms of the magnitude and structure of the units, scale of production, variety of goods and services produce, and application of technology, they suit very well to different geographical locations.

1.2.6 Rural Development

Patil, (2014) says that the definition of rural development can be proposed under two perspectives which are economic and sociological. The economic perspective is concentrated on income criterion in which the idea is to deal with the problem of poverty prevalent in rural areas whereas under sociological perspective it is centred around different section of population where the rural poor characterizes as a pool of hidden and unexploited skill and capabilities - a targeted group that should be provided with the opportunities to exploit the fruits of development through better education, livelihood opportunities, well-being and nourishment. These criteria of definition is one of the most significant when it comes to putting the idea rural development through the provision of social infrastructures which would help in transforming the rural areas

Papola and V. N. Mishra, (1980) argues that industries would contribute in rural areas through the output produced directly as well as spur other agriculture sector with the help of their forward and backward linkages, hence encouraging a condensed amalgamation of the two sectors of the rural economy. The Rural non-farm sector are basic constituents of the rural economy in the countries of Asia, contributing around 30 to 60 percent to employment and household incomes in rural areas and the activities such as manufacturing (agribusiness), trade and service activities are dominant in rural areas (Momtaz Uddin Ahmed, 2006).

Muchie, (2015) reasons that the progress of agricultural processing enterprises (performed majorly by MSMEs in rural areas) in Ethiopia is crucial for the growth of agricultural sector and its productivity. Consequently, the strategy for the development of micro and small enterprises has been adopted by the government encourage the growth of agricultural sector. The paper highlights that MSMEs play a crucial role in the modernisation of agriculture through the technological innovation suite to Agriculture. Murthy and Roopa, (2019) says that the MSME sector plays very spectacular role in the Rural development and raise economic

condition of the state. It acts as main backbone in eradicating poverty and create employment opportunities. Robust measures must be adopted for evolution of rural economy which must comprise generation of employment opportunities and transferring of workforce from agricultural sector to non-agricultural sectors. Chand et al., (2017) highlights the failure of the traditional manufacturing in generation of jobs in rural areas, regardless of high growth in output. They emphasise that India requires to adopt for a different activity related to manufacturing to encourage rural economy and therefore, MSMEs being labour-intensive appear to be suitable substitute for generation of rural employment. Many authors have highlighted that enterprises based on local products have gained the attention of different stakeholders of society such as politicians, entrepreneurs, community development organisation and economic development agencies who sees these enterprises as means for enhancing the well-being of rural population (Auren & Krassowska, 2004; Dampha, A., & Camera, 2005; Higgins, 1999; Mohammed, 1999; Tieguhong Julius Chupezi, Ousseynou Ndoeye & Ze, 2010)

The general belief that farmers and people in rural areas are conservative and that they lack entrepreneurial initiative and managerial capabilities are more of a myth. Farmers are owners of a business when they have to organise labour and capital for their agriculture. They also take decisions as any manager in an industry would take and they also demonstrate their capabilities of taking medium- and long-term investment decisions especially when decisions such as plantation of cash-crops or buying of milch animals are concerned. Farmers are also recipient of new technology inputs. In other words, they perform all entrepreneurial functions while engaged in agriculture (Harper, 1988).

Linkages as understood in development Economics

The idea of linkages, in economic theory, is quite old and rose to eminence in the aftermath World War II and increasing concern about development economics. Numerous authors have discussed about linkages while analysing the development process taking place in economically backward countries. Friedrich List, German economist in his discussion about infant industry emphasizes the role of productive competences which are shaped up in the developmental discourse, and the aspiration of industrial pursuit stirs the size and volume of production as well as enhances the efficiency of the other sectors in the economy also (List, 1856). He elaborates on the distinction between a countries, one utilising its resources for production in agricultural sector, and the other focusing on manufacturing (industrial) activity.

He says that focus on manufacturing is desirable because manufacturing activities result in productivity improvement in all the sectors of economy including itself. Furthermore, they initiate the process of improvement in institutional, infrastructural, and political spheres as well. The emergence and diversification of infant industries is not a 'natural' manifestation which could not be left on the mercy of situation taking place in a market economy. He contends that 'infant industries' must be provided protection to safeguard them from competition and the justification proposed for the same is that productivity and efficiency improves over the time with economies of scale. The two ideas in the above argument which still holds importance; first the stress on the structural configuration of production function and linkages between different sectors economy and second the decisive role the state plays in determining structure.

Rosenstein-Rodan, (1943) contends for "planned large scale industrialization" to facilitate the utilization of "complementarity of industries". There is specific reference about external economies as brought up by Marshall in 1938: "the social marginal product of an activity exceeds the private marginal product since it creates linkages-both directly by pushing suppliers of inputs over a certain profitability threshold, and indirectly by raising aggregate demand due to the employment of formerly idle manpower".

Thereafter comes the contribution made by Myrdal in 1957 where he introduced the concept of a "vicious (or virtuous) cycle" and refuted perception about economy being as a system that moves toward a steady equilibrium. The concept of a "vicious (or virtuous) cycle" refers to exogenous shocks leading to a "self-strengthening process of cumulative causation". This cycle in the process of economic development leads towards regional imbalances where some of the regions flourish due to the effect of external economies while others deteriorate (Fujita, 2004).

Another major contribution is made by Albert O. Hirschman in 1966 who explicitly defined the "backward and forward linkages". "Backward linkages induce local production of inputs when the demand for these inputs extend to a critical scale and forward linkages provide inputs for downstream local producers" (Bhargava, 1966). Albert O. Hirschman also augmented the idea by emphasizing on two essential conditions for the functioning linkages: first the scale effects which means that without economies of scale the idea of linkages would be worthless because each and every economic activity is connected to numerous others activities and second is public responsiveness or encouragements to private entrepreneurship. Linkages may correspondingly be acknowledged as facilitating prospects for investment and therefore acting

as direction for investment made by private sector and state. And in explaining this idea Hirschman elaborates 'unbalanced growth'. The important role of transport costs is stressed by Hirschman. The effect of Linkages may not be feasible in its absence, because inputs required for production would be constantly be brought without a drawback. It is also highlighted that there is importance of transportation costs, mostly for developing nations and backward regions that regularly come across long distances to huge markets. This argument, emphasises the basic elements in a linkage-driven framework which are: input-output connection among industries, economies of scale, and substantial constructive transportation cost.

In conclusion, the concept of linkage is advanced is the sphere of regional economics where linkages can be of two types backward and forward. If the growth in production function of one industry inspires the production function in other industries providing inputs to it, then there is formation of a backward linkages. There is formation of forward linkage when the production of an output from an industry facilitates the production of industry utilising the produced output such as the non-farm sector (enterprise) that output of agriculture as an input.

Understanding Linkages in development of rural areas

Significant change has been noticed in recent years in which the economic development experts has started understanding and analysing the trajectory of growth and developmental course taking place in areas described as rural and the development of numerous forms of linkages between non-farm sector and agricultural sector as the process of industrialisation is initiated in rural areas. This shift in the way of understanding has occurred due to the growing consciousness towards the significance of non-farm activities in rural areas, of the "livelihood diversification strategies" adopted by rural households, and of rural industrialization (Ellis, 1998).

The roots of the concept of 'linkages' in rural areas can be traced in the re-assessment of the importance of expansion and progress agricultural sector originating from the period of Green Revolution and the importance of non- farm activities in rural areas. Consequently, numerous analysis has been done on how farm and non-farm activities would converse in rural areas in the developmental course concentrated on the emergence of backward and forward linkages ensued from growth in output from agriculture sector, through rise in demand for agricultural inputs on one side, and consumption of goods demanded by population of rural areas on the other side (Mellor John, 1976). Formation of these linkages might facilitate the creation of a virtuous circle, through which growth in farm output along with income result in rise in demand

for industrial goods and services satisfied by escalating rural based industries employing rural workforce and utilizing locally available raw materials. Subsequently there is expansion of enterprises in rural areas which in turn increases the income of rural households and thus rise in demand for agricultural output. Linkages development such as forward, backward, and consumption can emerge in numerous patterns. The growth in agriculture sector creates demand for farm inputs such as good quality seeds; it also augments the capacity for the Agri-processing and value addition of farm produce, and the growth in income which is an outcome generates both rise in demand for locally manufacture consumer goods and capital for investment for the expansion of their output in terms of revenue as well as products. Income originating from the employment provided by rural based enterprises may offer a potential source for capital investment in agricultural sector and rise in demand for farm products. Grabowski, (1995) maintains that the diversity in income sources of rural household enables the acceptance of improved farm technology containing some portion of risk.

Therefore, the interactions among different sectors in rural economy may be characterized as supply-side or backward linkages, where the expansion in output of one segment leads to rise in the demand for inputs processed by the other sectors, and demand-side or forward linkages, where rise in income level ensued from rise in output in one sector create amplified consumer demand for the produce of the other sectors (Francks, 2002). In this process virtuous cycle formed result in raised rural income level and living standards.

1.2.7 Problems related to MSMEs

To understand the nature of problems faced by any sector it is always pre-requisite to understand the numerous characteristics of the sector. This understanding enable different stakeholders to design the policy framework accordingly (Aregbeyen, 1999). Different literature has analysed the problems faced by MSMEs where Electricity and access to finance, practices of informal sector and corruption, political instability are problems cited by Kushnir et al., (2010). Narayana, (2004) has talked about the incompatibility of the continuation of reservation strategy for the Small scale industry (SSI) with the removal of quantitative restrictions on imports and decline protection to the SS under the import tariff policy. (Maturi Balakrishna Rao, Dr, 2018) has categorized problems faced by MSMEs into four varieties namely production, labour, marketing and financial among others. MSMEs extremely vulnerable to socio-economic changes even though there contribution to India's economy is immense (Bhuyan, 2016). The study by Audet, J., & St-Jean, (2007) on the survival of MSMEs

has cited that there is less proportion of enterprises which are able to cross the functioning process more than five to six years. Bhalotra, (2012) has highlighted that MSMEs typically functions at very small scale and level of structure of organisation. There is high dependence on profits occurring from day-to-day business for sustenance of the enterprise along with nonexistence of formal workplace for operating the business as in the case of large enterprise, and there is slight or no separation among labour and capital. Chen and Chen, (2005) has highlighted the problems related with the informality of MSMEs sector and this results into the absence of distinct legal entity or framework, independent of the household or with definite division among production business.

Mukherjee, (2004) has suggested appropriate policies for enhancing the productivity levels which include technology, access to resources and inputs, general macroeconomic atmosphere, etc. However, Rugy, (2005) has highlighted that in place of preferential policies and strategies, policymakers must try to provide a framework for tax and policy environment where enterprise of all size and scale can sustain their business activity and most important it would inspire small, medium scale enterprises having robust potential and aspiration for growth and expansion to evolve into efficacious large enterprises.

As regards efficiency, (Bhavani, 1980; Dhar, P. N., 1961; B. Goldar, 1988; Hajra, 1965; Mehta, 1969; Rosen, 1962; Sandesara, 1988) attempted to estimate the relative efficiency of small-scale industries. Dhar, P. N., (1961) used output-capital ratios to examine the relative efficiency of MSMEs and showed that in general small-scale industries are more capital exhaustive than their counterparts i.e. large scale industry. B. Goldar, (1988) founded that small scale sector usually has high capital Productivity, low labour Productivity, low capital intensity and low total productivity as compared to large scale industries. However, Mehta's conclusion is opposite to those of (Dhar, P. N., 1961; Hajra, 1965; Sandesara, 1988).

1.3 Theorizing MSMEs and its role in Rural Development

The process of economic growth over a period of time leads to change in the structure of an economy. Kuznets and Murphy (1996) on analysing this growth process of various developed nations, concluded that structural change was typified by the relative contraction of primary sector and the rising proportion of secondary sector, while the respective proportion of tertiary sector continued to be similar.

The improvement in the knowledge and betterment of institutional arrangements results in the upgraded efficiency resulting in the process of growth characterized by high rates of increase

per capita output in all the three foremost sectors of economy. The swift change in the structure of the product as well as productive factors, specifically labour is explained by the improvement in the efficiency caused by organisational and technological changes. The shift in the sectoral arrangement of the total output is clarified by a waning of the share of agriculture and allied sectors in the economy and increase in the proportion of manufacturing, to a limited extent from consumer to producer goods, and rise in the proportion of some service groups and a decrease in the share of some others. When it comes to the allocation of labour force, agriculture and allied sector experiences a higher decline in its proportion, a modest increase in the proportion in industrial sector whereas visible growth in the proportion of service sector.

A similar swift shift is noticed in the share of total output and apportionment of labour force among economic units arranged by size. The decline in the labour force from agriculture is concurrently accompanied by a decrease in the proportion of small-scale enterprises in total output as well workers' output. This decrease in the two economic sectors of agriculture and small-scale enterprise is accompanied by swelling in the size of business/firms as well as growth in the share of labour force of large enterprises.

Therefore, it can be concluded that there is faster growth in the size of industrial sector resulting in the absorption of labour force from primary sector in the economic growth process. Consequently, in the industrial growth process, share of small-scale enterprises decreases whereas there is increase in large enterprises as well as their contribution in the economy increases in terms of production, employment, efficiency and productivity.

The industrialisation process has been explained by Hoffmann (1958) in four stages. The initial stage is characterized by consumer goods industries (textile, food, furniture and leather, industries) have enormous importance; on an average the net output of consumer goods industries remains as large as five times that of capital goods industries. The second stage is characterized by the contraction in consumer goods industries where the share of net output reduces to two and half time as that of capital goods industries. The third stage is characterized by the approximately equal net output of consumer and capital goods industries whereas the fourth stage is characterized by the drastic fall in the industries producing consumer goods and rapid growth in the industries producing capital goods.

The initial predomination of consumer goods industries is explained by Hoffmann (1958) and the cause for economic backwardness. He elaborates that in the initial phase of industrialisation an economy does not possess enough capital, skilled labour force as well as technical expertise

for the growth of capital goods industries (metal working, engineering works, vehicle production and chemical industries). The technical proficiency possessed by skilled craftsperson is utilised by consumer goods industries to a larger extent than in the case of capital goods industries. Generally, manufacturing activity such as textile, food and leather industries, involve less initial capital, than is required by capital goods industries, such as the manufacturing of plant equipment, construction & mining equipment, electrical equipment, and textile machinery. However, over the time capital goods industries dominate the industrial sector due to accumulation of capital and improvement in the skill of labour force and innovation technology.

The theory of Hoffmann (1958) deduce that industries which are capable of making use of available resources and existing skills have a better edge for growth and progress than those industries which involve rare resources and technologies in 'yet to develop' stage. Additionally, it suggests that the growth of these industries will employ unemployed resources as well as provide further stimulus for industrial growth.

Buchanan and Ellis (1955) discuss about the concurrency of beginning of modernization process of agriculture and the commencement of industrialisation process. The commencement of industrialisation process is characterized by small scale industries/ enterprises in rural region which facilitate the processing of agricultural products leading to utilisation and value addition of Agri-products and bringing more varied form of cultivation of land. Buchanan and Ellis (1955), plead for utilisation of the local human resources where they are naturally present i.e., in the countryside to avoid the drain of resource, economic and social problems, time lag, and investment necessities that would happen otherwise by emigration of population towards towns. Therefore, they emphasize for the enlargement and development of small-scale enterprises involved in activities related to manufacturing in rural regions in large numbers because these enterprises able to absorb local human resources by utilising local financial and physical resources.

Therefore, from preceding discussion it can articulated that in the initial phase of industrialisation, it is pre-requisite to pay special emphasis on the development of rural industries keeping in view the range of advantage followed such as utilisation of human and physical resources, value addition of agricultural produce, technological innovation and skill enhancement. In fact, the foundation of industrialisation process of given economy is laid by the growth and development of rural industries.

However, the above discussion about the beginning of industrialisation in economic growth process and its role in development, reflects the perspective which is primarily based on the trajectory experienced by developed nations. Therefore, it becomes necessary to scrutinize its vitality in the framework of developing nations. Studies conducted by Anderson and Khambata, (1980); Cortes, Berry and Ishaq, (1987); Ho, (1982); Little et al., (1987); Page, (1979); Page and Steel, (1984); Suhartono, (1988) for different nations in developing countries characterized by different stages of industrialisation, represent the overall scenario of industrialisation (of which rural industrialisation forms a part) among these countries is quite similar and it corroborates the process of economic growth followed by the developed nations

Page (1979) points out about a certain kind of bi-modalism in industrial structure in their analysis of African countries about employment creation by manufacturing industries. This kind of bi-modalism may be manifested by predominantly agrarian economies which are at their initial stage of industrial development. Data from countries such as Ghana, Egypt, Ethiopia, Kenya, Nigeria, and Sierra Leone and Tanzania illustrate that barring Egypt, the employment in small-scale industries mostly located in rural region comprises around 50 percent of the total manufacturing employment. It is also observed that as the market enlarge, household sector and rural industrial sector loose eminence in favour of non-household sector urban industrial sector respectively.

Page and Steel (1984) found in relation to African countries that employment generation due to growth of small-scale enterprises in rural areas is higher the initial phase of industrialisation. These small-scale industries suit more to the initial phase of economy as they are labour intensive as well as require less capital in comparison to large industries. Further, they facilitate local entrepreneurship by providing experience and business opportunities to entrepreneurs who possess commercial and technical skill and have capability of familiarizing craft-based manufacturing to more modern industrial methods. Hence, the growth of rural-based small-scale industries not only engages locally available physical and human resources but also offers stimulus for the improvement in local entrepreneurship which in turn augment the rate of rural industrial growth.

Anderson and Khambata (1980) in their work based on Philippines, found that employment provided by household manufacturing is the largest in total manufacturing. However, its share in manufacturing employment have declined over a period of time. Consequently, the comparative proportion of jobs in non-household activities and factories increased. However,

rural manufacturing sector showed trend of decline over the course of economic progress. Household sector providing secondary source of income in which majority of the employed are women also declined. This decline also corresponds to the emergence of large manufacturing enterprises as chief source of family income.

The reason cited by Anderson and Khambata (1980) for such transformation in rural manufacturing sector is the growth in agricultural sector and infrastructure advancement resulting in the increasing farm incomes permitting a division of labour amid farm and non-farm work. Also, the high-income elasticities of demand for non-farm goods, provide impetus to local markets for both locally and externally manufactured goods. Along with demand for externally manufactured goods, there is rise in the employment opportunity in local retail and wholesale enterprises and repair and installation services. Furthermore, broader the level of agricultural advancement, the wider are outcome on the labour and products markets.

Cortes, Berry and Ishaq (1987) in their study on Columbia, also cited the similar trend. Though the share of total labour force employed by manufacturing sector decline but the proportion of manufacturing sector in total output improved marginally in late nineteenth and early part of twentieth century, Within the manufacturing sector, plant manufacturing started to substitute artisans and cottage manufacturing. The deterioration of cottage industries was relatively more eminent in rural regions as compared to urban regions.

Suhartono (1988) tried to explain for the growing prominence of MSMEs in Indonesia. Natural protection is provided to small and mid-size enterprises due to high transportation costs and insignificant size total market. Small and medium scale enterprises prefer production near the local market when markets are dispersedly located especially when the manufacture goods are perishable and there is gain of bulk materials in the manufacturing process. Also, there is comparative advantage in the transformation of spatially dispersed raw materials especially when the risk of spoilage and loss of weight are high. All these factor leads to the production of goods on smaller scale, situated near to the source of raw materials.

Little et al. (1987) in their study on the changing size and structure of Indian industry in in relation to world, concluded that there is decline of household sector and growth of non-household sector. However, the changes occurring in the non-household sector diverged from the trajectory of other countries. There was relative decline in household manufacturing in rural industrial sector whereas large-scale industries grew faster than the small-scale enterprise within non-household sector.

Ho (1982) finds strong motivation for the expansion and enlargement of rural based small-scale enterprises in industrialising and developing nations. These countries being principally rural and agricultural, would have dispersed rural market and under such surroundings, dispersed small-scale industrial production would prove advantageous. Furthermore, it is said that rural industrial sector expanded majorly as a secondary household level activity both in South Korea and Taiwan, but in the economic growth process household-based production declined in status while rural non-household sector became more vital.

From the overall discourse it is quite clear that in the economic growth process the small-scale enterprises/ Micro Small and Medium Enterprises (MSMEs) hold a vital position and provide stimulus for industrial development. MSMEs help in locating the industrialisation process in rural areas and modernisation of agriculture through innovation and value addition to agricultural produce through food processing enterprises. The rural based MSMEs holds a significant role in the transition of the rural areas by establishing different linkages and thus enable the process of development through different means such as alleviation of poverty, generation of employment opportunities, rise in the level of income, rise in the living standard and quality of life, diversification of economic activities, locating basic amenities related to health and education, skill enhancement and its utilisation etc.

Micro, Small and Medium enterprises (MSMEs) need to be encouraged and supported especially in order to meet the rising demand for employment and keep the workforce force engaged. Although MSMEs play an important part in industrialization and development of rural economies however, there is need to increase the efficiency and productivity of MSMEs to secure the profits of economies of scale.

1.4 Limitations of existing literature

Most of the available studies on MSMEs are concentrated on the issues such as their role in employment generation, in bringing gender equality and women empowerment through their engagement in MSMEs, reduction in poverty and inequality and its role in development of entrepreneurship in the economy. It is very difficult to find out the studies which are based on examination of the characteristics of MSMEs and their influence on the development and evolution of rural areas and MSMEs itself. Such studies would help to understand the overall nature and business of MSMEs in rural regions and the targeted approach crucial for augmentation of their role in rural sector. Therefore, the present study tries to investigate the

impact of MSMEs on structural change of production function and economic and infrastructural sector of rural areas of North-Eastern region of Rajasthan in India.

1.5 Rationale for the study

According to National Sample Survey Office's report on employment and unemployment conducted during 2011-12, the total estimated workforce was 47.41 crore of which three fourth i.e., 33.68 crore of the workforce was residing in rural areas and 13.72 crore were engaged in urban regions. Moreover, 35.3% of the rural workforce were engaged as casual labourers. Also, the estimated number of unemployed persons on usual status basis in the country was 1.06 crore in 2011 which has been fluctuating as it was 1.08 crore during 2004-05 and 0.95 crore during 2009-10. Similarly, a study based on agricultural employment in the late 1950s, showed up that around one-third of agriculture workforce are disguisedly unemployed in India.

Given the huge number of unemployed people, it becomes imperative to search for the measures and make continuous efforts to generate employment through normal growth processes.

In India the worker-population proportion is around 39. This ratio in rural India is about 40 and in urban areas, the proportion is about 36. Population residing in rural areas have constrained opportunity to participate in the employment market and diversify their source to earn higher income and. The problem becomes acute because sometimes rural population cannot afford to get education for improving their knowledge base and to training institutions to improve their skill. This becomes hinderance for their participation in the employment market. Even if some of the population has the opportunity go to school, they discontinue in the middle due to their economic situation and join the workforce. Joining of the workforce also reduces their probabilities to go for higher education and this halts their employability for better job opportunity which provides higher income.

Since independence, different governments and planning commission have focused on numerous programmes which aimed at generation of employment as well alleviating poverty. These programmes not only generated new employment opportunities but also help in bringing services in these areas such as primary health, primary education, nutrition, supporting people through wage employment and helping to generate community as well as individual assets, such as construction of houses and sanitation, laying of roads in rural areas and development of wastelands or degraded lands.”

Therefore, in this socio-economic scenario of rural areas it becomes crucial to concentrate on those sectors of economy which can create job opportunities as well as can become growth centre. This in turn would attract more income, educational opportunity in the form of skill development, diversify the production base of rural areas and support the rural industrialisation. All these can provide multiple benefits of reducing pressure on agricultural land, providing employment, reducing poverty, building essential infrastructure and link rural to urban as well as to national economy.

Since the MSME sector is unanimously considered as an engine of economic growth and for encouraging equitable regional development. Thus, measures to create additional job opportunities through MSMEs can be a fruitful measure. The sector also aids balanced and equitable distribution of industries across different regions of the nation. This distribution of industries helps in incorporating the rural as well as backward regions in the mainstream economy and integrating them with the national economy. MSMEs also facilitate entrepreneurship which provides self-employment to the entrepreneur as well as responsible for the creation and expansion of chances of employment. Therefore, in the course of development, entrepreneurship becomes decisive factor for overall economic growth and enlargement of a region. The employment capacity of the sector at low capital cost is its primary advantage.

Since independence, small scale industry/MSMEs has been one of the strategic sectors for rural economy. In the present, small scale industry/MSMEs are of foremost importance in the economic structure of Indian due to its substantial augmentation in terms of employment, output, and exports.

Given the immense role of the sector in the rural development it becomes imperative to study and analyse the MSMEs and its different linkages with the rural areas and the issues the sector is facing so that the thrust can be provided through proper steps and process to boost the sectors along with development of rural socio-economy.

1.6 Objectives

1. To study the size, structure and growth of Micro, Small and Medium Enterprises (MSME) in rural areas of North-Eastern region of Rajasthan.
2. To understand the process of employment and income generation in rural areas due to MSMEs.

3. To identify the economic diversification taking place due to the existence of MSMEs in rural areas in North-Eastern region of Rajasthan.
4. To assess the role of Micro, Small and Medium Enterprises (MSMEs) in rural development in North-Eastern region of Rajasthan occurring through different linkages between MSMEs and Rural areas.
5. To understand the management of enterprises by the entrepreneurs and identify the transformation in the lives of entrepreneurs' nature of economic activities of rural areas occurred due MSMEs over a period of time.

1.7 Research Question

1. What is the change in the size and structure of MSMEs over the period and the pace of growth of MSMEs in the rural areas of north-eastern region of Rajasthan?
2. What is share of employment generation by MSMEs and different aspects related to productivity of MSMEs?
3. What is the contribution of MSMEs in rural development and the actual process through which the development occurs of the villages and its population?
4. Who are the rural entrepreneurs and the what is perception of the owner of MSMEs about the business and changes caused by MSMEs in their lives and villages?
5. What are the different deterrents confronted by the MSMEs and their owners and the ways to overcome the hindrances?
6. What is the nature of the constraints faced by MSMEs and its policy implication.

1.8 Study area

The study area consists of Rural areas of North-eastern region of Rajasthan which consists of ten districts of Rajasthan namely, Alwar, Ajmer, Bharatpur, Bhilwara, Dausa, Dhaulpur, Jaipur, Karauli, Sawai Madhopur, Tonk.

The north-eastern region of Rajasthan is situated to the east, northeast and southeast of Aravalli ranges. Its rural region covers an area of about 64767 square km. The Vindhyan Plateau delimits the southern boundary of the region whereas the western boundary is limited by the eastern edge of the Aravalli.

The general characteristics of the study area has been elucidated in terms of the geology, physiography, drainage, soil, vegetation, irrigation, land use and cropping pattern characteristics. The summary details have been given in the table

Table 1.1 General Characteristics of Study Area

Characteristics	North-East region, Rajasthan
Total Rural Area	64767
Total Rural Population	4088812
Total number of Villages	13516
Percentage of Rural Population	70.2
Sex Ratio	911.1

Though, structurally and geologically the region is a part of the Peninsular plateau but it is thickly covered with the quaternary sediments which have been kept deposited for long time by the northern plain rivers. The north-eastern region according to its physiography is divided into three region which are Aravalli region, Eastern Plain region (Banas and Chambal Basin) and South-eastern plateau region. The Aravalli Mountain borders the north and north east districts of the study areas which consists parts of Alwar, Ajmer, Bhilwara and Jaipur. Eastern Plain region consist of all the ten districts of the study area. The South-eastern plateau region is composed of the part of Dhaulpur, Karauli and Sawai-Madhapur districts. Most of the region is a plain surface except the norther and southern most part, which is occupied by the Aravalli hills and Vindhyan Scarp.

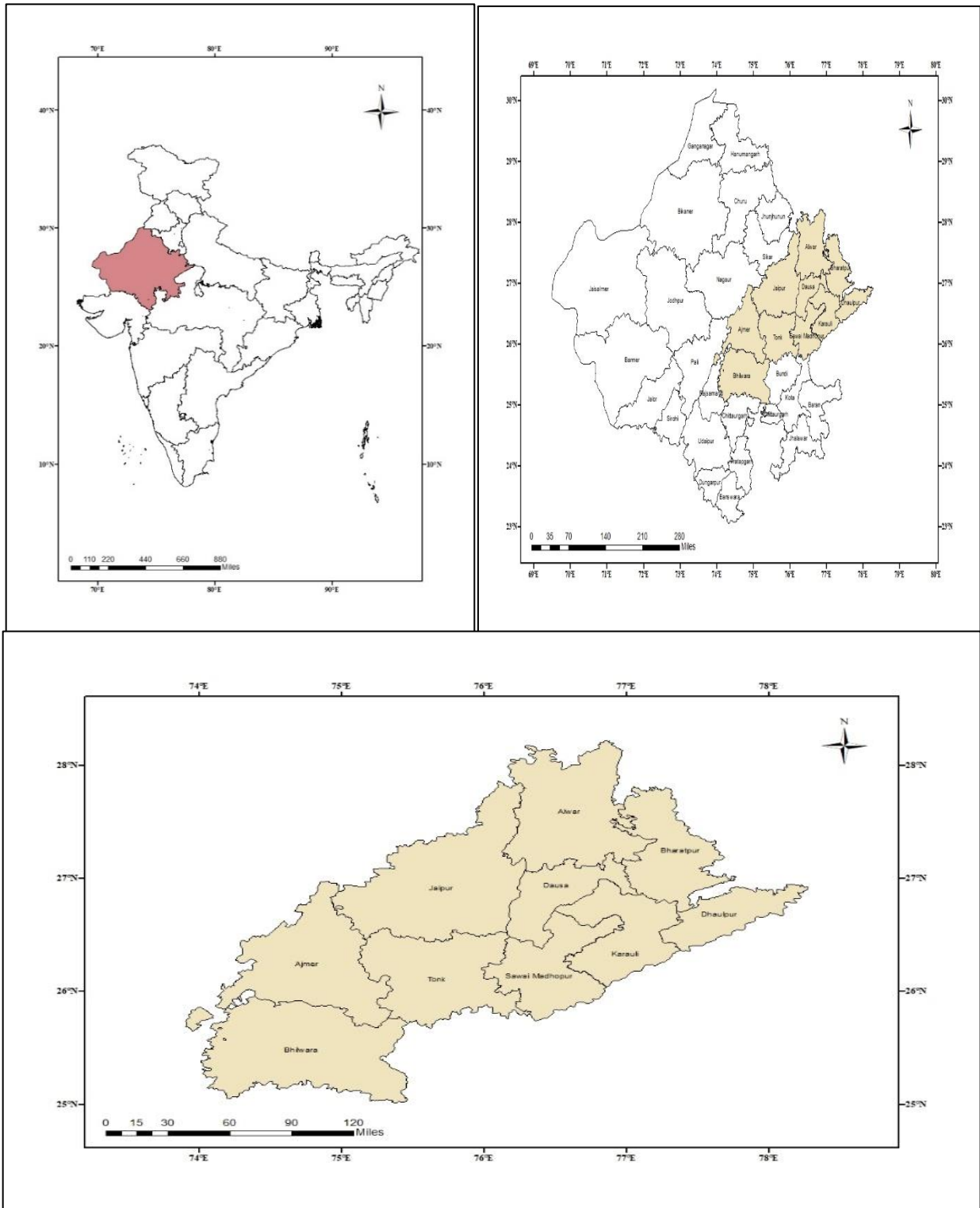


Figure 1.1 Map of Study Area

In the region the soil varies from sandy loam to loamy in the northern part. In the southeast they are in generally black soil which is well drained. In the central part a mixture of red and alluvial soil is found.

The region is drained by the east flowing rivers like Banas, Khari, Luni, Morel, Banganga, Gambhir, Ruparel, SabiChambal etc. Most of the rivers are seasonal in nature except Chambal and the river regime shows remarkably high peak during the monsoon months.

The north eastern region of Rajasthan consists of two sub-regions; Chambal Basin and Banas Basin. The region of Banas basin is an elevated peneplain from where Banas and its tributaries flows. The Banas basin can be further sub-divided into two sub regions of Mewar Plain and Malpura- Karauli Plain. Mewar Plain is a dissected plain of Archean genesis and it gradually slopes towards the east and north east, with an average elevation of 280-500m. Malpura- Karauli Plain is a flat upland part of Tertiary Peneplane. This is composed of schist and gneiss with an average elevation of 250-350m. This plain has thick alluvial deposits. In the east and southern part, a rugged Badlands region tracks the line of the Chambal River.

The region has Humid and sub-humid climate. The sub-humid type of climate is found in the districts of Alwar, Jaipur, Dausa, Ajmer, and northern parts of Tonk having meagre rainfall ranging between 40-60cm of rainfall and the average summer temperature ranges between 28°C to 34 °C. This region has steppe type of vegetation. The humid type of climate is seen in the districts of Bharatpur, Bhilwara Dhaulpur, Sawai Madhopur, Karauli and southern parts of Tonk. Most of the rain is received in the monsoon months (June-September). But also, very small amount of rainfall called 'Mawat' is received in winter months caused by the western disturbances. The average rainfall is 60-80cm. The vegetation in the area is dominated by deciduous trees. In this region, the amount of rainfall decreases from south-east to north-west direction.

The region has hills in the northern and southern Margins where as the middle part of the region is plain. While plain surface is devoid of natural vegetation but good forest cover is found on the Aravalli hills (northern) and Vindhyan Scarp (southern). Teak, sal, acacia and bamboo grow on the lower slopes of hills whereas grasslands and pastures are present on the hilltops of Aravalli hills. The Vindhyan Scarp presents undulating topography composed of boulders and block and depressions.

The middle portion of the region is plain and fertile better suited to agriculture. Agriculture is the most important economic activity of the region. The cropping pattern in the region includes

crops like bajra, tul, guar in the kharif season and mustard, gram, wheat, and in the rabi season. Commercial crops such as Cotton and tobacco and oilseeds such as Sesamum, taramira and groundnut are also grown. Therefore, diversified cropping pattern particularly towards the high value crops is found in the region.

As per the 2011 Census, the total number of villages in the region are 13516 with total rural population of 4.08 million. The region has sex ratio of 911.1.

1.9 Data base and sampling design

The basic proposal of the study is to investigate the role of MSMEs in rural development and the process through which the progress occurs in the villages. To achieve the said objectives both primary and secondary data base have been employed.

Secondary data source

In this study the data of “Unincorporated Non-Agricultural Enterprises (Excluding Construction) released by National Sample Survey Office under Ministry of Statistics and Programme Implementation of Government of India” has been utilized. The data on “Unincorporated Non-Agricultural Enterprises (Excluding Construction) has been collected during NSS-67th Round, 2010 -2011 and NSS-73rd Round 2015-2016”.

The population census 2011 has been used to analyse the physical, demographic and workforce characteristic of the study region.

Primary data source and sampling

Primary data has been collected through survey with the help of Questionnaire scheduled where Semi structured questionnaire has been employed and which has facilitated as tool of qualitative research. A field survey has been carried out for the detailed enterprise level information on different parameters.

Three districts have been selected for the field survey on the basis of MSMEs density per 1000 population and one district from each category (high, moderate and low density) has been selected based on random sampling method.

A '**Stratified Multi-Stage Random Sampling**' method has been implemented for the assortment of **tehsils, villages** and enterprise:

First stage: Sample of tehsils One tehsil out of a total of nine tehsils in Ajmer, twelve tehsils in Alwar and five tehsils in Dausa has been sampled out by using the method of random sampling.

Second Stage: Sample of Villages. **Five percent of the** total villages of the sampled district have been sampled out on the basis of random number table by means of simple random sampling method without replacement. Using this method list of five villages has been selected from Beawar tehsil of Ajmer which consists of a total of 223 villages. Using similar method another list of five villages from Rajgarh tehsil of Alwar which consists of a total of 257 villages. Similarly, a list of five villages has been selected from Lalsot tehsil of Dausa district which consists of a total of 322 villages.

Third stage: Sample of enterprise: At the unit level, the enterprise of each of the sampled village are selected on the basis of random number table using simple random sampling without replacement method. A total of 150 enterprise; 50 each from the selected districts of Ajmer, Alwar, and Dausa have been surveyed for the purpose. The owner of the enterprise has been interviewed.

In this study the following definition of MSME will be used.

According to THE “MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT (MSMED) ACT, 2006”

“(a) in the case of the enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951 (65 of 1951), as

(i) a micro enterprise, where the investment in plant and machinery does not exceed twenty-five lakh rupees;

(ii) a small enterprise, where the investment in plant and machinery is more than twenty-five lakh rupees but does not exceed five crore rupees; or

(iii) a medium enterprise, where the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees;

(b) in the case of the enterprises engaged in providing or rendering of services, as—

(i) a micro enterprise, where the investment in equipment does not exceed ten lakh rupees;

(ii) a small enterprise, where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees; or

(iii) a medium enterprise, where the investment in equipment is more than two crore rupees but does not exceed five crore rupees.” (THE MICRO , SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ACT, 2006)

1.10 Methodology

1. The study is based on both primary and secondary data therefore the following statistical tools and methods have been used for making the analysis meaningful.
2. For mapping of the study area and other related characteristics GIS has been used.
3. Compound Annual Growth Rate has been used to find the pace of **growth** of different variables characterising the MSMEs.

$$CAGR = \left[\frac{V_{final}}{V_{initial}} \right]^{1/t} - 1$$

4. Pictorial presentation of data through bars, pie-charts, graphs etc. has been done to make the analysis self-explanatory.
5. Tables containing absolute and percentage values are created to explain different pattern of the enterprise.
6. Correlation has been used to show the impact of MSMEs on employment, wages and output of MSMEs.
7. A composite index has been constructed to assess the role of MSMEs in rural development through its linkages.

Chapter 2

SIZE, STRUCTURE AND GROWTH OF MSMEs

2.1 Introduction

The economic performance of the Micro, Small and Medium Enterprises (MSMEs) has been discussed widely in India. The economic performance of MSMEs is analysed in the terms of its size, structure and their contribution in output measured in terms of Gross value added. The performance of MSMEs is also analysed by tracing their growth trajectory. This kind of analysis help in getting the real picture of objectives achieved so far by MSMEs. The major objective of different protecting and promotional measures introduced by different stake holders related to MSMEs has been employment generation and industrialisation of rural and isolated and backward areas. Policy support includes reservation of products, fiscal incentives in terms of exemption from excise tax, direct subsidy, price preference, credit, technical and marketing assistance. A comprehensive network of institutions has also been established to implement the policies. These studies have largely focused on the problem of scale economies, factor substitution and intensity, relative efficiency, profitability and relative wages, problems of financial assistance and subcontracting practices. The problem of changes in size, growth and structure has received much less attention. Lack of relevant time series data is the obvious reason.

In this chapter, analysis of the structure and growth of MSMEs in the rural areas of the north-eastern region of Rajasthan has been done on the basis of secondary data. For the determining the performance of MSME, different variables have been taken such as namely number and density of enterprises, employment, emoluments and output. Total worker engaged by MSMEs is taken as employment. The gross value added (GVA) is used as output. These terms have been defined as follows:

Enterprise: “An enterprise is an undertaking which is engaged in the production and/ or distribution of some goods and/ or services meant mainly for the purpose of sale, whether fully or partly. An enterprise may be owned and operated by a single household or by several households jointly, or by an institutional body” (NSSO, Mospi, 2017).

Worker: “A worker is defined as all persons working within the premises of the enterprise who are in the payroll of the enterprise as also the working owners and unpaid family workers” (NSSO, Mospi, 2017).

Emoluments: “Emoluments to employees is the total remuneration, in cash or in kind, payable by an enterprise to an employee in return for work done by the employee during the accounting period” (NSSO, Mospi, 2017).

Gross Value Added: “Gross value added is taken as additional value created by the process of production of an enterprise to the economy” (NSSO, Mospi, 2017).

2.2 Employment generation by MSMEs

Since, rural areas are devoid of large enterprises therefore there is less employment generation. Consequently, working population is highly reliant on agriculture as chief source of livelihood. Due to this mounting pressure on agriculture, there arises problems of disguised employment, underemployment, rising proportion of marginal and landless farmers. Also, high rate of growth in working population results in numerous problems such as disguised employment, generation of push factor induced migration towards towns and cities. In this scenario MSMEs

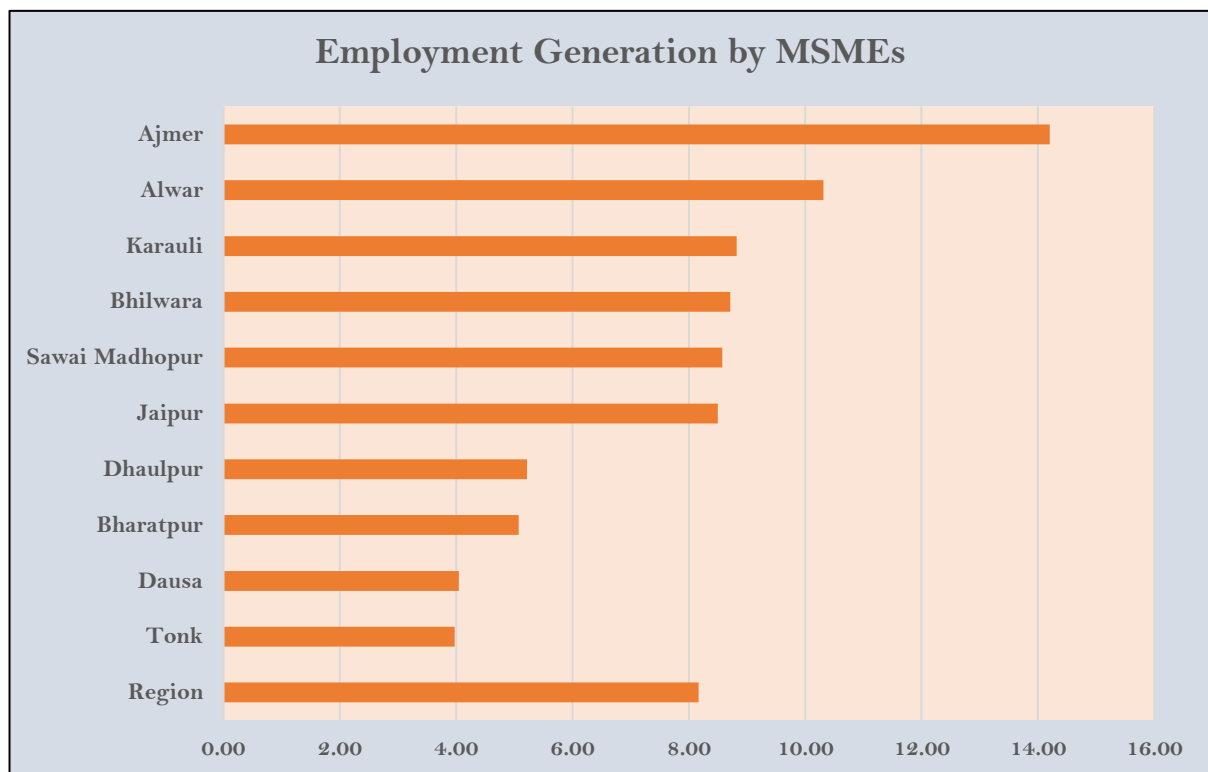


Figure 2.1 Percentage of Workforce Employed by MSMEs

provide an alternative source for livelihood generation to rural working population. The Figure 2.1 represents the percentage of working population employed by MSMEs.

It is found that in the region around 8.17 percent of workforce is employed by MSMEs. At the district level, Ajmer hold the prominence place when it comes to employ workforce through

MSMEs, employing around 14.20 percent. Alwar, Karauli, Bhilwara, Sawai Madhopur, and Jaipur also provide significant employment through MSMEs. There reason for such trend could be multiple such as reach of different institution in rural areas of these district promoting household as well as non-household industries; presence of artisans and demand for their handicrafts in market, high level of industrial development in cities of these districts which facilitate in dispersing industrial activities to rural areas.

However, rural areas of Dhaulpur, Bharapur, Dausa, and Tonk are not able to generate as much as employment as seen in other districts of the region. This can be explained by the remote situation of these districts in the region and their geographical and physiographic characteristics which hinders the development of MSMEs. The population of these districts is mainly employed as marginal workers in stone- cutting.

Employment Elasticity in MSMEs

The employment elasticity defined as the ratio of the employment growth rate to the output growth rate.

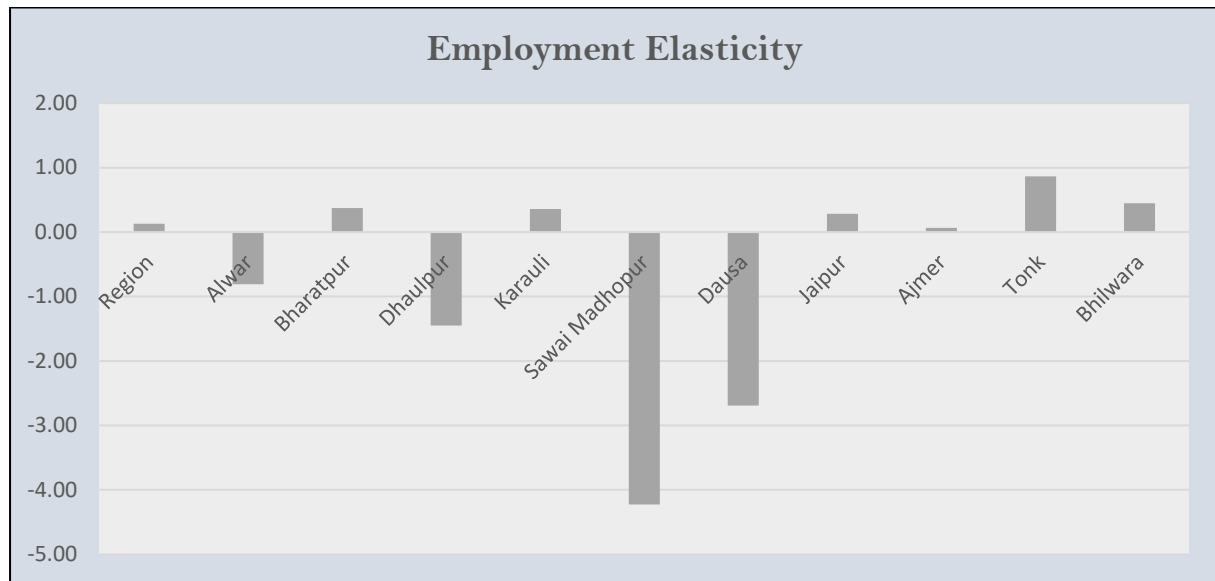


Figure 2.2 Employment Elasticity in 2010-11 to 2015-16

As shown in Figure 2.2 employment elasticity turns out to be 0.44 for the region during 2010-11 to 2015-16 which implies that MSMEs as a whole is functioning properly in the region. Across districts, Bharatpur, Dhaulpur, Karauli, Jaipur, Ajmer, Tonk and Bhilwara has recorded positive employment elasticity where Tonk has recorded highest employment elasticity. Four

districts has recorded negative employment elasticity which are Alwar, Dhaulpur, Sawai Madhopur and Dausa. Sawai Madhopur has performed very low at (-) 4.23.

2.3 Type of Enterprise and their Growth

Type of Enterprise refers to the Own Account Enterprise (OAE) and Establishment. The MSMEs are classified into OAE and Establishment where;

Own-account Enterprise: “An enterprise, which is run without any hired worker employed on a fairly regular basis¹, is termed as an own account enterprise.” (NSSO, Mospi, 2017)

Establishment: “An enterprise which is employing at least one hired worker on a fairly regular basis is termed as establishment. Paid or unpaid apprentices, paid household member/servant/resident worker in an enterprise are considered as hired workers”(NSSO, Mospi, 2017)

The Table 2.1 shows the composition of Own-account Enterprise (OAEs) and Establishment in the rural areas of North eastern region of Rajasthan. The conformation of Own account enterprise is 87.96 percent and of Establishment is 12.04 percent in 2010-11 in the region which has slightly changed in 2015-16 where the share of Own-account Enterprise and Establishment reached to 90.87 percent and 9.13 percent. All the district has shown the same pattern of growth in the proportion of Own-account Enterprise and decrease in proportion of Establishment except in the Bharatpur district where the share of OAE has decreased and share of Establishment has increased marginally.

Also, the share of Micro enterprise among MSMEs in rural areas are overwhelmingly large and also around 85 percent of the micro-enterprise are OAE. The proportion of micro enterprise for the whole region is 99.33 percent. The proportion of small and medium enterprises is meagre in the rural areas as computed from the data. Similar composition or pattern of micro, small and medium enterprises based in rural areas is also found at all- India level. The immense share of micro enterprise is due to multiple reason such as the feasibility of starting micro enterprise, very low requirement of capital, etc. Micro enterprise also acts as an effective measure of social and economic development by generating employment for a rural workforce within their

¹"fairly regular basis" means the majority part of the period when operation(s) of an enterprise are carried out during a reference period.

own social system. They also provide benefit to rural based women entrepreneurs and women workers employed by MSMEs as it allows augmentation to the household income along with

Table 2.1 Type of Enterprise and their Growth, 2010-11 and 2015-16

	2010-11		2015-16	
	Own-account Enterprise	Establishment	Own-account Enterprise	Establishment
Region	352374 (87.96)	48229 (12.04)	410754 (90.87)	41248 (9.13)
Alwar	76459 (88.67)	9771 (11.33)	68243 (91.11)	6662 (8.89)
Bharatpur	26556 (91.71)	2399 (8.29)	51943 (91.24)	4987 (8.76)
Dhaulpur	13652 (87.82)	1894 (12.18)	17413 (95.55)	811 (4.45)
Karauli	27668 (89.37)	3290 (10.63)	29150 (92.00)	2535 (8.00)
Sawai Madhopur	20670 (76.21)	6452 (23.79)	20232 (85.56)	3415 (14.44)
Dausa	12888 (89.15)	1569 (10.85)	15855 (85.98)	2586 (14.02)
Jaipur	58770 (86.90)	8856 (13.10)	64115 (87.41)	9236 (12.59)
Ajmer	61888 (90.84)	6237 (9.16)	59575 (91.31)	5666 (8.69)
Tonk	12330 (89.71)	1414 (10.29)	22147 (95.14)	1132 (4.86)
Bhilwara	41493 (86.74)	6345 (13.26)	62080 (93.64)	4217 (6.36)

Figures in the brackets shows percentage value

performing numerous household responsibilities (Sharma et al., 2012; Woodward, D., Rolfe, R., Ligthelm, A., & Guimaraes, 2011). Weijland, (1999) argues that bleakly poor but clustered rural microenterprises can act as a seedbed for industrial development. Thus, all these factors lead to high percentage of micro-enterprise and insignificant share of small and medium enterprises (less than 1 percent) among rural MSMEs.

2.4 Growth scenario of MSMEs and its Worker

In this section the trajectory of MSMEs and workers employed by the same has been analysed over the period 2010-11 to 2015-16. The Figure 2.3 shows the compound annual growth rate (CAGR) of Micro, small and medium enterprises (MSMEs). In this figure it can be seen the rural MSMEs in the region has shown expressive and positive growth rate. The MSMEs in the region has recorded the compounded annual growth rate of 2.44 percent which shows the emerging importance of MSMEs in the rural economy and high acceptance of starting enterprise by the rural population to supplement their income coming from agriculture.

This also shows that the hidden rural entrepreneurship is getting utilised in the mainstream rural economy. Different districts in the region have also exhibited positive CAGR except for Alwar, Ajmer and Sawai Madhopur. Rural MSMEs of different districts in the region has shown varying growth rate which are (-)2.78 in Alwar, 14.48 in Bharatpur, 3.23 in Dhaulpur, 0.47 in Karauli, (-)2.70 in Sawai Madhopur, 4.99 in Dausa, 1.64 in Jaipur, (-) 0.86 in Ajmer, 11.11 in Tonk and 6.74 in Bhilwara. The Rural MSMEs of Bharatpur and Tonk have shown

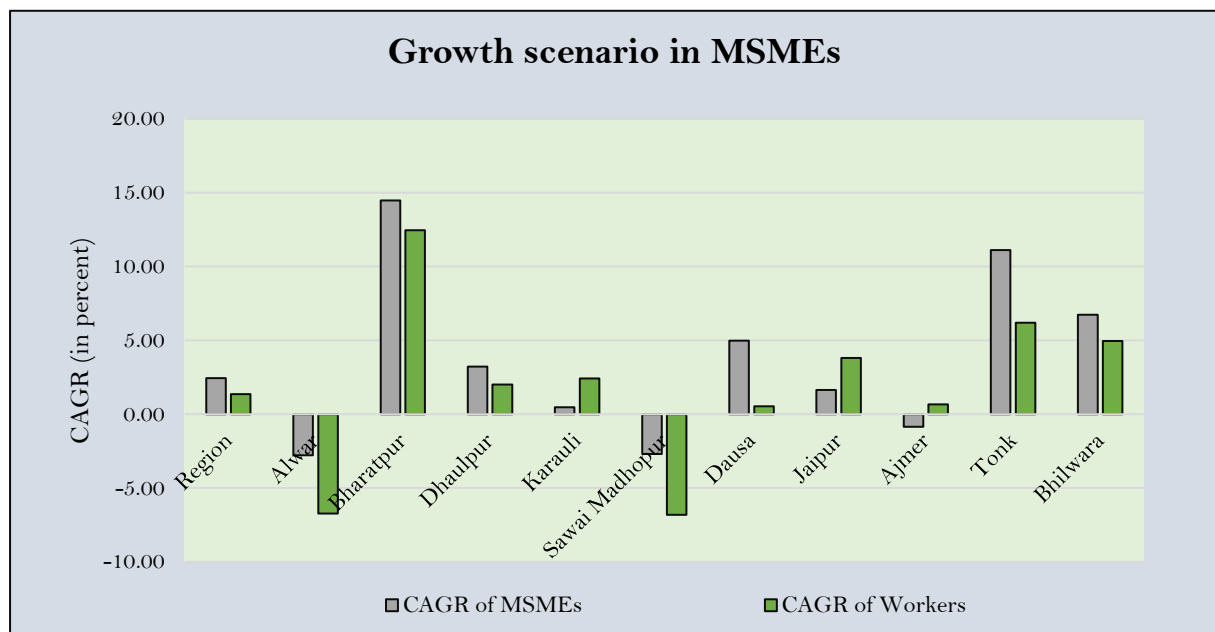


Figure 2.3 CAGR of MSME Units and Workers

the highest CAGR of MSMEs. The reason for this could be multiple such as the district of Tonk lies in the vicinity of industrial state of Gujarat and multiple highways connecting the district to other district of state and other state of nation passes through the district. Similarly, the district of Bharatpur is situated in the vicinity of the districts of Jaipur, Agra and Mathura influencing the Bharatpur of their industrial environment. Also, this increase is manifested by the increase of Establishment type of enterprise in the rural areas of Bharatpur. The high growth rate helps the rural areas getting industrialised at rapid rate and it would help the rural areas in reducing the huge population pressure on agriculture. This would as well enable diversification of the rural economy and will boost the income earning of rural population since most of the MSMEs are run in addition to the agriculture. There are number of studies which suggest that MSMEs play a crucial role in job creation (Smallbone, D, & Wyer, 2000).

The MSMEs provide significant employment to the rural population as cited in the literature review and comes only after to the agriculture in term of absolute number of employments. Though, multiple arguments are put forward on the overall contribution of MSMEs in the new employment, it is still taken as crucial sector for generation of employment opportunities (Curran, 2000; Davidsson, P., & Delmar, 1997; Gibb, 2000; Hamilton & Dana, 2003; Robbins et al., 2000; Tonge, R., Larsen, P., & Roberts, 2000; Westhead, P., & Birley, 1995). The graph also shows the CAGR of workers. In the region the workers employed in the MSMEs has increased by 1.36 percent which shows that over the period the working population from the rural areas in the region are able to get employment in MSMEs thus channelising and utilising the talent of the working population for the rural development and also supplementing their income hence reducing the incidence of poverty or can help in raising the low income generated from the agriculture. The rural areas of the districts of Alwar and Sawai Madhopur has shown the decrease in CAGR of workers which is 6.74 and 6.82 respectively. This could be attributed to the decrease in the number of MSMEs as well as decrease in the Establishment type of enterprise in the district which is run with atleast one hired labour. The highest increase in the worker is found in the case of Bharatpur which is due to high growth in the number of MSMEs thus facilitating the large-scale employments in the rural MSMEs of Bharatpur. Similarly, the district of Tonk has seen the high CAGR of 6.20 which could also be attributed to the high increase in CAGR of MSMEs which is 11.11 percent.

This growth in number of MSMEs is major contribution of the MSMEs towards the rural industrialisation and rural economy. Agriculture being the main occupation of rural areas, it is sluggishly falling because the rural workforce is increasingly realising the potential of MSMEs

promoted through numerous governmental initiatives. According to 2005 report of MSME, rural industrialization has gained a massive eminence under various government initiatives is resulting into the increase in the number of rural enterprises particularly in rural areas. MSME are playing a creditable role in transitioning of rural economy from agrarian to an MSME oriented industrial economy which will not only curb the the distress migration but also provide agriculture sector with forward linkages which are a major missing in the true realisation of agricultural sector. Rural women are also getting opportunities due to their involvement in khadi and village industries such as coir, silk, weaving, crafts, sewing, and etc in large numbers. Engagement of women through these institutions given twin benefits of employment of women workforce as well as growth of traditional industries. that has a cooperative strength to impact the rural economy significantly. The increase in the number of workers employed by the increasing number of MSMEs also denies the fact of jobless growth.

2.5 Density of MSMEs in the region

Density of MSMEs per thousand population helps in appreciating the level of industrialisation materialized in the region and realizing the objectives of the initiative of rural industrialisation taken back in 1960s.

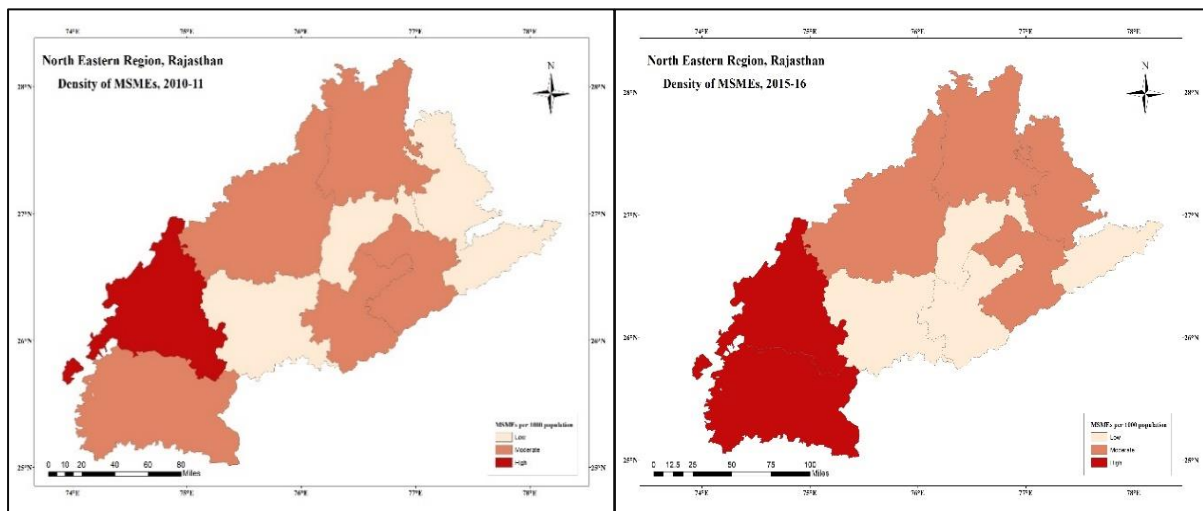


Figure 2.4 Density of MSME in 2010-11 and 2015-16

The map shown in Figure 2.4 illustrates the density of MSMEs in the rural areas. The density is measured as the number of MSMEs in rural area per thousand of rural population. Although every district has showed growth in the absolute figure of MSMEs from 2010-11 to 2015-16 but the density of MSMEs has not showed similar trend in different districts. In 2010-11 the district of Ajmer was lying in the category of high MSMEs density. The districts of Alwar,

Bhilwara, Jaipur, Karauli and Sawai Madhopur in the moderate category. The districts of Bharatpur, Dausa, Dhaulpur and Tonk are in the low category. In 2015-16 the district of Bhilawara has reached to high category along with Ajmer. Similarly, the district of Bharatpur has reached to a higher category. But the district of Sawai Madhopur has slid to low category. This change is majorly due to the change in number of MSMEs in respective districts. Tonk, Dausa and Dhaulpur are the districts which has remained in the low category in both the period.

2.6 Productivity of MSMEs

Productivity is a measure of economic performance that shows the amount of goods and services produce (output) with the volume of input used to produce those goods and services. Productivity is a crucial aspect of higher GDP growth rate. Looking at macro level, the prosperities of the nation’s economy and its citizens is determined by productivity of the enterprises (Barman & Bhattacharjee, 2021). Thus, attention on the productivity of enterprise is necessary so as to make them competitive and sustainable in the ever changing national and global economy scenario. The ability of MSMEs to augment the productivity of their inputs is crucial for remaining competitive in progressively competitive global economy.

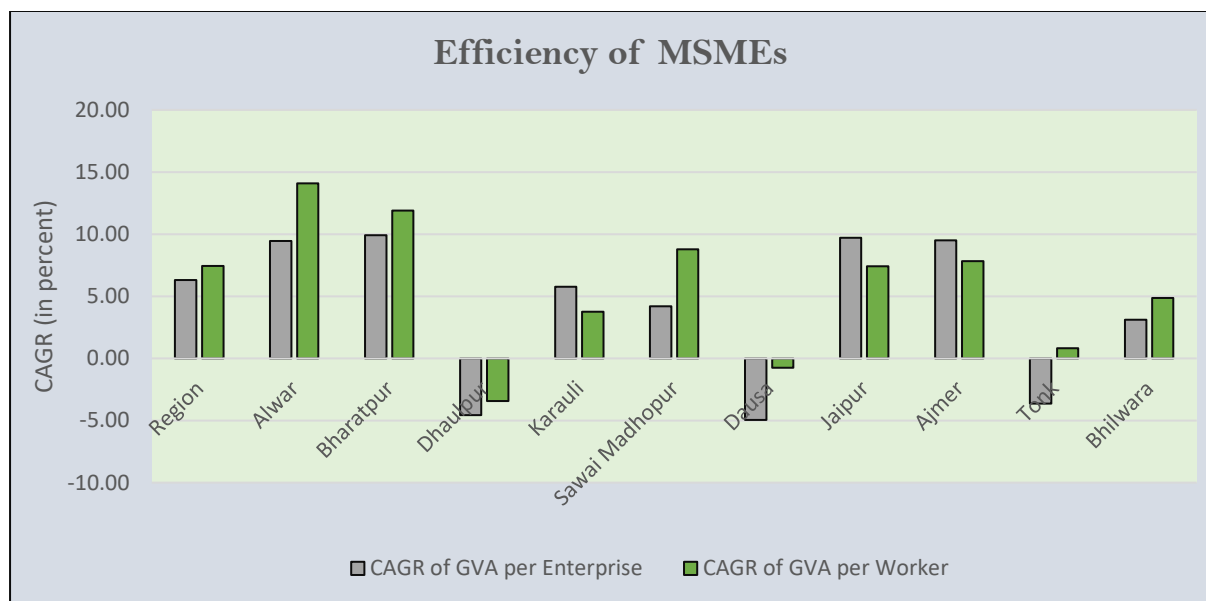


Figure 2.5 Change in Efficiency of MSME Unit and Worker

The Figure 2.5 shows change in productivity of the MSMEs over the period 2010-11 to 2015-16 in terms of Gross Value Added (GVA) per enterprise (GVA at 2004/05 prices). It is evident that the productivity in the region has improved and the CAGR of GVA per enterprise is 6.31 percent. In all the districts of the region, productivity of MSMEs has increased but with varying rate. Highest increase has been seen in the district of Bharatpur; the reason for this could

situational and hence benefitting due the industrial momentum of the vicinal districts of Agra, Mathura, Delhi etc and getting favourable attention from different stakeholder such as government, industrialist and others. Alwar has also seen the sharp increase in the productivity of Enterprise and presents a unique case where there has been improvement in the productivity of MSMEs despite decrease in the number of MSMEs. The reason for this could be its vicinity to the industrial areas of Delhi, Uttar Pradesh as well as dispersal of industries from the border of Haryana to Alwar. Dausa, Dhaulpur and Tonk has seen the decrease in the productivity of the enterprise, this might be because the density of MSMEs is low the respective districts in both the period of 2010-11 and 2015-16 which would have translated into low output and could not get the benefits of scale of economies.

The Figure 2.5 also shows the shows the change in efficiency and productivity of workers employed by MSMEs. It is apparent that productivity of workers as a whole has improved in the rural areas of the region and the CAGR of GVA per worker is 6.31 percent which shows that rural MSMEs have been able to maintain the growth trajectory of the rural economy and would supplement the income generation. The maximum growth in the workers' efficiency is seen in the district of Alwar where effectiveness of workers has increased by CAGR of 14.10 percent which is quite impressive. The increase in the productivity of MSMEs as well as workers in Alwar can lead to accelerated urban utilities coming to rural areas of Alwar giving urban like opportunities to the population of the Alwar. The districts of Dhaulpur and Dausa have shown the decrement in the productivity of worker which in reality is due to the low density of MSMEs in both the districts and hence not benefiting from scale of economies.

Increasing productivity of MSMEs and its worker are vital in achieving the objective of improved productive potential, minimising inequality and ensured sharing of fruits of amplified globalisation and technological progress as OECD documented in its work on the productivity-inclusiveness nexus (OECD, 2016a), Moreover, MSMEs can aid economies to adjust to major transformations in economy, seizing innovative and better opportunities and can help to mitigate risks. To increase the productivity of enterprises the stakeholder can gravitate towards internal factors as highlighted by (Prokopenko, 1987) are more manageable. The internal factors comprise of Hard Factors (Plant and Equipment, Product, Technology, and Energy) and Soft Factors (Systems, Organization, People, and, Work Methods). The external factors are less controllable and take long time to show their results; and comprise of Structural Adjustments (Demographic, Economic, and Social), Natural Resources (Labour, Land, Raw

Materials and energy), and Government & Infrastructure (Policies and Strategy, Institutional Mechanism, Infrastructure, and Public Enterprise).

2.7 Composition of MSMEs

Composition of MSMEs in this section refers to the share of manufacturing and services enterprise among MSMEs.

Manufacturing Enterprise: “A manufacturing enterprise is a unit engaged in the physical or chemical transformation of materials, substances or components into new products. It covers units working for other concerns on materials supplied by them. Also included are units primarily engaged in maintenance and repair of industrial, commercial and similar machinery & equipment, which are, in general, classified in the same class of manufacturing as those specialising in manufacturing the goods.”(NSSO, Mospi, 2017)

Servicing Enterprise: “A servicing enterprise or service sector enterprise is engaged in activities carried out for the benefit of a consuming unit and typically consists of changes in the condition of consuming units realized by the activities of servicing unit at the demand of the consuming unit. It is possible for a unit to produce a service for its own consumption

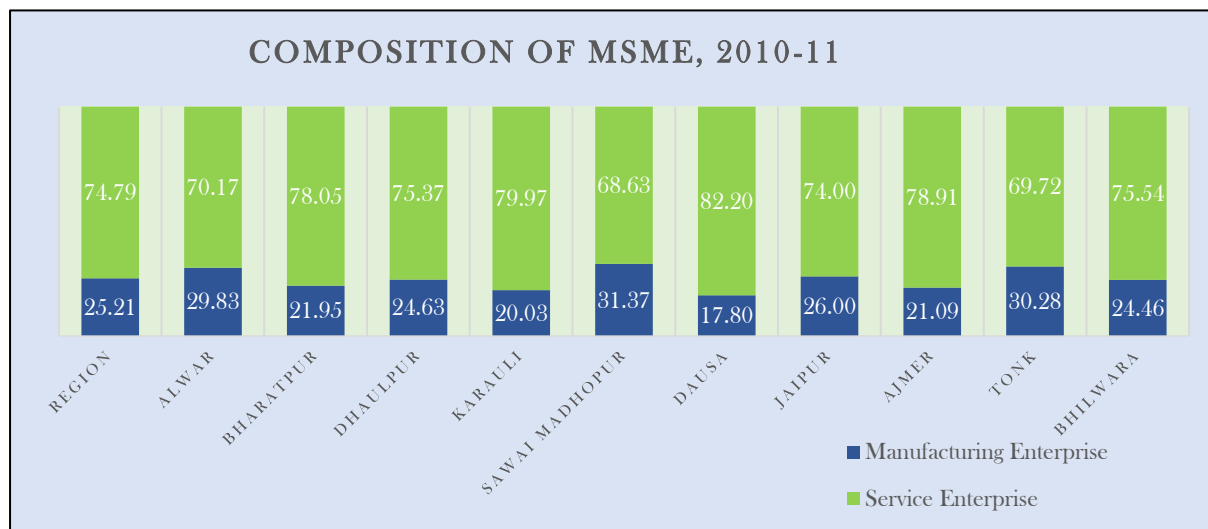


Figure 2.6 Share of Manufacturing and Service Enterprises in 2010-11

provided that the type of activity is such that it could have been carried out by another unit.”(NSSO, Mospi, 2017)

The Figure 2.6 shows the composition of manufacturing and services MSMEs in the two periods and the change in their structure. In 2010-11 the manufacturing MSMEs were around 25.21 percent and Services enterprises were around 74.79 percent in the region.

Similar composition can be found in different districts where the ratio of Manufacturing and service enterprises is around 30:70. The districts of Sawai Madhopur and Tonk have the proportion of manufacturing enterprises as 31.37 percent and 30.23 percent respectively. The low share of manufacturing enterprises shows the economic cost bearing related to starting of manufacturing enterprises. However, the manufacturing sector holds an important place in the development of a region as highlighted by the general theory of economic development of a region where the manufacturing sector is given more importance in the initial economic growth trajectory. The manufacturing sector holds an important place in the context of regional development.

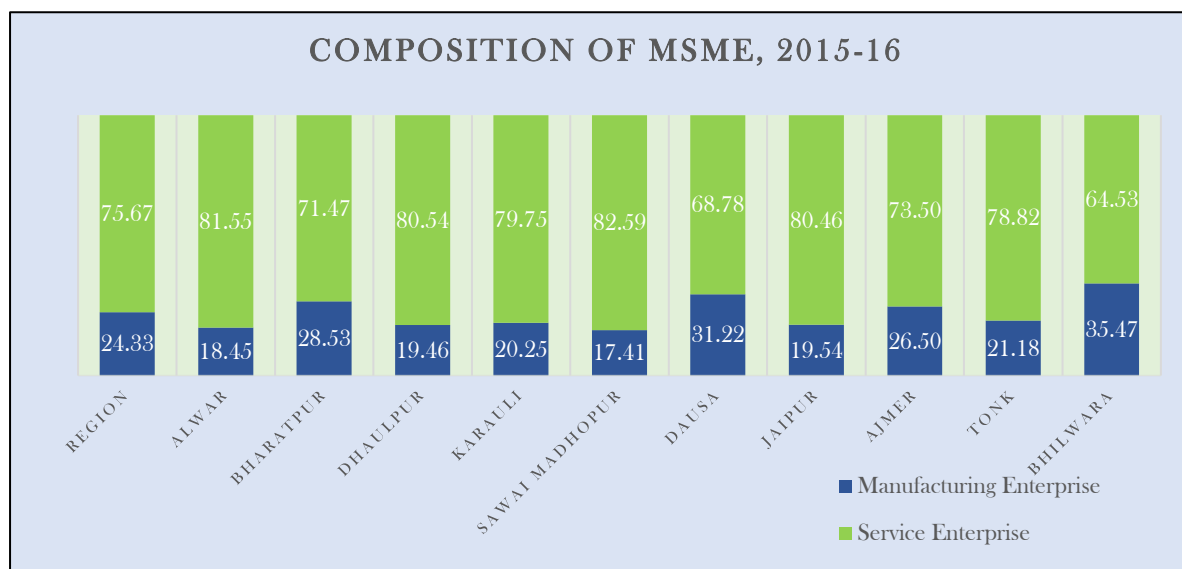


Figure 2.7 Share of Manufacturing and Service Enterprises in 2015-16

as no major economy has been able to decrease poverty or maintain positive economic growth progress without manufacturing sector. The reason being the high productivity level found in the manufacturing sector as compared to agricultural or service sector. Manufacturing sector holds a crucial position in economic growth trajectory because it helps in maintaining economies of scale, amplifies technological advancement and creates forward and backward linkages encouraging positive spill-over effects rural economy (Mehrotra, 2020). Thus, there is a need to promote the small-scale manufacturing enterprises to aid the development process. The high share of service enterprise shows the ease of doing business related to the service sector as they require less investment and capital goods to start their operation making them viable in rural areas. The share of service enterprise holds a prominent position in both the periods which is evident from the graph. In 2015, as shown in Figure 2.7, the service enterprise has increased marginally at the regional level than the manufacturing enterprises. The MSMEs related to the service sector reach around 76 percent and manufacturing enterprises reduced

to around 24 percent. Similar trend is seen in the different districts of the region. This configuration of manufacturing and services MSMEs could be because of multiple reason such as more emphasis on the service sector, service sector driven by growth in third-party services, slower manufacturing sector growth because of sluggishness in the economy.

The services sector has advanced due to the growing realisation in India that the asset-light business models and third-party services are more cost-effective. Also, increasing income have promoted the demand for health care, education, and entertainment, which, in order, helped the services sector prosper. Also, the continuous extension of banking, financial and insurance services, upsurge in digital media, and the advent of different verticals, propelled the growth in the services sector among MSMEs.

Growth status of MSMEs

Growth status of an MSMEs denotes the overall sustainability and performance of MSMEs over a period of time.

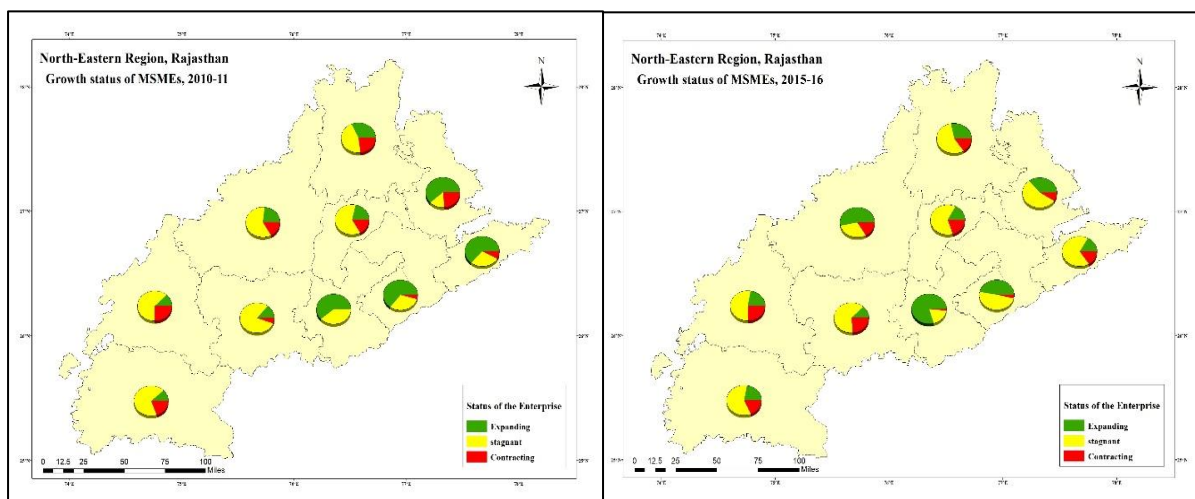


Figure 2.8 Share of MSMEs by their Growth Status, 2010-11 and 2015-16

In the region, as shown in Figure 2.8 almost similar pattern is seen in each district in terms of expanding, stagnating and contacting MSMEs. For the whole region, the proportion of expanding, stagnating and contacting MSMEs is 31.92, 51.27 and 16.81 percent respectively in 2010-11 which has improved marginally in 2015-16 where the composition of expanding status of growth MSMEs has increased to 33.66 percent, and that of stagnating and contracting MSMEs has decreased to 51.52 percent and 14.83 percent respectively.

In general, the proportion of stagnating MSMEs is highest in both the period and in all the districts except for the districts of Sawai Madhopur where the proportion of expanding MSMEs was around 60 percent in 2010-11 and improved to 80percent in 2015-16.

The reason for high percentage of stagnating MSMEs could be multiple such as lack of a strategic plan to grow the business, flawed sales planning and forecasting, weak operations, hiring workers might have become an expensive affair, and most importantly lack of capital to fund expansion of the enterprise. In rural areas these glitches are common due to absence of skill centres, information gap and unfamiliarity in rural about the strategies of running a successful and profitable business, isolation and simultaneous less importance being given by different stakeholders for their promotion. Kolvereid & Bullvag, (1996) in their study found significant correlation between education, previous records of turnover and growth in workers, and entrepreneur's ambition to grow. The determining factors such as size of the firm and its location, age of the enterprise and experience of the entrepreneurs as well as gender are significantly linked to aspirations.

In general, the ratio of expanding MSMEs is less than stagnating MSMEs in both the period but there has been slight increase in the proportion of expanding MSMEs in 2015-16 which shows the development of favourable condition for MSMEs leading to their growth.

Overall, the proportion of contracting MSMEs is lowest and has meagre share. Moreover, the share of contracting over the two period has decreased from 16.81 percent in 2010-11 to 14.83 percent in 2015-16. The decrease in the share of contracting MSMEs signifies the better entrepreneurial and business environment in rural areas of the region.

2.8 Nature of Operation of Enterprises

Nature of operation of enterprises is defined as follows-

Perennial enterprise: Enterprises that are run more or less regularly throughout the year are called perennial enterprises.

Seasonal enterprise: Seasonal enterprises are those, which are usually run in a particular season or fixed months of a year.

Casual enterprise: Enterprises that are run occasionally, for a total of at least 30 days in the last 365 days, are called casual enterprises.

From the map shown in it is evident that the share of Perennial enterprise is highest in all the districts of the region in both the period which signifies that enterprises are able to operate all-round the year not only during off-season of agriculture. This helps the people to keep themselves engages all-round the year even if the agriculture is not demanding them and

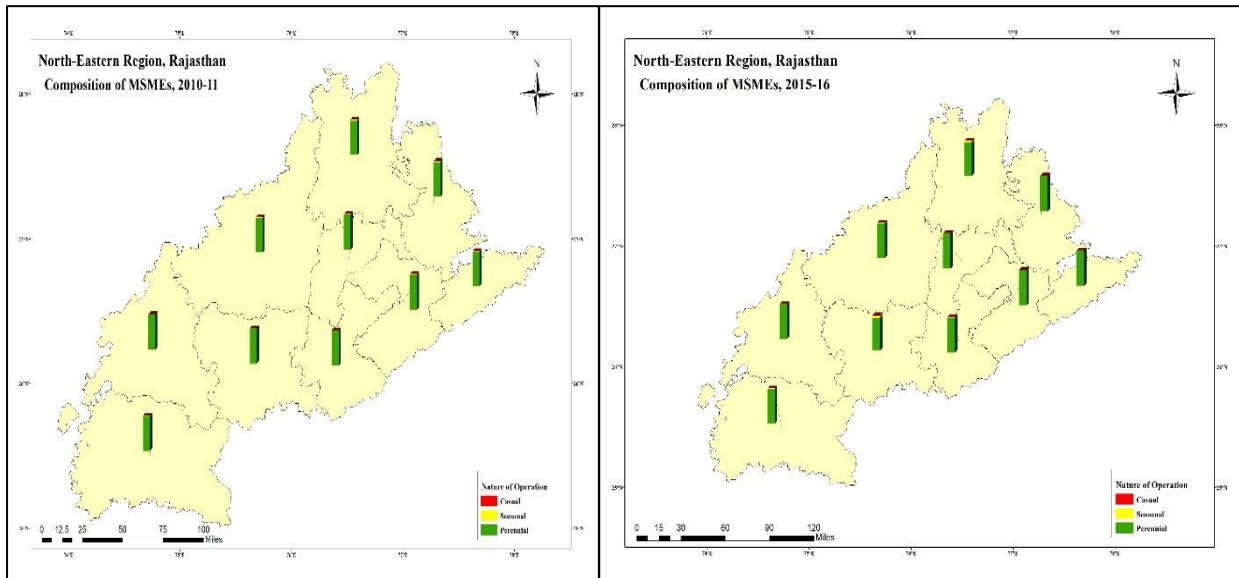


Figure 2.9 Share of MSMEs by their nature of Operation, 2010-11 and 2015-16

keeps them out of economic distress. Seasonal and casual enterprise has share of around 2 percent which shows the scarce presence of these enterprises. Also in 2010-11, leaving Alwar, Jaipur and Dhaulpur; all districts notice the absence of the casual MSMEs. Similar is the case in 2015-16 where, excluding Alwar and Bharatpur, no district has casual MSMEs. The scanty share of these two types of enterprises signifies the changing business environment and outlook of the entrepreneurs toward MSMEs and increase in the setting up of business to augment their income and utilise their capacity favouring MSMEs as well as rural development.

The increase in the share of Expanding and Perennial enterprise and decrease in the share of casual and seasonal as well as stagnating and contracting enterprise shows that the sustainability and survival of MSMEs has improved over the period and entrepreneurs can depend on their MSMEs in case of need or any crisis related to finance or augmentation of capital resources. The surge in the share of expanding enterprises and perennial enterprises will improve the profitability of entrepreneurs to supplement their income and expand their business size or volume or turn their enterprise to the category of large enterprise, consequently bringing development in rural areas.

2.9 Impact of MSMEs

2.9.1 Effect of change in the size of MSMEs in Rural Areas

Largely, the impression of MSMEs' growth on rural areas and local economy can be categorised into its input to gross value added; emoluments and wages; and jobs creation and employment to reduce poor's population in the rural areas.

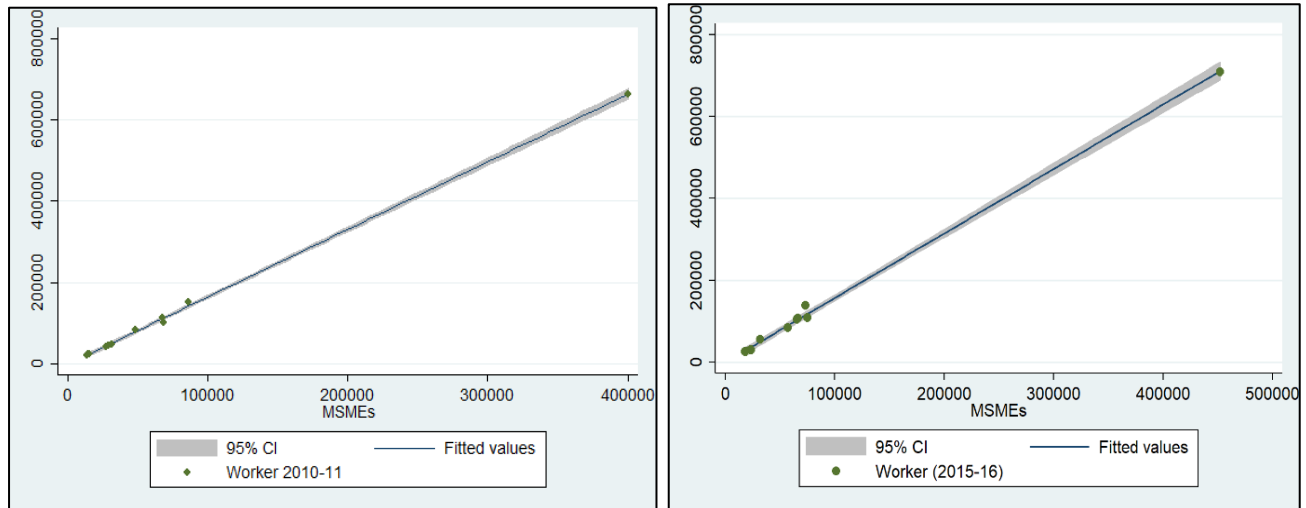


Figure 2.10 Relation between MSMEs units and Employment Generation, 2010-11 and 2015-16

It is evident from the Figure 2.10, Figure 2.11 and Figure 2.12 that Worker, Emoluments to worker and GVA by the MSMEs is highly correlated with the number of MSMEs. Similar pattern is seen for both the periods i.e., 2010-11 and 2015-16. The values of correlation are

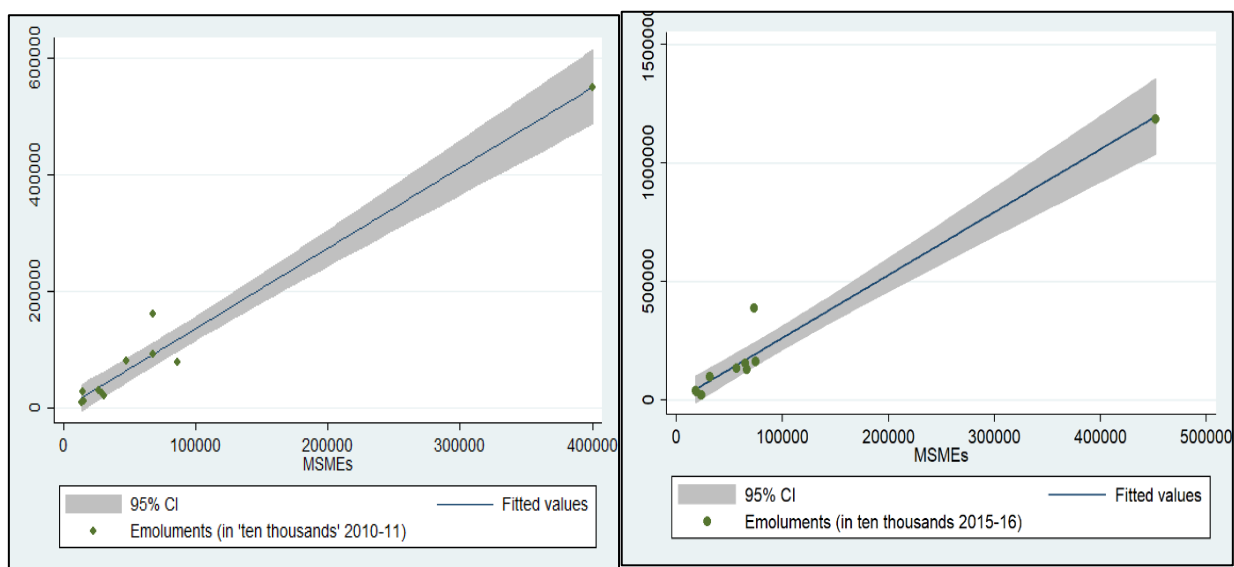


Figure 2.11 Relation between MSMEs units and emoluments Given to Workers, 2010-11 and 2015-16

statistically significant at 5 percent significant level as shown in the table. Thus, increasing the number of MSMEs in the rural areas can help in mitigating the problem of employment as enormous population execute and transact with the MSMEs directly or indirectly. Also, large number of MSMEs provide them with enhanced income resources along with agriculture.

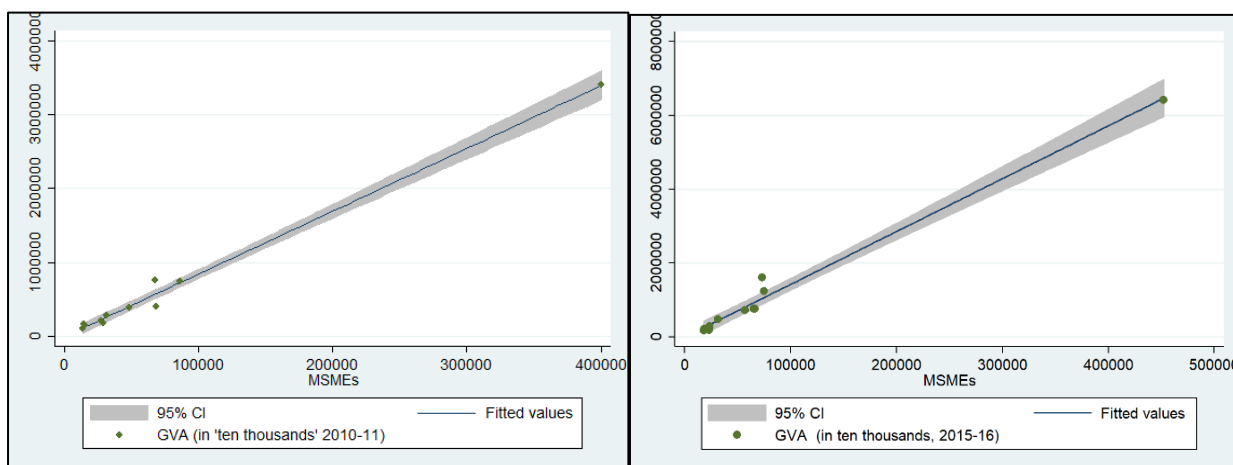


Figure 2.12 Relation between MSME units and Output, 2010-11 and 2015-16

Income generation due to MSMEs in the rural areas would increase the consumer linkages generated due to enhanced demand for different consumption such as education, vehicle, mobile, internet, entertainment, information and communication by the rural population. Since, MSMEs are spread in all the sectors of the economy i.e., primary, secondary and tertiary; outcome of which can be the diversification of the income sources coming different sectors of economy (Van Arendonk, 2015). This can lead to the increasing the share of industrial and tertiary sectors in rural areas and can reduce the high share of agricultural sector which has high share of employment but less share in Gross Value Added (GVA). Employment provided by the MSMEs can also help in reducing the Head count ration of poor of the rural areas of the region. The Gross Value added by the rural MSMEs can also benefit by enhancing the part of rural areas in the mainstream economy by increasing their share in the national income. Characteristically, profit making small firms which have a positive rate of return on additional capital “contribute directly to GVA to about the amount of the profits and return on additional capital” (Singh, A., & Venkata, 2017). Also due to increase in engagement of workers and suppliers engaged with MSMEs results into significant multiplier effect in the economy benefiting rural areas.

2.9.2 Effect of change in concentration of MSME in Rural areas

However, the relationship of concentration of MSMEs with the workers employed, emoluments given to workers and GVA by the MSMEs is variable and is less explained by the increase in the density of MSMEs. But, from the Figure 2.13, Figure 2.14 and

Figure 2.15 it can be deduced that there is positive relation between the increase in the concentration of MSMEs and its impact on the employability of the workers, improvement in the wages and

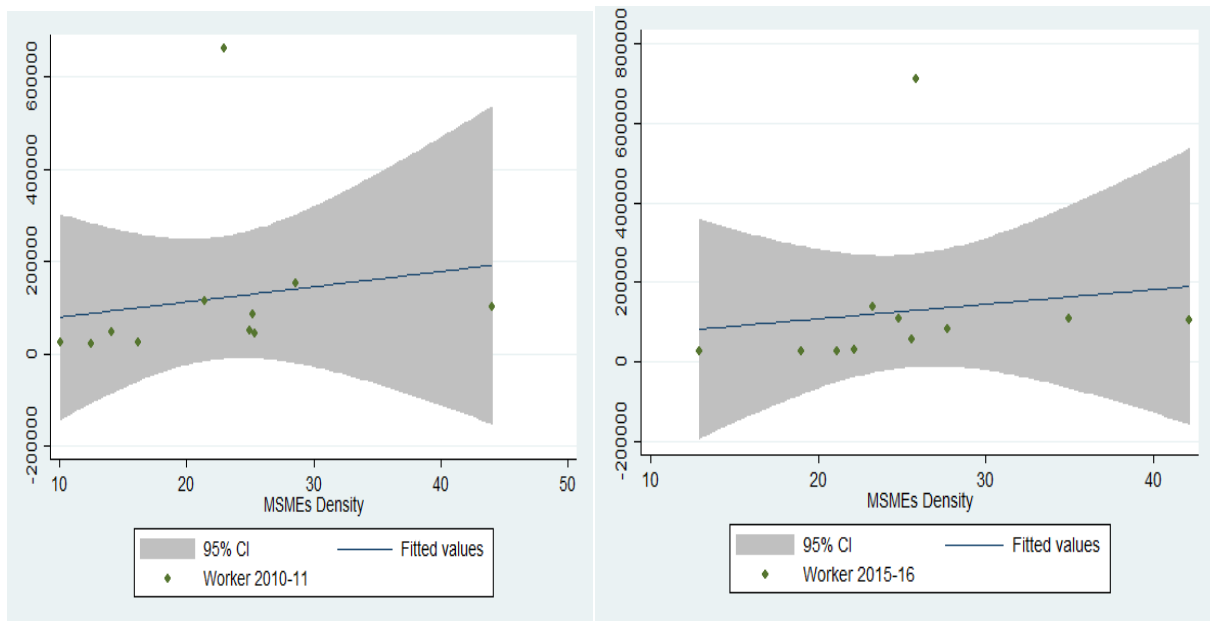


Figure 2.13 Relation between MSME Density and Employment Generation, 2010-11 and 2015-16

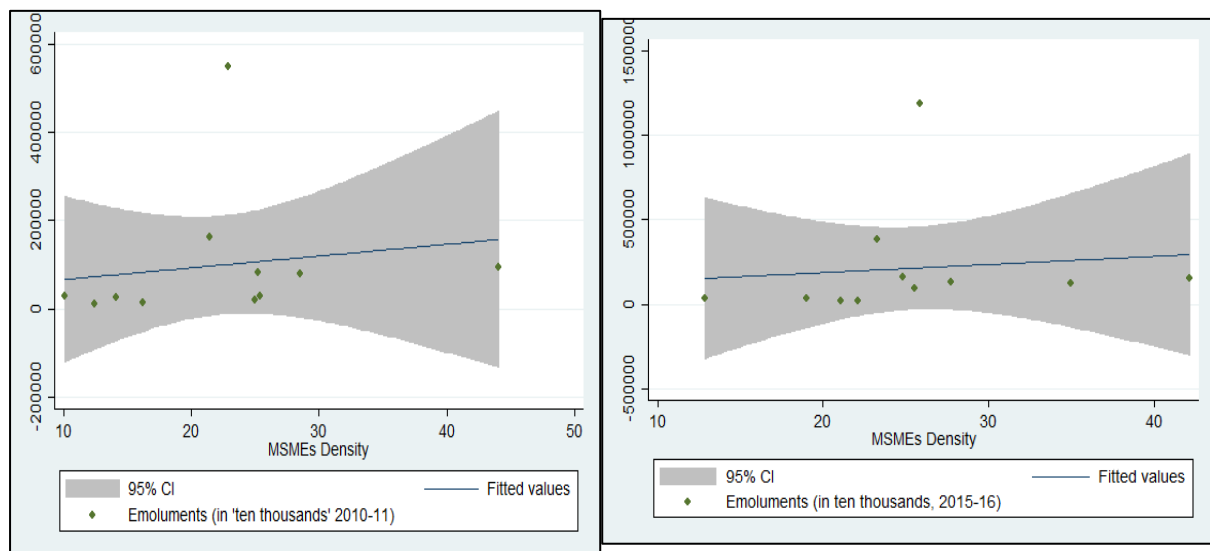


Figure 2.14 Relation between MSME Density and emoluments Given to Workers, 2010-11 and 2015-16

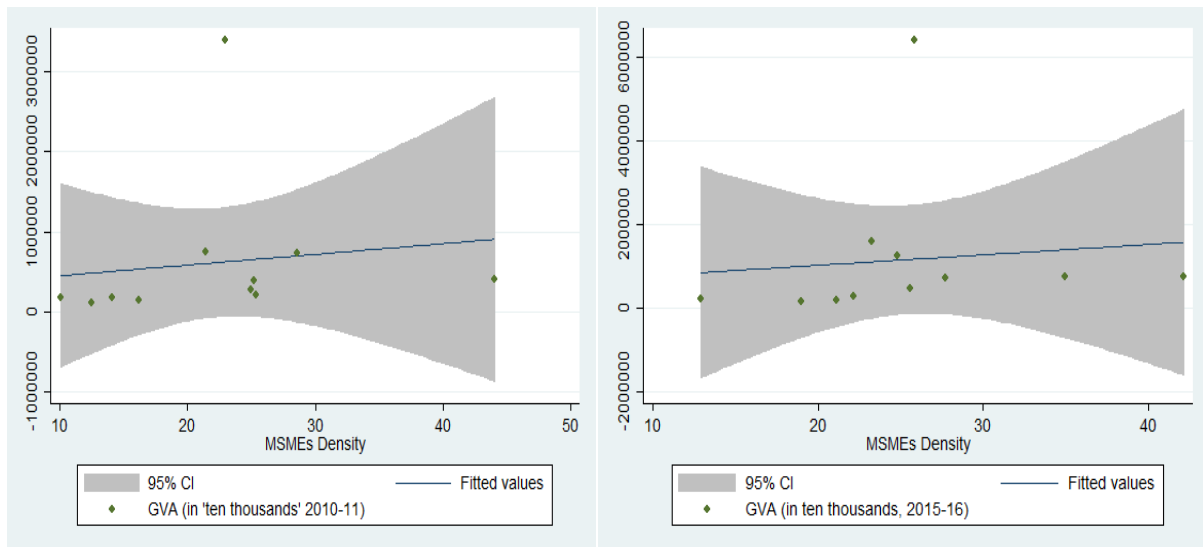


Figure 2.15 Relation between MSME Density and Output, 2010-11 and 2015-16

other benefits to the worker, and growth of GVA. The increase in the density of MSMEs results in the intensification of engagement of rural workforce. This shows that large number of youths are moving towards secondary and tertiary sector. This also signifies the potential of MSMEs to absorb the surplus labour released from agriculture sector due to reduction in the area of agricultural land as well as declining productivity of farms.

Similarly, presence of positive relation between density of MSMEs and emoluments given to worker has significant impact on the lives of workers which can help them to increase their expenditure on essential things such as education and health and other basic amenities. However, from the Figure 2.14 it can be seen that there is slight decline in the relation of density of MSMEs and emoluments given to workers in 2015-16 over 2010-11 which can be attributed to i) informality of the production function of MSMEs where owners determine the wages given workers or ii) overall decrease in the output of the MSMEs resulting in the reduction of the profit margins and regular expenditure of the firms (from Figure 2.15).

When it comes to the relation between concentration of MSMEs and output of the MSMEs (Figure 2.15) same pattern is seen in both the periods but marginal decline can be noticed in 2015-16. This signifies the decrement in the overall profitability of the MSMEs.

Therefore, there is need for MSMEs and other stakeholders to analyse the pattern emerging from the concentration of MSMEs rather than simply looking on the size of MSMEs in terms of its population.

2.9.3 Relationship between Efficiency of Enterprises and Workers in relation to the variation in MSMEs

The analysis of efficiency of the enterprises and worker in from 2010-11 to 2015-16 shows reassuring effect of the growth of MSMEs as shown in Figure 2.16 and Figure 2.17. In 2010-11 the efficiency of enterprise has insignificant relation with the firms' population but with the progress of time there has been formation of slight positive relationship in 2015-16.

Similar is the case with the efficiency of workers with the population of MSMEs. Insignificant relation can be seen between the two (Figure 2.17) However, over the period there has been emergence of slight positive relationship in 2015-16 between efficiency of the workers and the number of MSMEs.

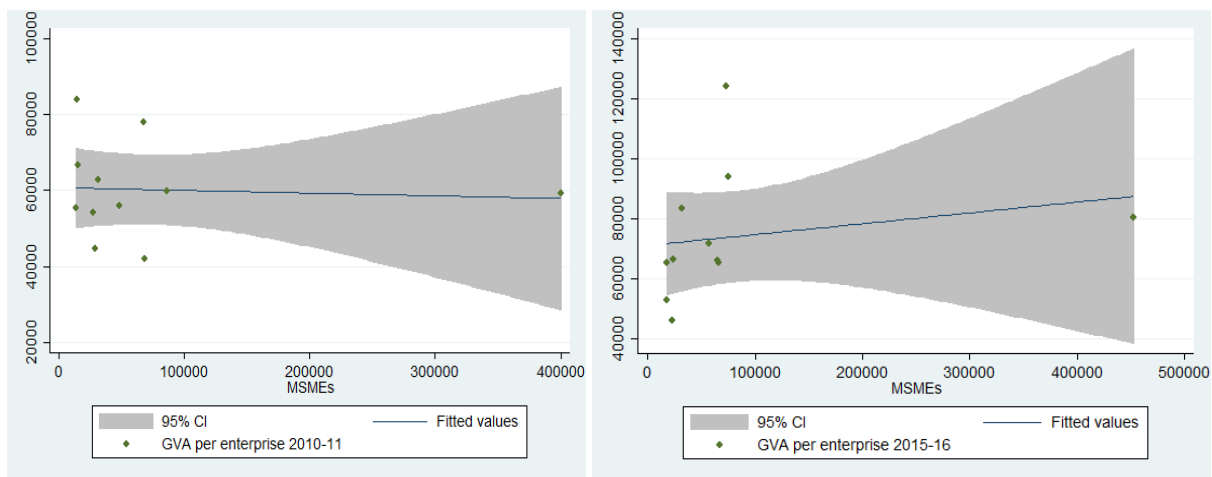


Figure 2.16 Relationship Between MSMEs and Efficiency of MSMEs, 2010-11 and 2015-16

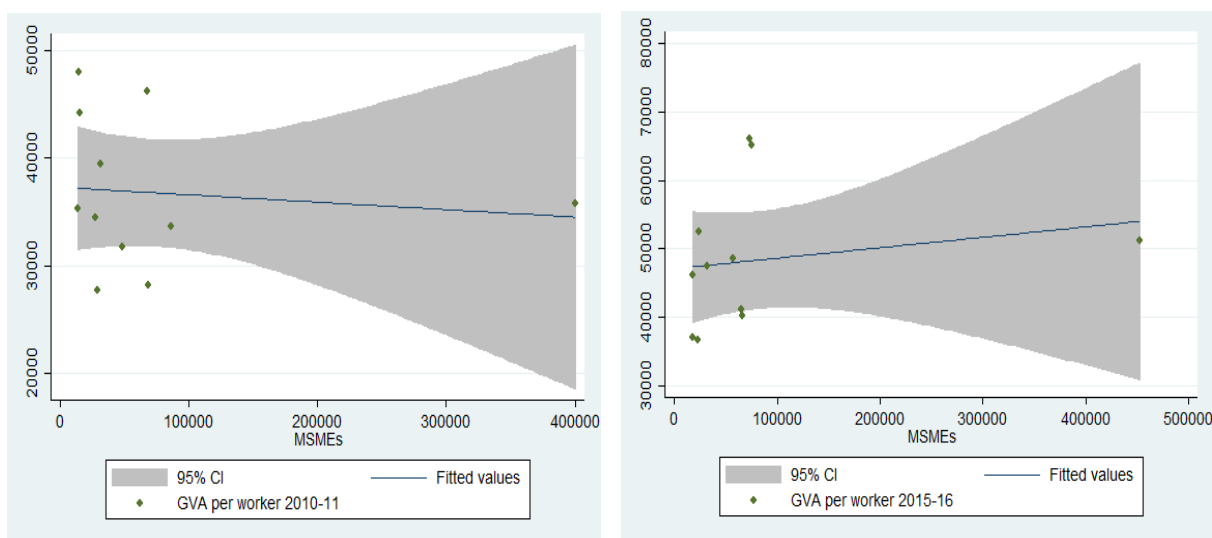


Figure 2.17 Relationship between MSME and Efficiency of Worker, 2010-11 and 2015-16

This positive relationship shows that the productivity of the firms and workers have increased over the period which would influence the growth and overall productivity of rural economy. The improvement in the productivity and efficiency of Enterprises and workers would have long-term benefits resulting into the growth of output of the MSMEs. Therefore, even the slight positive relation can improve the economy of MSMEs because advancement in productivity provides entrepreneurs with an opportunity to increase output without increasing inputs and other related cost incurring with inputs.

The improvement in the productivity of enterprises and workers can be attributed to increase in the utilisation of capital equipment by MSMEs or progress in the technical efficiency of workers or increase in the population of skilled workers impacted by the growth in skill development or training centre in villages or in nearby towns or villages.

Bhatt, (2014) has analysed the productivity of Indian MSMEs through the estimation of the Cobb-Douglas production function over the period 1973–2002 where the author has found that productivity of labour had been increasing steadily over the years and the labour is a better determining factor of output than fixed capital

However, looking at the productivity of enterprises with changing concentration of MSMEs (Figure 2.18). Negative relationship can be seen in 2010-11 between efficiency of units and concentration of MSMEs but this has changed in 2015-16 and improved over the period of time. The relationship of productivity of firms with the MSMEs density has become positive in character.

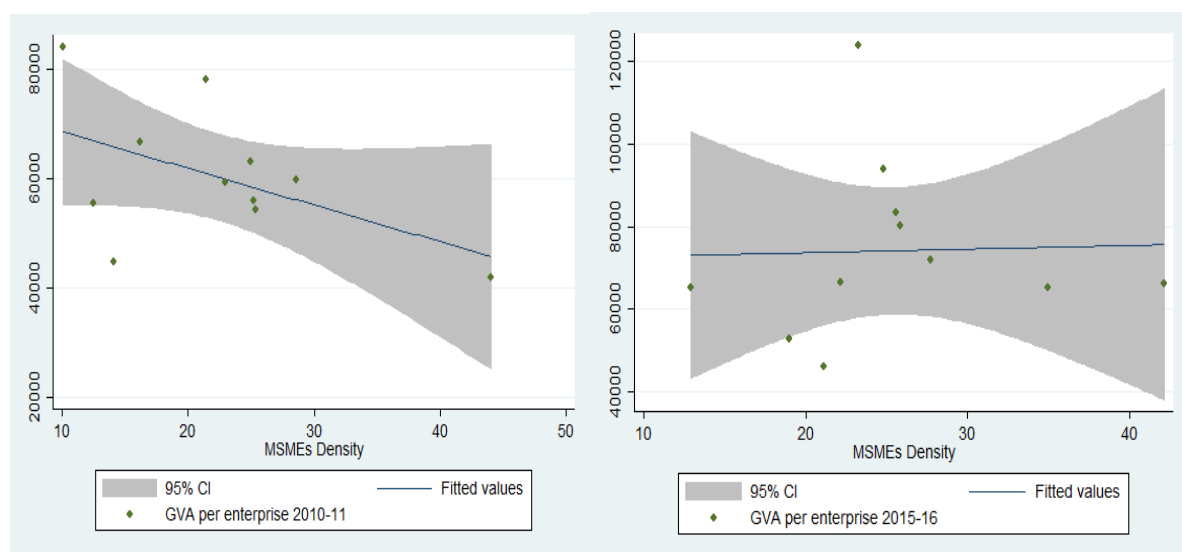


Figure 2.18 Relationship between concentration of MSME and Efficiency of MSMEs

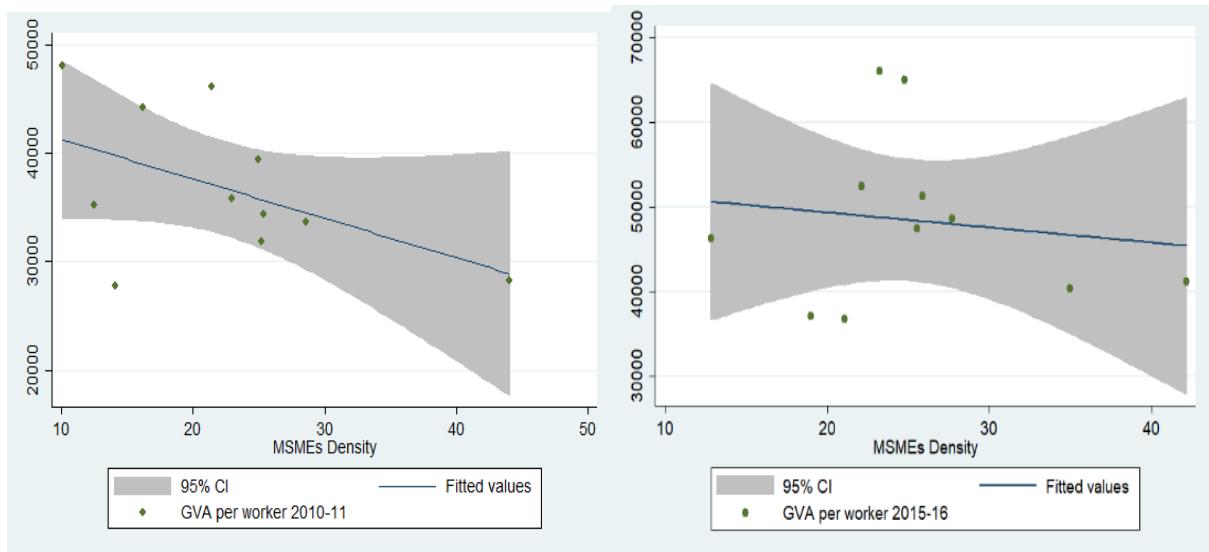


Figure 2.19 Relationship between concentration of MSME and Efficiency of Worker

Similar, pattern can be seen in the relation between productivity of workers and change in the concentration of MSMEs (Figure 2.19). Negative relation is manifested in 2010-11 which has improved in 2015-16. Therefore, it found that over the period of time the efficiency of worker has improved with the increase the density of MSMEs in rural areas of north-eastern region of Rajasthan which would enable the growth in the output of MSMEs.

The increase in the productivity of enterprise and of workers can be due to multiple factors such as-

i) cluster formation in the rural areas of whose major emphasis is on the reduction of isolation of different individual MSMEs and realizing the economies of scale and improving the competitiveness and attractiveness of MSMEs. Cluster formation supports MSMEs by establishing diverse backward and forward linkages among important stakeholders such as skilling and educational centres, industrial association and banks; providing platform and framework for governance among stakeholders to pool resources and coordinate actions favourable for small firms; guaranteeing incentives of investment for infrastructure development of common use and utility structures.

ii) increasing access and availability of finance by escalating credit flows to MSMEs at low cost which help MSMEs to subsist the market turbulence. Increased accessibility to finances also helps in building the credit trajectory which can be used by financial institution to healthier

pricing of the loans given to MSMEs. This leads to the amplification of long-term rural economic growth.

iii) establishment of skill centres and promotion of the same to increase the productivity of workers employed by small firms.

2.10 Conclusion

From the study it has been found that expansion of MSMEs their size and growth play a determining role in rural economy by augmenting the job creation, supplying additional income to the rural workforce and increasing the share of Gross values added by rural sector in the national economy.

The employment, emoluments given to workers and output of enterprises are highly determined by the increase in the share of MSMEs in the rural areas of the region. MSMEs generally organize more labour-intensive production processes than large industries and correspondingly require additional employees. Consequently, they make significant contribution by absorbing the rural youth released from agricultural sector, providing diverse source of income and the declining share of poverty-stricken population.

Being their crucial role, they are still not devoid of obstacles in business operation which makes it necessary to identify and map growth inhibiting factors. This would make MSMEs realize their full potential and become an engine of the rural socio-economic development and provide stimulus to rural-grown businesses and enterprises.

Chapter 3

RURAL DEVELOPMENT THROUGH MSMEs AND IT'S DIFFERENT LINKAGES

3.1 Introduction

“The future of India lies in its villages” – Mahatma Gandhi

Rural development has always been to the central of debate in the planning and development agenda since independence. Sustainability and its continuity of socio-economic development and political stability in India could not be manageable without a robust strategy of rural development targeting different sector of rural economy. In the scenario, where agricultural sector is dwindling, the rural based Micro, Small and Medium Enterprises (MSMEs) can help in providing the alternative to rural economy. The growth of MSMEs sector is incontestably fast. However, based on level of connectivity with the urban economy numerous forms and pattern are manifested in its growth trajectory; early-stage enterprises (mostly micro size) advancing from the natural protection due to its remote location, but this protection is lost as infrastructure improves. But then new enterprises come up on the scene of rural economy since business firms try to outsource their activity from congested cities in order to reduce their operating cost. Investment in the MSMEs is important, principally to reduce the entry barriers for the poor, but they must be promoted according to local comparative advantage.

After independence numerous strategies has been debated and different policies has been formulated such as community development programme, emphasising on integrated rural development, schemes for rigorous agricultural development, promoting alternative livelihood approaches and many participatory programs to improve socio-economic and political scenario of rural areas (Ashley & Maxwell, 2002). Attaining positive economic growth and improving the quality of life and well-being of rural areas and its people living in 664,369 villages is an intimidating task. Unemployment, low productivity of agriculture, out-migration, poverty, disparity and consequently emergence of social tension in rural have remained persistently obstacles in the development of villages.

Arduous effort has been taken towards rural development since the adoption of planned economic development process where steps have been taken to provide diverse livelihood opportunities, augmenting social safety net and developing child-centred

institutions, healthcare and industrial infrastructure. MSMEs are playing a pivotal role in creating a huge amount of employment at meagre cost of capital in comparison to large industries, helping in establishment of industries in remotely rural and economically backward regions and reducing regional inequalities, promoting reasonable redistribution of national income and wealth. MSMEs are playing an integral role for many industries as complementary organizations by providing further prospects of vertical integration in rural and backward areas and therefore this sector contributes enormously to the fiscal progress of the country. Besides, agricultural sector MSME provides enormous opportunities for wage employment. MSME is adjoined with higher rate of economic growth, building inclusive and reasonable population in many ways such as through promotion of non- agricultural livelihood at minimum cost, equity in the society and equality of gender representation, balanced regional development ecologically unceasing growth. These factors and process has always been demonstrated MSME. Rural development and MSMEs development must to go hand in hand. The capability of MSMEs to innovate, imagine, and improve needs to be unleashed in villages. There is an obvious need for greater attention, identification and exploitation of opportunities, especially under situation of decreasing employment opportunities and agricultural production uncertainty, to either establish new business activities or reorganize existing MSMEs capable of providing employment for people and value for stakeholders is germane for social-economic restructuring of an economy.

The distinguishing role of entrepreneurship on micro, small and medium enterprise (MSMEs) in the supply of raw materials and labour force to the industrial sector, promotion of indigenous technology, reducing rural-urban migration, and their contribution to the macro-economy are one of the compelling factors to accelerate social, economic and political development.

This chapter makes an attempt to understand and analyse the different linkages developed between rural areas and MSMEs and how these linkages facilitate growth and development of rural areas.

3.2 Methodology

To examine the progress of rural areas and its development induced by the expansion of MSMEs in villages, a composite index called MSME Development Index (MSME-DI), (see box 1 for the details about the construction of the index) has been constructed. The MSME-DI measures the progress in the rural areas brought by MSMEs in north-eastern region, Rajasthan. The progress is measured using 20 indicators under five dimensions viz., economic,

employment, social, accessibility to institutions and enabling environment. The indicators used tries to capture the economic growth, employment opportunities made available to the rural population, empowerment of marginalised section of the society and increase in the availability and accessibility of basic amenities, different institutions and enabling environment due to the development of MSMEs. The index has been designed after looking into several indexes created for MSMEs such as Asia Small and Medium-Sized Enterprise Monitor (ASM) by Asia Development Bank (ADB), SME and Entrepreneurship Outlook Financing SMEs and Entrepreneurs (OECD Scoreboard), ASEAN SME Policy Index all three by The Organisation for Economic cooperation and Development (OECD), Credibility Index for SMEs by Advanced Institute of Industrial Technology (AIIT) and Asia Professional Education Network (APEN), SME Competitiveness Outlook by International Trade Centre (ITC) and SME Development Index by ADB.

The MSME Development Index (MSME-DI) has been formulated keeping in the mind several factors such as the availability of data, regional context i.e., suitability of framework for rural areas, the desirability of the assessment, the relationship between rural economy and MSMEs sector and more importantly to examine the role of MSMEs in rural areas through the formation of different linkages.

The composite index of MSME-DI is calculated for north-eastern region of Rajasthan has been computed for 2010-11 and 2015-16 utilising data from NSS rounds viz., 67th round (2010-11) and 73rd round (2015-16), on “Unincorporated Non-Agricultural Enterprises (Excluding Construction)” in India.

Index for each of district has been constructed for rural areas of north-eastern region of Rajasthan for 2010-11 and 2015-16. The index is constructed by first aggregating the indicators for each dimension, and then the dimensions are aggregated using their scores for the particular district. Arithmetic mean is used for aggregation. The score for an indicator for particular district is calculated using the formula below:

Indicator Score

$$= \frac{\text{Actual value} - \text{Minimum value}}{\text{Maximum value} - \text{Minimum value}}$$

The value of the index varies from 0 and 1. Higher the value of index, better is the improvement in the rural areas due to MSMEs.

Table 3.1 Conceptual Outline for the Micro Small and Medium Enterprises Development Index (MSME-DI)

Dimensions (5)	Sub-dimensions (17)	Indicators (20)
1. Economic	1.1 Geographical coverage	a. Concentration of MSMEs (Count of MSME by Area)
	1.2 Enterprise productivity	b. GVA per unit
	1.3 Labour productivity	c. GVA per worker
	1.4 Nature of Enterprise	d. Percentage of Perennial Enterprises
	1.5 Growth status of Enterprise	e. Percentage of Expanding enterprises
	1.6 Network formation	f. Percentage of enterprise pursuing transportation and storage activities
2. Employment	2.1 creation of employment opportunities by MSMEs	a. average number of workers employed by area
	2.2 Gender	b. Female percentage worker
	2.3 Income	c. Average monthly wage per employee
3. Social	3.1 Health and Education	a. Percentage of enterprise pursuing Educational
		b. Percentage of enterprise pursuing Health
	3.2 Gender	c. Percentage of enterprise having Female owner
	3.3 Marginalised section	d. Percentage of enterprise having ST owner
		e. Percentage of enterprise having SC owner
4. Accessibility to institutional support	4.1 Audit	a. Percentage of enterprise maintaining Accounts
	4.2 Technology and Innovation	b. Percentage of enterprise pursuing information and communications activities
	4.3 Governmental help	c. Percentage of enterprise received any kind of Assistance
5. Enabling Environment	5.1 Technology and Innovation	a. Percentage of enterprise Computer
		b. Percentage of enterprise Internet
	5.2 Functioning	c. Percentage of enterprise facing no problems in their business activity

Theories regarding regional growth linkage offers a convincing picture of rural growth where improvement and progress of both farm and non-farm expansion go hand in hand. However, the practice hinges on the containment of economic activity within the locality. It is quite pertinent to understand how the development of rural areas is linked with MSMEs and identify the different linkages which are crucial in this trajectory of rural development. The school of regional growth linkage (Haggblade et al., 1989; Hazell, P. B. R. ; Ramasamy, 1991) have explained the linkages and how both the sector i.e. rural and MSMEs develop even in relatively backward areas if not connected to larger economy directly. The linkages between rural areas and MSMEs take numerous forms. The broad pattern of backward, forward and consumption linkages are presented in the Table 3.2. Linkages are believed to be particularly significant, because of the inclination of small-scale manufacturers and poor to spend on rurally produced goods.

Table 3.2 Rural Development-linked with MSMEs

Linkage with Rural Areas	MSMEs (Manufacturing)	MSMEs (Service)
Production: Forward	Processing and packaging industries. Construction of storage and marketing facilities	Transport and trade
Production: Backward	Agricultural tools and equipment	Agricultural and veterinary services, input supply
Consumption	Household items required and household improvement.	Numerous Domestic services, social services, transportation, sale of consumer goods

Source: Modified after Start, D. (2001).

In addition to production and consumption linkages, there is a wide range of less direct linkages but equally important inter-sectoral linkages in the rural economy, facilitated via skills, infrastructure, investments, and networks as explained in Table 3.3 below:

Table 3.3 Formation of linkages in Rural Areas due to MSMEs

Form of Inter-sectoral linkages developed in the rural economy	
Investment linkages	This kind of linkage allows reinvestment of locally accumulated capital in local areas and facilitating capitalisation of rural areas (Reardon et al., 1994)
Human capital linkages	This linkage allows utilisation of skills learnt in MSMEs sectors to improve farm efficiency (Timmer,1995). Consequently, improved nourishment from farm sector will have impact on labour productivity in other sectors and improved health of children also.
Labour linkages	This linkage can contribute to multi-sectoral growth due to the endurance of part-time subsistence farming which would lower the cost of living and therefore lower the cost of rural labour (Hart, 1998).
Infrastructure and service linkages	Investments facilitated in water, communications power, and transport infrastructure due to coming of MSMEs required for them would subsequently result in the development of rural areas.
Social capital linkages	Growth in business networks and market due to MSMEs would help in economic development of other sectors also (Timmer, 1995).

It is also necessary to understand the rationale behind selecting these indicators for constructing MSME-DI. This explanation would also help in understanding the numerous linkages developed between MSMEs, agricultural sector and rural areas as highlighted in the initial discussion of the study. These linkages are the ways through which the objective of development of rural areas can be achieved which is discussed in Table 3.4.

Table 3.4 Rationale and functional relationship of indicators with Rural Development

S. No.	Indicators	Rationale for selecting the indicator
1.	Number of MSMEs by area	Helps in increasing the industrialisation level of the region
2.	GVA per unit	Increases the economic contribution of the region in the national economy and reflect the efficiency of MSMEs and their role in the economy
3.	GVA per worker	Analyse the productivity of rural labours and its increase can build the aspiration in the youth to remain in rural areas
4.	Percentage of Perennial Enterprises	Existence of Perennial enterprises helps in giving round the year employment and income source opportunity to rural population
5.	Percentage of Expanding enterprises	Increase in the growth of Expanding enterprises shows the profitability of MSMEs and the entrepreneurs boosting the confidences and sustainability and continuity of the enterprises of
6.	Percentage of enterprise pursuing transportation and storage activities	Presence of this type of enterprise can help in improving the road network as well as the storage facility required for storing the agricultural produce consequently saving them from rodents and decreasing the distress sale of the Agri-produce
7.	average number of workers by area	Helps in providing employment opportunities to the rural population and consequently decreases distress push of rural youth towards towns and cities
8.	Female percentage worker	Help in improving the economic participation of women and increases their visibility in the secondary and tertiary sector of rural economy
9.	Average monthly wage per employee	Helps in increasing the income level of rural household and supplements the agricultural income

10.	Percentage of enterprise pursuing Educational	Its presence gives opportunities to rural children to get educational facilities in their vicinity thereby increasing the availability and accessibility of the same in rural areas and decreasing the incidence of students travelling to far-off places to access the educational facilities and hence will improve human capabilities
11.	Percentage of enterprise pursuing Health	Its presence increases the availability and accessibility of health facility to rural people specially marginalised section and indirectly can help in reducing the infant as well as maternal mortality rate
12.	Percentage of enterprise having Female owner	It facilitates the women empowerment and their decision-making capacity
13.	Percentage of enterprise having ST owner	Helps in redistribution of resources and socio-economic emancipation. Also, decreases the isolation of different tribes and helps them by recognition to their different sources of livelihood and art and craft.
14.	Percentage of enterprise having SC owner	Helps in redistribution of resources and socio-economic emancipation,
15.	Percentage of enterprise maintaining Accounts	It facilitates the proper management of business and tax-filing helping rural industries to become formal in organisation
16.	Percentage of enterprise pursuing information and communications activities	It helps in bridging the information of gap of rural people specially farmers, student and youth, by providing services related to different schemes of government, filling of forms etc.
17.	Percentage of enterprise received any kind of Assistance	It helps in facilitating the business activity as well as increases their resistance to shocks consequently aiding rural entrepreneurs by getting assistance in the form of financial loan, subsidy, machinery/equipment, skill development, marketing and raw material

18.	Percentage of enterprise Computer	It widens the reach of entrepreneurs to different aid, programmes and Schemes designed for MSMEs by reducing the gap to critical information and institutions
19.	Percentage of enterprise Internet	It widens the reach of entrepreneurs to different aid, programmes and Schemes designed for MSMEs by reducing the gap to critical information and institutions
20.	Percentage of enterprise facing no problems in their business activity	Shows the stability of business activity and its operational continuity subsequently the prevalence of different sources of income

3.3 Discussion

The MSME-DI for each district has been presented for 2010-11 and 2015-16 for north-eastern region of Rajasthan (rural) in Figure 1. Also, the scenario of different dimensions characterising the MSME-DI has been presented in Figure 2, 3,4,5 and 6. A higher value indicates improvement in the rural development in a district. The colours used green, yellow and red, used in the maps shows the level development in rural areas of a district by the presence of MSMEs in the region. Green (above 0.50) indicates 'High' level and is therefore the most desirable, followed by yellow (0.30 to 0.50), which indicates 'Medium' level. In contrast, Red (below 0.30) indicates very 'Low' level of development. The difference in colours in a map indicate the regional variation in the level of development in rural region. Also, to analyse the increase in the level of development a comparison has been made over the period 2010-11 to 2015-16.

3.3.1 MSME Development Index (MSME-DI)

It is quite obvious from Figure 3.1, that most of districts lies in the moderate category of development. The pattern of development caused by MSMEs in rural areas regional has shown variation. Bharatpur and Jaipur has shown improvement in the level of rural development and reached Bharatpur has reached to a moderate category whereas Jaipur has reached to a high category. This shows that these two districts have gained over the period of time at the scale of different indicators benefiting different section of the rural population as well as rural region.

The district of Dhaulpur and Bhilwara has recorded decline in the level of development. The district of Dhaulpur has fallen in the low category whereas the district of Bhilwara has fallen

in moderate category from high category. This decrement in the overall development in these two districts highlight the need that MSMEs require the support of different stakeholders such responsible for industrial and rural development.

However, there is an overall increase in the MSME-DI value over 2010-11 to 2015-16 which implies that at regional level MSMEs have been able to meet the demand of rural population and make improvement over the period of time so as to increase the level of rural development caused by MSME-DI.

The other district has maintained their position and has been engaging the rural population as well as making provision of numerous amenities such as education, health, transportation to serve rural households. These linkages developed by MSMEs in rural areas help in improving the availability and accessibility of different services which could not have been possible otherwise. MSMEs also widens the reach of rural population to cities through the establishment of connectivity channel and communication network which is beneficial to both villages as well as cities. By widening the reach of rural population to cities, they are no more deprived of high-end services and technologies also the cities do not have to face the wave of migrants pushed out of villages in search of better job and educational opportunities. Therefore, it is evident that MSMEs make significant contribution in employment generation and

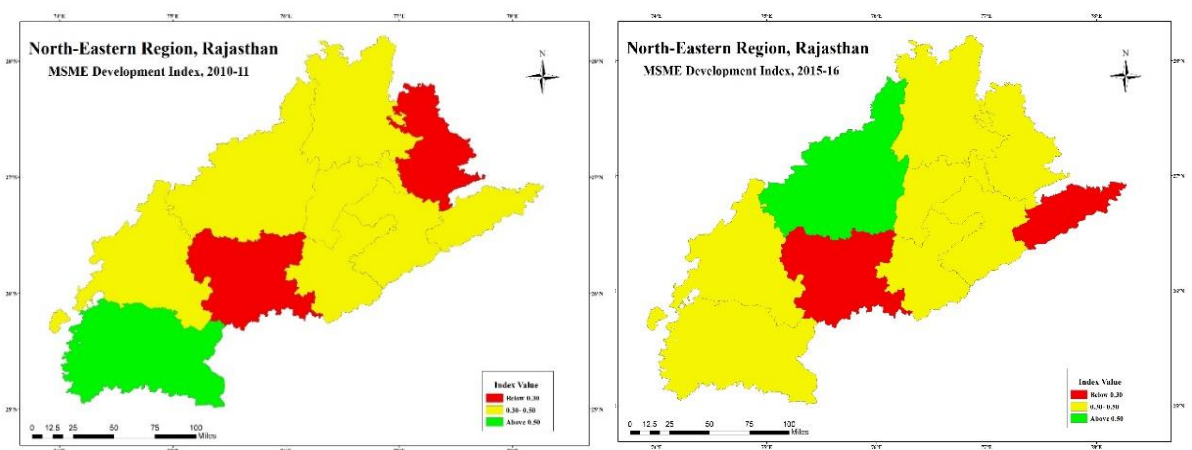


Figure 3.1 Change seen in rural areas due to MSME, 2010-11 & 2015-16

expanding industrial network through facilitation of the proper management of business and tax-filing helping rural industries to become formal in organisation; improving the road network as well as the storage facility; enhancing the economic participation of women and

their visibility in the secondary and tertiary sector of rural economy; and increases the overall rural economic influence in the nation's economy.

Different Dimensions and their scenarios

3.3.2 Economic Index

Form the Figure 3.2, it is evident that there has been improvement in the Scale of MSME dimension of the bigger districts such as Alwar, Bhilwara and Bharatpur has shown improvement by moving to higher category in the scale of MSMEs dimension index. However, districts such as Karauli, Dhaulpur, Dausa and Tonk has shown decline. The improvement in the dimension imposes the economic development of the region by surging the growth of industrialisation which is related to the unearthing of many other efficient ways for the creation of value in rural areas thereby increasing the share of rural economy in secondary and tertiary sector and in the overall national economy. The increase in secondary and tertiary sector is beneficial for rural region because this sector contributes to the job creation and wealth prospects. The secondary and tertiary sector also facilitates specialisation from efficiencies. Also, when the economy moves to the secondary sector, new farm techniques are adopted thus increasing the productivity of the agriculture sector as well. Similarly, the increase in the service sector in rural has traditionally been reliant on local demand. However, the tertiary sector holds an important place in rural economy because they increase the availability of numerous services to rural population at low cost on the one hand and promotes the growth of the agricultural sector due to flourishing of service-related industries such as transport, storage, and trade. Also, MSMEs help in instituting

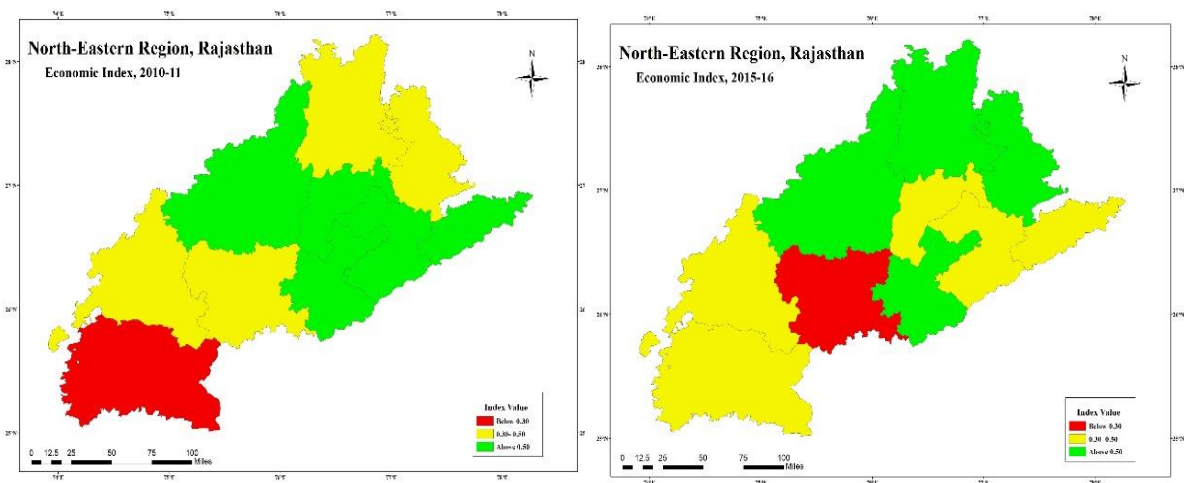


Figure 3.2 Change in Economic Index, 2010-11 & 2015-16

the source of numerous materials, methods, process, ideas, designs and service that large enterprises are unable to fulfil (Kesk et al., 2017).

For exploiting profit arising from economies of scale caused due to cost advantage, large scale firms and enterprises device a plan and strategy of long period manufacturing industrial a product. This decision is also taken due to large investments made by these firm and enterprises for the machines, tools, devices, and work-force. However, MSMEs are not bounded by such difficulties of making a prior investment in different resources since their operational activity is small in size and scale and enjoy more elastic structure as compared to large firms and enterprises. Developing countries without substantial MSME sectors (hence often described as having a —missing middle in their firm size structure) tend not only to have capital and the income from it concentrated in the large firms but also to have a —labour choice in that sector, able to bargain for salaries and wages much higher than elsewhere in the economy.

3.3.3 Employment Index

Disorganization is often found in rural labour markets due to weak labour market institutions caused by ineffective representation. It is evident from the Figure 3.3 that there has been overall decline in the employment index. However, the number of districts lying in the green region has remained same in both the period. Ajmer and Jaipur both has maintained their consistency under employment dimension. Bharatpur has moved to a higher category showing increase in the employment scenario. However, there has been decline in the districts of Sawai Madhopur and Dausa.

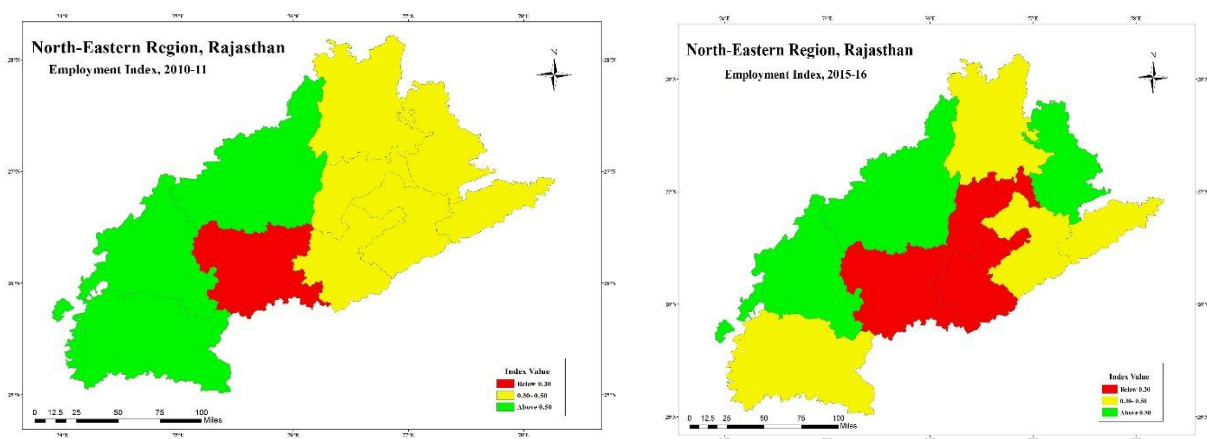


Figure 3.3 Change in Employment Index, 2010-11 and 2015-16

Employment by Area shows the average number of workers employed in the rural areas or the intensity of improvement in the employment generation.

“Micro, Small and Medium Enterprises (MSMEs)” help in improvising the skill of workforce and also give opportunity to skilled worker to find fruitful business and work in the rural areas itself. They also increase the economic presence of women in rural areas in secondary and tertiary sector and provide them with surplus income to be spend on themselves and to reduce their dependence on the male members of the household. It is a key sector which engages high as well as low qualified women workforce facilitating utilisation of their indigenous and traditional skill and identifies their intrinsic capability to be employed in the non-farm sector in the scenario of static employment growth in the rural farm economy and feminisation of agriculture (Senapati, 2019).

3.3.4 Social Index

This dimension tries to capture the improvement in the empowerment of marginalised or discriminated section of the rural population. “Empowerment refers to the enhancement in the economic condition, social status, political participation of individuals groups and communities. Empowerment envelops developing and building capacities of individuals, groups and communities to make them part of the main stream of the society” (Chakrapani, 2016; Dhavaleshwar & Agbenyegah, 2016). In this dimension, marginalised sections refer Women, Scheduled Tribe and Schedule as identified from different literature. Often it has been found that this section of population mostly remains far from socio-economic and political opportunities and rights. This section of population also encounters several obstacles such as discrimination and violence slowing down their socio-economic progress. At several instance public services are denied to them. Mohanty, (1995) has explained that marginalised section of population consisting of unorganised worker, small and marginal farmers, dalits, tribal people, and women have been involved in a power struggle and therefore the development process should be understood in that context. The rigid system of social and hierarchal stratification prevalent in rural areas is one of the causes for their overall deprivation in the social and economic sphere which can be reduce by their empowerment with the help of MSMEs.

In this dimension the empowerment has been tried to capture through the analysis of the ownership of MSMEs in the hands of marginalised section of the society and their improvement over the period. The word empowerment suggests 'strengthening of capacities'. Empowerment of marginalised has been always been a major objective of development and very much desired in any discourse of growth and development. Participation of marginalised section of population is necessary for the designing, enactment and assessment of strategies

and policies playing decisive role in working and the welfare of societies because this enables the true identification and management of several hindrances faced by them. The participatory approach, whose objective is to give entitlement and voice to poor and excluded sections whose concerns have been overlooked for long time, encourages marginalised population to be benefited from and improvement in social, economic and political institutional pyramid (Narayanan, 2003).

From the Figure 3.4 it is quite apparent that there has been significant improvement in the social dimension and ownership of MSMEs by women, scheduled tribe and Scheduled castes has increased over the period. This progresses and distribution of ownership in the hands of marginalised section of society can have long-term impact and can also help in reducing the historical injustice inflicted towards this section of population. The districts of Ajmer and Bharatpur has gained significantly and moved to a higher category (in green zone). There has been an overall improvement in this dimension.

This signifies that the significant role is played by MSMEs in the social empowerment of different section of the society. Commenting on the decision making process of women for

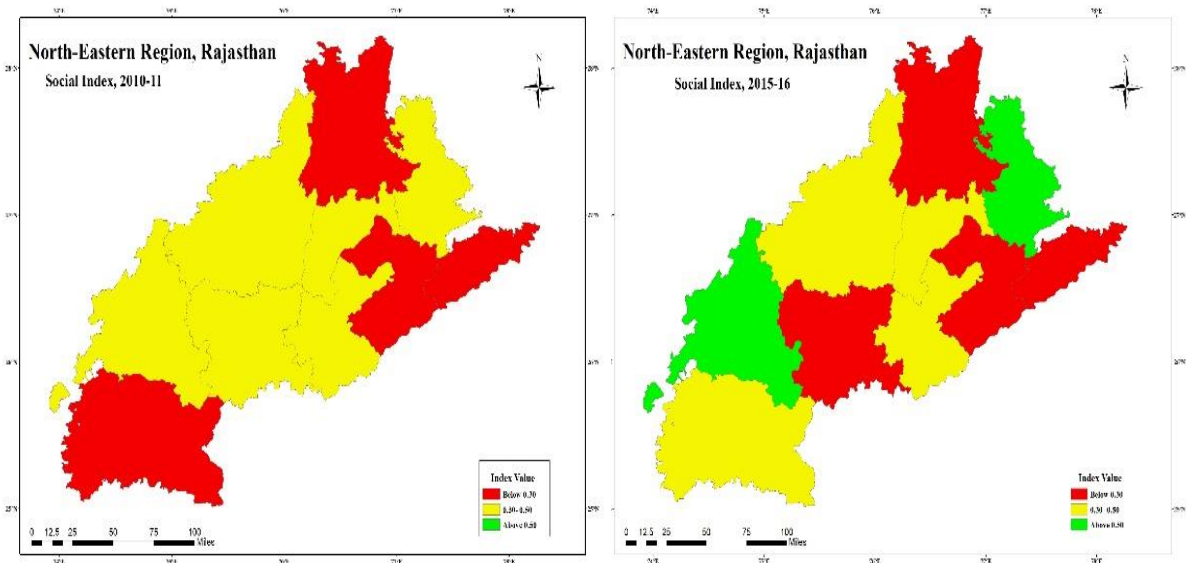


Figure 3.4 Change in Social Index, 2010-11 and 2015-16

participation in labour market, Becker, (1985) argued that it is determined by the relative utility women can achieve from house chores and participation in market. The combination which provides maximum satisfaction is chosen on comparison of utility from household work and market work and this opportunity is very well facilitated by MSMEs. The empowerment of

women through ownership can have several impacts such as constructive effects on socio-economic growth, resilience against financial reverses and economic slowdowns as pointed out in numerous research findings (Meunier, F., Krylova, Y., & Ramalho, 2017). Women's engagement through MSMEs helps in achieving gender parity in different spheres along with their contribution to growth and development (Nations, 2018). The choice of starting an enterprise by women empowers them through generation of an income and makes them more independent in household decisions on expenditure. Women's contribution to household income gives them an authority to decide the pattern of budget expenditure to be undertaken in a household. Studies have also shown that there is improvement in socio-economic and political status of women who participate in income-generating activities (M. R. Islam, 2011; Khan, A. R., & Bibi, 2011) and those who are able to contribute in household expenditure are capable of prioritising children's well-being in their expenditure choices (Opata, P. I., Ezeibe, A. B., & Ume, 2020). Consequently, their engagement in income-generating activities helps in reducing the level of household poverty (ILO, 2016).

Similarly, SCs and STs gets an opportunity to participates in mainstream economy due to the growth of MSMEs and ownership of these enterprises and micro-enterprises facilitate better entrepreneurial prospects (G. Singh, 2019; Vejju, 2018).

3.3.5 Accessibility to Institutions Index

The increase in the accessibility of MSMEs to different institutions such as “Khadi & Village Industries Commission (KVIC)”, “Coir Board, National Small Industries Corporation Ltd. (NSIC)”, “Mahatma Gandhi Institute of Rural Industrialisation (MGIRI)” and financial institutions, leads to the development of rural areas. These institutions enable entrepreneurship development by providing additional livelihood opportunities to village communities.

The institutions such as KVIC helps in organising traditional artisans through the formation of MSMEs and enhances the earning capacity of the youth engaging them in fruitful employment. They also help in widening the market areas of rural enteprenuers since KVIC vigorously participates in international trade which enables popularising rural products in global market.

The institute of “National Institute for micro, Small and Medium Enterprises (NIMSME)” supports the capacity building for the growth, development and sustainability of enterprises through conception, enhancement and propagation of knowledge and best practices related to enterprises. It also provides investigational research and studies for policy conceptualisation

and design; and promotes empowerment of the marginalised section through the establishment of enterprise.

The “Mahatma Gandhi Institute of Rural Industrialisation (MGIRI)” helps in accelerating rural industrialization for sustainable village economy subsequently facilitating the existence of Khadi and village industries sector with the main stream economy. It helps in enabling traditional artisans with new technologies and regulations of market to make best use of available physical and human resources. This gives the twin benefits of modernisation of MSMEs and utilisation of local rural resources having vital importance in rural development.

The National Small Industries Corporation Ltd. (NSIC) tenders marketing and credit support, e-Marketing through digital services, facilitates distribution of raw material, establishes technical services centres, hub for Scheduled Caste and Scheduled Tribe for MSMEs.

To assess the accessibility of rural MSMEs to different institutions a proxy indicator has been taken which support the MSMEs to access helping hand of such institutions. The indicators used are percentage of enterprise maintaining accounts, percentage of enterprise pursuing information and communications activities and percentage of enterprise receiving any kind of assistance. These three indicators through process comes in contact of different institutions and receive their assistance in the growth.

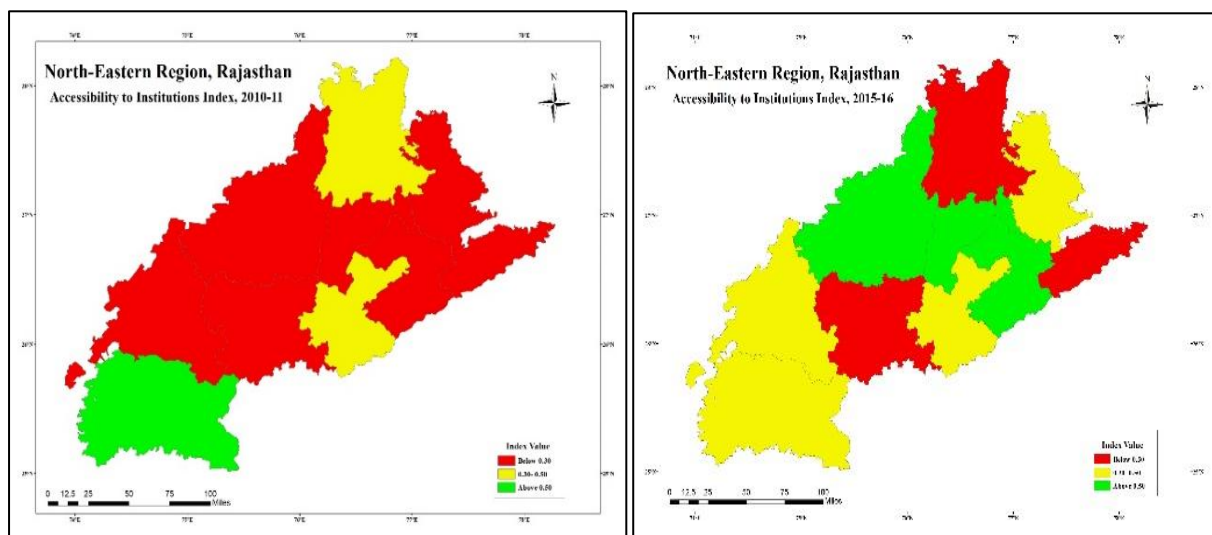


Figure 3.15 Change in Accessibility to Institutions Index, 2010-11 and 2015-16

From the Figure 3.5, it can be seen that there has been significant improvement in the access to institutions index where three districts Jaipur, Dausa and Karauli have moved to high category from low category in 2015-16 as compared to 2010-11. Also, districts of Ajmer and Bharatpur reached to a medium category from low category. The improvement of different

district to higher level will enable MSMEs to benefit from different institutional support designed especially for MSMEs.

3.3.6 Enabling Environment Index

Enabling environment dimension has been taken to assess the factors which facilitates the business activity of MSMEs. Information and communication technology (ICT) has been taken as one of the indicators since ICTs are technologies and tools that people use to share, distribute, gather information and to connect with one another, through the use of computers, mobiles, phones and interconnected networks. Moreover, ICTs are channels that employ both; different means of telecommunications as well as technologies related to computer for spreading of information to large population in less time. MSMEs require ICT-based solutions for carrying out of numerous task such as expansion of customer base, enhancement of productivity, exploiting competitive cost advantage, working in remote and backward areas, to take quick and accurate decision and enabling association. Employment of ICTs facilities by

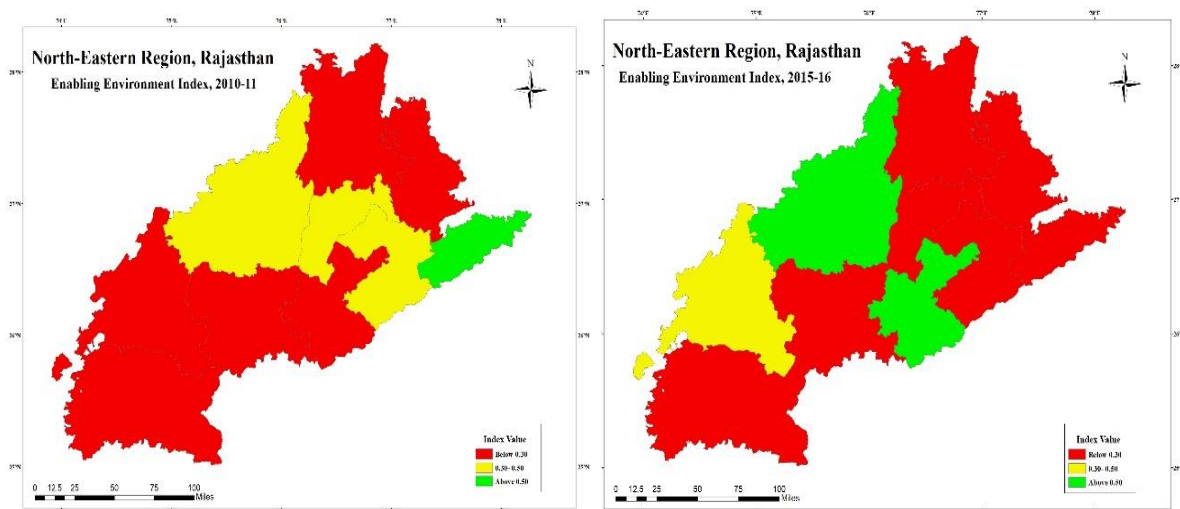


Figure 3.6 Change in Enabling Environment Index, 2010-11 & 2015-16

MSMEs make possible the speedy delivery of services to rural population, empowers rural workforce in relation to skill enhancement and delivery of goods and services at competitive price. The capacity of MSMEs to contribute to poverty reduction in rural areas can be seen through its supremacy to facilitate the accessibility to enhanced information and communications to rural poor. Decrease cost of transactions, accessibility and availability to information about new opportunities and enhancement to wider network of supply chain and markets, improvement in internal systems of information related to enterprises of rural areas are few of the advantages of utilisation of ICTs by MSMEs. Improvement in enabling

environment helps in enhancement of communication with suppliers and transport links with markets and thereby bridging rural-urban gap. This also enable the entrepreneurs to take informed choices, especially with regards to demand and supply of raw materials and finished goods, improving competitive advantage for entrepreneurs when transacting with suppliers and traders. They also help in providing information about locally and internationally available non-financial business development services (e.g., training schemes, business skills, and marketing). Provide direct or intermediated access to BDS (e.g., training packages, advice on better practice). Provide access to legal information, including information on contract law, tax law, registration and regulation. Provide improved access to information about financial services, and access to financial services (e.g., via micro-finance institutions – MFIs). Also, the use of ICTs by MSMEs directly increases the coverage of ICTs in rural areas and providing the benefits of ICTs to rural areas.

From the Figure 3.6, it is evident that there has been significant improvement in the enabling environment index for MSMEs which means that the use in internet and computer by the MSMEs has increased from 2010-11 to 2015-16. Also, the district of Jaipur and Sawai Madhopur reached to a high category from moderate category. Similarly, there has been improvement in the district of Ajmer under this dimension. Few districts have also seen the decline but the decline has been minor because there has been overall improvement in the index value for the region.

The less improvement in Employment and Enabling Environment dimension can be accredited to both demand and supply side factors which can constrain MSMEs induced rural growth and development. The deficiency of financial competences and capabilities and informality are mostly cited as demand-side constraints, while the supply-side constriction factors comprise of financial institutions' risk aversion in lending to MSME, consequential upon inadequate credit infrastructure. credit assessment policies, and risk management apparatus.

The importance of MSMEs lies in its adaptation to the everchanging situation of market competition, innovation in production with the accentuation of the process of globalization. MSMEs, have been cited as crucial for increasing the competitive advantage and innovative capability of the rural region.

3.4 Conclusion

Therefore, it can be concluded that MSMEs has a profound impact on the overall socio-economic and political growth and development of rural areas as well as rural population. Substantial contribution is made by MSMEs in generation of employment opportunities, escalation and expansion of industrial base and network in rural, remotely situated and economically backward areas. This sector fosters the traditional knowledge and skills of the artisans which is also inherited by workers and transferred from one generation to another. MSMEs provide alternative livelihood opportunity by generating large scale employments. It facilitates and organises in women entrepreneurs and thus their empowerment. It has been found that rural based women entrepreneurs are more vigorously and highly engaged with MSMEs as compared to urban areas. Similarly, socially discriminated and marginalised population are actively engaged with MSME sector which indicates that MSMEs are a great resource in developmental process of rural areas.

With the scaling of economy, size and volume of MSMEs, there is high prospects to decline the poverty level in rural areas with the help of income generation and diversification of livelihood prospects for the rural poor. Different dimension of rural poverty can also be reduced by providing secure job opportunities and by the improving the accessibility and availability of numerous social-economic benefits for the poor – i.e., enrichment of skill and knowledge, improved confidence of doing business, amplified involvement of women in rural economy, provision of health and educational services.

Different linkages developed by MSMEs in rural areas bring numerous amenities, infrastructure related to health, education, communication and transportation which can directly improve the social and physical infrastructure of rural areas of north-easter region of Rajasthan. There is evidence of increase in employment opportunities & supplementary incomes provided by MSME sector in rural economy which permits healthier nutrition, improved utilisation of health services & augmentation in expenditure on education. Consequently, there is indication of enhanced welfare and improvement in labour productivity and employment elasticity. Linkages development in production function helps in building information and trust, organising social capital and enable opportunities of non-agricultural investment.

Generation of savings & taxes by adopting the practice of maintain accounts increases the profitability of MSMEs and allows investment in agricultural sector facilitating mechanisation

and enhancing productivity of farms. Earning of foreign exchange through wide market reach enables import of critical inputs and capital goods and resources for non-agricultural manufacturing. Diversion of surplus labour from already populated agricultural land towards non-farm sector permits production improvement in other sectors of economy.

Chapter 4

RURAL ENTERPRISES AND THEIR ENTREPRENEURS

4.1 Introduction

The proportion of working age population as percentage of total population is 66 percent (2018) in India according to Sample registration System 2018 (Office Of The Registrar General & Census Comissioner, 2020) and the growth in the same is anticipated to be even more rapid in the coming years. Accordingly, unemployment is an immense problem (Dey, 2012). Problems like joblessness, low productivity, inequality, alienation from global value chains, etc., can be solved through entrepreneurship (Devine, R. A., & Kiggundu, 2016). In approving resolution 71/221, the General Assembly recognised the crucial role that entrepreneurship performs in sustainable development by fostering job creation, improving social circumstances and standard of living, addressing environmental and social issues, guiding economic growth and innovation (UN, 2018; UNCTAD, 2017). Thus, promoting entrepreneurial endeavours can play an enormous role in economic growth and creation of diversified employment opportunities (Arko-Achemfuor, 2017) and income generated would enhance standard of living and consumption potentials (IFC, 2013). MSMEs are a major driver of economic growth, employment generation, and innovation, also they are likely to have an impact on achieving a number of sustainable development goals that is considerably greater than their size (ITC, 2019). Due to these factors, there is a significant rise in the engagement of youth population towards starting a business activity as well as many of them are enthusiastic about undertaking challenges and risks of entrepreneurship (Papulová & Papula, 2015).

Ahmed (2006) has also highlighted the same fact that the Given the significant income and employment outcomes brought about by the expansion of both the agricultural production and rural non-farm economies (RNFE), linkages formed between the rural economy and certain other sectors of the economy appear to be advantageous for the entire rural economy when viewed through a cross-sectoral lens.

In view of, growing distress rural to urban migration caused by continuous decrease in employment opportunities; broadening of income inequality; diminishing farm productivity due to declining farm size holding; and increasing rural poverty. Development of MSMEs is of holds a crucial importance in rural areas especially due to its high potency to generate sustainable livelihood opportunities. MSMEs can also help in achieving the Sustainable

Development Goals (SDGs) and its targets as highlighted in the report titled “*Micro-, Small and Medium-sized Enterprises (MSMEs) and their role in achieving the Sustainable Development Goals*” by Sobir, (2019).

Since, the agricultural sector plagued by land-scarce region having less fertile-agricultural land cannot absorb increasing rural workforce. Additionally, the comparatively small urban industrial sector is unable to address the employment gap left by the agricultural sector's release of labour in rural areas. In that scenario the MSMEs in the rural economy becomes vital sector for engaging the excess workforces by providing employment opportunities and diversification of livelihood options. However, despite considerable presence of MSMEs, this sector remains inadequately understood and insufficiently researched and documented segment of the rural economy as whole. According to Lanjouw et al. (2001), this field has a knowledge gap because of its significant heterogeneity and poor consideration both on the theoretical and empirical levels. Rosegrant et al. (2000) highlights the policy-related facets of MSMEs and remarks against the policy makers' lack of comprehension of rural MSMEs as a sector that has its own intrinsic stabilities and problems. The policy interventions created for them are typically fragmented or the result of policies intended for the the economy's industrial sector. This is emphasized by Ahmed (1996) and there is still a lot of focus on effort to develop proactive policy solutions to support MSMEs' productivity and scalability. This study makes an effort to bridge in any remaining gaps in knowledge and to highlight the essential components of a holistic policy framework for promoting the development and growth of the rural non-farm sector.

In keeping with that approach, this chapter uses field study to explore the status of MSMEs and entrepreneurs that are existent in the rural parts of North-eastern Rajasthan region. An effort has been made to comprehend how the expansion of MSMEs helps particularly rural areas and villages to flourish while also increasing the use of non-earning resources already available in the villages. The understanding of numerous linkages established between rural sector and MSMEs as well as due to the presence of MSMEs in rural areas, links between the rural economy and other economic sectors have developed that would highlight the crucial position of MSMEs hold in the developmental process.

Having detailed discussion on the macro socio-economic impact of the MSMEs in rural areas in the preceding chapter, it becomes pertinent to embark on the minute scrutiny of the MSMEs present in the rural areas to widen the knowledge and understanding about the MSMEs.

4.2 Objective

The macro-objective of this chapter is to understand the course of development and coming up of efficacious MSMEs and their owners in rural areas.

The relevant research questions envisioned to be explored through the field study are as follows:

- i. The general characteristics of the MSMEs situated in the rural areas?
- ii. The different aspects influencing the entry of the entrepreneurs into a rural non-farm sector (MSMEs).
- iii. To analyse the generation of employment opportunities and income by these MSMEs.
- iv. How did the entrepreneurs manage their business especially with specific reference to maintaining forward and backward linkages?
- v. The significant constraints faced by the entrepreneurs in running their business activity?
- vi. The course of development noticed due to coming of the MSMEs in the villages surveyed.
- vii. What are the lessons for the policy-makers and financial institutions which are in the business of promoting rural non-farm sector in general and entrepreneurs in particular?

4.3 Data Source and methodology

The collection of data for the study was done in different villages of the study areas. The data was gathered using a semi-structured questionnaire which was followed by an open-ended interview with the owner of the enterprise located in the villages.

150 samples were interviewed which forms the basis of analysis. The results obtained in the chapter are based on the case studies of 150 MSMEs and their entrepreneurs belonging to three districts of the study area.

The identification of the district for carrying out the field study was done by categorising the district of the north-eastern region of Rajasthan into three classes of high, medium and low density of MSMEs as shown in the Table 4.1 based on 73rd “National Sample Survey” data on “Unincorporated Non-Agricultural Enterprises (Excluding Construction) in India (2015-16)”. From each class the one district was selected using random sampling method. From the highest density class Ajmer district; medium density class Alwar district; and lowest density class Dausa was selected respectively for the purpose of our study which represent the three diverse situations concerning the scenario of MSMEs. It may be pointed out that the three districts also represent the varied socio-economic development situations.

Next, after the selection of districts 50 samples of MSMEs were selected from each district of the three categories. The 50 samples of MSMEs were selected randomly from the villages situated in the three districts of Ajmer, Alwar and Dausa.

Table 4.1 Selection of districts on the basis of density

Classes	Districts	Density of MSMEs, 2015-16
Low Density	Dausa	13
	Dhaulpur	19
	Tonk	21
Medium Density	Sawai Madhopur	22
	Jaipur	23
	Alwar	25
	Karauli	26
High Density	Bharatpur	28
	Bhilwara	35
	Ajmer	42

After the interview, data was compiled and different statistical method such as percentage, cross-tabulation and regression has been used and statistical analysis has been presented in the form of tables, bar-graph, pie-chart to support the evidences derived from content examination of the case-studies.

4.3.1 Field Work in selected rural areas of North-Eastern region of Rajasthan

An interview schedule was charted out for the collection of primary data. To check the viability of the interview schedule, pre-testing was done by sending online questionnaire form where 10 filled questionnaire were reverted back. On the basis of these sample required modification were fused in the final interview schedule. The field work was done in the month of September-October 2022 in the districts of Ajmer, Alwar and Dausa.

Appositeness and utility of the case survey method has been elaborated by Yin & Heald (1975). Use of the same method has been reported by Ramnarayan and Bhatnagar (1993) for appreciating the organisational process of learning implemented by numerous big size Indian business. Yin & Heald (1975) highlighted the advantages of this method which is its ability to amass numerous experiences and its frequency of incidences in heterogeneous assemblage of cases primarily linked to public policy studies. Manimala (1988) testified the utility of this

scheme in the study of pioneering-inventive entrepreneurs by analysing the studies of published cases on pre-defined and pre-specified variables. Appearance and development of women entrepreneurs has been studied by Kanitkar and Contractor (1992) using the same method.

The analysis would emphasis on understanding the causal patterns in the advent of MSMEs in villages of the study area. As the sample was drawn from different village and different districts having varied socio-economic scenario representing diverse MSMEs situation, therefore, the variety as well as range in the data enables to identify the patterns, if any, in the study area.

4.4 Review of Studies based on Rural Enterprises and Entrepreneurs

Having a detailed discussion in the preceding chapter on the different ways in which MSMEs impact the rural sector and its economy, it would be appropriate to appraise the relevant literature on rural entrepreneurs. Many studies have been done on the rise of rural entrepreneurs and village-based microbusiness owners. The studies conducted on MSMEs point towards the growing attention of researchers for examining multifaceted aspect of encouraging a small business activity in a rural economy. This results in appearance of divergence of approaches and views.

4.4.1 General Studies on Rural Enterprises and Entrepreneurs

Harper and Vyakarnam (1988) has taken a different view on farmers than the prevalent one where it is highlighted that farmers do take entrepreneurial inventiveness and possess managerial capabilities defying the general opinion that farmers and people in rural areas are conventional. Rural households are owners of a different business activity and organise labour and capital efficiently for their agriculture. They also take decisions as any other business entrepreneurs. The capabilities of rural people are demonstrated when they resolve medium- and long-term investment choices similar to any supervisor in a business would take especially when decisions such as buying of milch animals and plantation of cash-crops are concerned. Farmers also show great enthusiasm towards adoption of new technology inputs beneficial for the business. Therefore, they accomplish all entrepreneurial roles while involved in agricultural activity. Heredero (1979) has contended on parallel lines where he explains about 'agricultural entrepreneurs', as farmers who enable absorption of technology by adopting better agricultural inputs or introducing institutional changes. However, Saxena (2012) has highlighted that many of the rural people do not choose entrepreneurship as the since people frequently migrate to metropolitan regions in pursuit of employment prospects, this lack of career potential may be caused by a lack of awareness and knowledge about entrepreneurship opportunities. Similarly,

Matthai (1979) oppose the proposition that the challenges and risks related with agricultural activity and business activity are of the same type. There are numerous risks, termed as, 'perceived risks' which means that fewer the circumstances which are encouraging and reassuring and greater the components of the unknown results in larger perceived risk. For example, decisions regarding adopting power loom from a handloom or pursuing to new source of loan (banks and financial institutions) rather than traditional one (moneylender) are not safe and simple decision to make for rural entrepreneurs. Therefore, Matthai firmly advocate that any effort to encourage entrepreneurship in rural areas must be take into account different circumstances which would progressively diminish the perceived risk in the minds of the entrepreneurs and would endeavour to build risk-taking competences in rural people. Similar remarks has been made by Vyakarnam and Fiafor (1991) highlighted about 'cultural' facets influencing rural entrepreneurs. They found that dependence of rural entrepreneurs was more on their surroundings than their urban counterparts. Eschker et al., (2017) have highlighted the role of community perspective, prior business experience, knowledge and support for marketing to rural entrepreneurs have a great impact on how well commercial activity goes. Dabson (2001) emphasized the role of policies to promote rural entrepreneurship where there is need to address two economic situations which is 'limited opportunities to achieve economies of scale, and the need to recognize and harness comparative advantage. He has also weighted the importance scaling the already existing innovation in the field. Researchers also emphasized that training interventions mainly concentrated on economic characteristics overlooking the impact of social environment on rural entrepreneur is imprudent.

4.4.2 Empirical Studies on Entrepreneurs and Enterprises in Rural Areas

Moulik et al 1977) has examined the activities of 100 rural entrepreneurs in Gujarat's Anand Taluka, one of the state's prosperous areas. They also looked at the motivating and limiting elements that affect how well entrepreneurs perform.

The "Interim Report of the Study Group on Non-Farm Sector (NFS) (1992)" offered some observations on the traits of the enterprises and their owners based on the analysis of the case studies conducted on rural entrepreneurs of Tamil Nadu and Uttar Pradesh. The range of business endeavours pursued by the NFS was extremely broad. Training was discovered to be a significant barrier for rural entrepreneurs who wanted to enter the market. Each of the entrepreneurs who were studied had a few prior experiences, whether it came from family or a previous job. Having a trade or business-related family history certainly benefited the

entrepreneurs and another crucial factor in the success of the entrepreneurs studied was prior employment.

Subramanian (1989) in his analysis of traditional master-weavers of Tamil Nadu examined the impact of environmental factors on the mobility of master-weaver and their transition to a new role of an entrepreneurship. Dak et al (1989) examined 200 rural based small-scale enterprises in Haryana about the labour mobility and manpower use. The question of mobility studied under three categories- (i) transition from traditional profession to new profession; digression from hereditary profession and (iii) intra-generational mobility amongst entrepreneurs. Tovo (1991) could not find any conclusive result when examining about the factors contributing to the financial success of micro- enterprises among rural based women entrepreneurs in Tanzania. Zesch (1989) studied the structures of rural based enterprises and evaluated the numerous forms of organisation: a partnership, a co-operative society or a company, which were appropriate for evolving groups of rural entrepreneurs in Africa. Streefkerk (1981) threw light on the working conditions of rural workers in small-scale industries in Gujarat. Harper and Vyakarnam (1988) recorded the numerous case-studies from developing countries on non-farm enterprises and highlighted that the problems faced by rural based micro-enterprises comprises of availability of raw materials, information gap, access to credit, falling market and demand and archaic technology. One of the major problem is also the non-availability reliable data and if any of the data is available is very obsolete to use as mentioned in the report "Report of the Task Force on Micro, Small and Medium Enterprises" (Government of India, 2010). It also made numerous recommendations for the improvement and viability of MSMEs. Its suggestions encompassed matters like taxation, workforce, exit strategy, marketing channels, technology advancement, and skill development. There is need to increase the productivity of non- farm activities to generate higher income and need not rely on strategy of reducing poverty and employment generation only as noticed by Kohli (2001) in the report on Sick SSI Unit. Panandiker and Sud, (1986) in their action-research analysed the process and issue of situating rural industries in a comparatively economically backward areas of Alwar district of Rajasthan and concluded that the lack of the required administrative adequacies, financial capacity and the absence of entrepreneurial and technical skills make difficult to achieve the goals of rural industrialization.

4.4.3 Evaluation Studies on Entrepreneurs and Enterprises in Rural Areas

This section summarise the major studies which evaluated the policies and programmes designed for the promotion of rural entrepreneurs and encouraging the rural based enterprises. Little et al (1987) analyse the impact of industrial policy adopted in India and its impact on small-scale industry. There is also a discussion about productivity of capital and technical efficiency of enterprises in India and other countries. Chuta and Sethuraman (1984) has made an assessment of numerous policies and programmes shaped for rural enterprises located in developing countries. The contribution of Rural Industries Projects Programmes (RIP) in Punjab has been analysed by Gupta (1982) and has also assessed cost-benefit ratio of the industrial sector. The other evaluation studies consist of Tripathi (1985) and Rao et al (1986). Taori and Singh (1991) has expounded their efforts to unique marketing of the products of rural enterprise which comprise of reprocessed handmade paper of khadi and village industries in Uttar Pradesh. Kashyap (1990) has documented similar efforts which aimed at connecting rural artisans to urban market place making them able to sell their products and also opened the stage for them to have interaction with marketing experts.

4.4.4 Studies on Strategies to Promote Rural Entrepreneurs

There are different opinions and approaches about the trajectory to be pursued for the promotion of rural entrepreneurs. Institutions and people in general consider entrepreneurship as a crucial tool for quickening the rural development process (Saxena, 2012). Patel (1987) has recognized the approach and the implementation course followed in Entrepreneurship Development Programmes (EDPs). Essentially developing the individual entrepreneur is the central theme in this intervention. Bogaert and Das (1989) recommended 'group approach' defined as 'group entrepreneurship' as a strategy, for inducing entrepreneurial attributes among a group of people. Since, grounded on their field experiences, it has been found that numerous income-generating schemes designed for rural poor have suffered miserably because the focus of the programme was on individual recipient rather than group of entrepreneurs. Awasthi (2011) has documented different approaches and strategies adopted for promotion entrepreneurship in India and focuses that entrepreneurship requires governmental policy support to grow and cannot nurture in in isolation. Studying numerous strategies adopted by different organisations for enterprise development, Mahajan and Dichter (1990) suggested an approach called 'contingency approach', taking into account situational components such as nature of the sector, level of development of the area, features of the target group, and the type

of enterprises to be encouraged. LaTowsky and Grierson (1992) account of an experiment termed as 'supervised traditional apprenticeship' model carried out in Somalia which focuses on training the entrepreneurs. Hallberg (2000) suggest for a 'market-oriented' strategy to encourage an enabling business environment for enterprises that opens up the access to market and decreases the policy based biases against MSMEs. Dabson (2005) has recognised four key characteristics of an entrepreneurship development strategy, including the need for a supportive community culture, a strategy that is oriented on entrepreneurs, a centred system approach, and funding for novel financing models.

Thus, from the review of different literature it can be concluded that rural economy is not confined to agricultural sector only. Now there are several empirical evidences available displaying that mostly the rural households inclusive of farm households are carrying out non-agricultural activities along with agricultural activities showing diversification of economic activities in the rural regions. This also help in supplementing the household incomes significantly. Undeniably, increasing evidence from developing economies supports the idea that economic diversification conducted in quest of varied livelihood sources has a great potential to minimise urban-rural income gaps and encourage local economic growth.

Therefore, it can be safely concluded that MSMEs play a significant role in India's rural economy. This is why MSMEs are always thrust areas when it comes to promote the rural development. Hence it is desirable to study the role of entrepreneurs or owner of village base enterprise.

4.5 Discussion

4.5.1 Profile of Entrepreneurs

The statistical profile of the entrepreneurs has been presented in the Table 4.2 which shows that of all the entrepreneurs male comprises of 86 percent (129) whereas female entrepreneurs compose another 14 percent (21) of the ratio. This shows that women entrepreneurs still form a small proportion in the MSMEs sector similar to secondary and tertiary sector of the economy. However, there is significant encouraging scenario where female is becoming the decision maker by being the owner of these enterprises which is occasionally evident in other sectors of economy such as agriculture, industrial and service

Table 4.2 Profile of Entrepreneurs

Gender	Total	Percentage
Male	129	86
Female	21	14
Total	150	100

Source: Field Survey, September-October 2022

sector. This can lead to long-term empowerment of women and can work as threshold for bringing more women in the decision-making role by facilitating female entrepreneur friendly environment (Basak & Gupta, 2018; N. Dangi, 2014; Kumar, 2014). The increasing number of female entrepreneurs can also lead to the intensification in employment generated for female. The large number of male entrepreneurs shows that significant population of different villages is getting employment through MSMEs released from agricultural sector. This would also benefit the agriculture sector by decreasing the disguised employment which is widely manifested in the rural economy.

4.5.2 Relationship between Age Group and Educational Qualification of the Entrepreneurs

Table 4.3 shows that as many as 65 percent of the entrepreneurs belong to the age group of 20-40 years of age showing that youth form the major share which are possessing the risk-taking behaviour and are foremost in the MSMEs arena. Then comes the age group of 40-60 percent comprising of 23 percent. This age group as studied from the case studies has started

Age Group	Distribution of owner by Age group (%)	Educational Qualification							Total
		Uneducated	Primary	Middle Stage	Secondary	Senior Secondary	Graduate	Above Graduate	
15-20	9	1	0	1	2	7	3	0	14
20-40	65	0	3	7	19	26	35	8	98
40-60	23	5	4	3	3	7	11	1	34
More than 60	3	0	1	0	0	0	2	1	4
Total (%)	100	6 (4)	8 (5)	11 (7)	24 (16)	40 (27)	51 (34)	10 (7)	150 (100)

Source: Field Survey, September-October 2022

their business mainly to complement their earning sources and boost their income. This age group entrepreneurs also perform other economic activities mainly farming. The age group of 15-20 years includes the 9 percent of the ownership of the enterprise. The business of these entrepreneurs is of nascent age and the some of the reason for starting the enterprises is having family business and stepping out of the school in the middle of their education and supporting the family, few of the entrepreneurs of this age as well as of more than 60 years of age started their business due to lock down and to seek different sources of income. Only 3% of the total entrepreneurs are of age more than 60 years. Looking for pattern in the age of their business shows varied deviations such as few of the business has age of around 30-40 years whereas few of the business are in embryonic age. This nascent age business mainly has been started

by the ex-service person mainly to seek some kind of profitability or to utilise their time into some productive work. The old business is chiefly started to support their family and make business profitable.

Analysis of the data presented in Table 4.3, advocates that around 9 percent of entrepreneurs initiated their enterprise at an age, which could be considered 'early' by urban standards. Studies have shown that Lisa, (2011) that there are high probability for the early starter to turn themselves into big business and these business mostly are profitable due to their risk-taking behaviour, their inclination towards adopting new strategies and technology to pursue of turning their business profitable and increase their turnover. Some of the motivating factor to start the enterprise by these 'early' initiators are "Desire to be on one's own, a sense of accomplishment, exploring one's creative talents" (McClelland, D. C., & Winter, 1969).

Reflecting on the educational qualification of the entrepreneurs shows that highest level of qualification achieved by largest share of entrepreneurs (34 percent) is graduation level. 7 Percent (10 in number) of the entrepreneurs entered in above graduation level. Those possessing above graduation level comprised of 20-40 and more than 60 age group. In more than 60 years age group ex-servicemen were the individual receiving above graduation level qualification. Also 8 entrepreneurs receiving above graduation level has received some kind of training due to their enrolment in professional courses. such as post-graduation in fashion designing. 4 percent of the entrepreneurs did not receive any kind of school education and 28 percent of the entrepreneurs did not complete their school education. Some dropped out after primary stage (5 percent), few stepped out after completing their middle stage (7 percent) and around 16 percent could not complete their secondary education. 27 percent of the entrepreneurs could sufficiently complete their senior secondary stage.

4.5.3 Professional Training Received by Entrepreneurs

A great majority of 51 percent of the entrepreneurs did not obtain any kind of technical or professional qualification (Figure 4.1) which might have been fruitful in making them suitable in the job-market. Only 31 percent has received some kind of technical or professional training in some vocation, marketing or trade.

Also, there is apparent pattern in the 'entry strategy' implemented by the entrepreneurs in found in the study. Of the 49 percent of the entrepreneurs, the ticket to business of their own characteristically directed through a course, which may be lightly designated as 'unguided apprenticeship'. In fact, the word 'apprenticeship' would be erudite to explain their acquirement

of skill by learning-on-the-job. Family, friends, or relatives in town or cities, acquaintances and connections of villagers acted as 'guide or mentor' to these efficacious rural entrepreneurs. In the study, it is found that entrepreneurs before starting their enterprise joined parlour in the city before opening themselves, joined a dhaba owned by their relatives and going places with a distant relative to learn about the business.

This kind of 'unguided apprenticeship' or casual training demonstrated its usefulness in respective enterprises for a hefty number of entrepreneurs as found in the case study survey. This kind of first-hand knowledge and acquirement of the skills are the utmost valuable and beneficial experience for the enterprises of the new participants in MSME sector. It is also seen that after the acquisition of sufficient understanding about the tricks and game of running

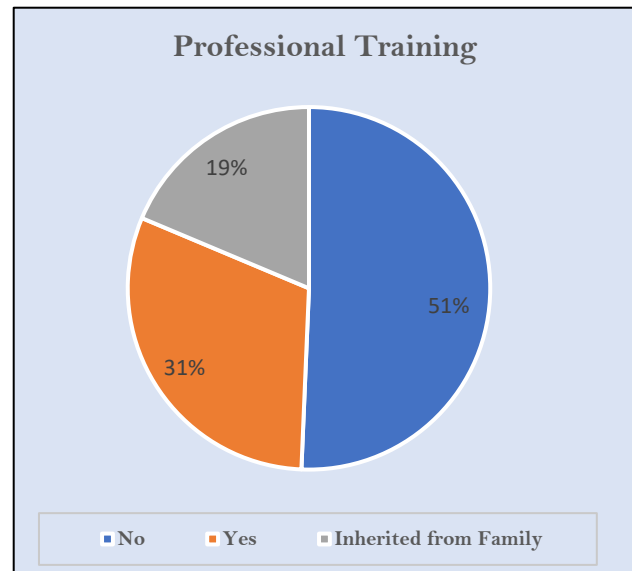


Figure 4.1 Share of Skilled Entrepreneurs

business, some of entrepreneurs undertook the similar activity in their own villages. The kind of informal training procedure appears to be beneficial and advantageous for the new entrepreneurs regardless of the activity they undertook, whether a food stall, or a saloon shop or a motor repairing shop. Such strategy also appeared to be acting as a bridge, nevertheless be of momentary in nature, to pass the obstacles of undertaking any professions if forced by any kind of the social environment around these entrepreneurs in the villages. However, the business activity chosen by the owner are classically replications suiting to village economy. Hence, flour milling, grain milling, oil milling shops; tea shops, seasonal sugarcane juice shop, tailoring and readymade cloth shop, grocery shops, hair-cutting shops and cycle repairing shops, seemed to be highly strived-out business activity designs. As many as 52 per cent of entrepreneurs covered in the study began their business in this traditional or conventional activities of trading or offering some services.

The pursuit for the starting new business and the type of activity was guided by numerous factors success in carrying out similar ventures in the village and also understanding gained during the informal training period rather than deliberations over the availability of capital at disposal. Correspondingly, suitability of a certain opportunity (vis-a-vis the socio-political-economic situation in the rural areas) seemed to be a contemplation adopted by owner of the

MSMEs which were studied in the survey. The appropriateness of the business activity and local socio- economic environment was verified in numerous cases during the study. A village (Lohagal) nearer to a Ajmer railway station and highway presented a profuse scope for the sustenance of a different service and manufacturing enterprises such as auto-mobile repairing shop, line- hotel called dhaba, juice shops etc Likewise, starting computer classes warranted sufficient enrolment of students from all nearby villages and adjacent town also and hence assured marketing of the services provided by that enterprise such as filling of form, application forwarding etc. The successes starting a similar business activity by the individuals established the high probability of achieving success in running profitable business and reduction of different kinds of perceived menaces. In that sense the resembling business approach seems to be fruitful idea in as evident in the study.

4.5.4 Family's Occupation and Ownership of Resources by Entrepreneurs

Again, it is evident form the table that large number of entrepreneurs' family main occupation is farming and around 73 percent of enteprenuers possess some kind of land property. 16 percent of the entrepreneurs' family is performing labour work either as agricultural labourer or in cutting of the stone particularly in villages of Ajmer

Parents Occupation	No. of Entrepreneurs	Land	Numbers	Milch Animal	No. of Entrepreneurs	Equipment	No. of Entrepreneurs
Farming	74 (49%)	No	40 (27%)	No	62 (41%)	No	123 (82%)
Agricultural Labourer	16 (11%)	Yes	110 (73%)	Yes	88 (59%)	Yes	27 (18%)
Business	16 (11%)						
Service	9 (6%)						
Other	35 (23%)						
Total	150 (100%)		150 (100%)		150 (100%)		150 (100%)

Source: Field Survey, September-October 2022

17 percent of the enteprenuers has family background in the running of MSMEs and they themselves started the same activity by adopting the similar business approach. Around 23 percent of the entrepreneurs did other kind of job which includes employment in some kind of formal profession such as teaching, army and others. Around 88 percent of the families have mulching animal which might have helped them in diversifying their income sources. Having

agricultural equipment such as tractor, thresher, etc shows some kind of prosperity which was kept by 18 percent of the entrepreneurs' family, whereas nearly a total majority (88 per cent) do not possess any farm equipment.

4.5.5 Nature of the MSMEs

Looking into the Figure 4.3 it is obvious that 98 percent of the enterprises belong to the micro category of MSMEs and only 1 percent of the enterprises belong to small category of MSMEs

which are mainly service enterprise based on the classification criteria of MSMEs Act 2006 on investment in plant and machinery and equipment. This investigation of the initial investment in the enterprise by the

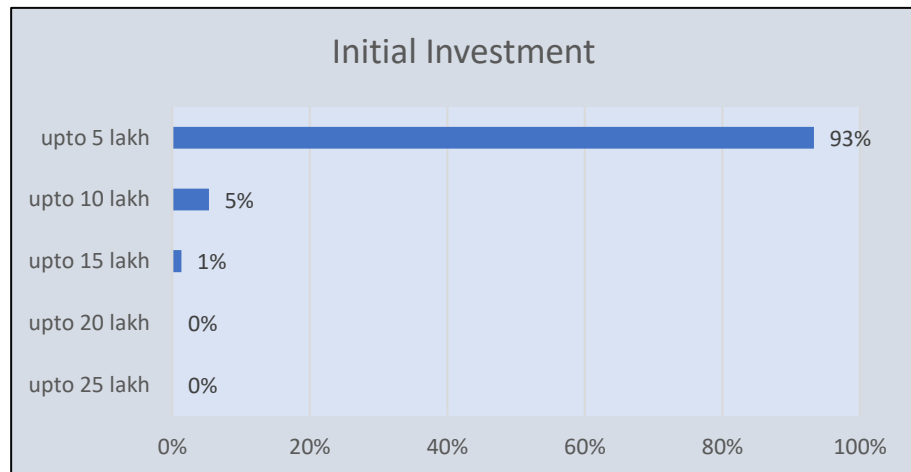


Figure 4.2 Level of Initial Investments to set-up Enterprises

Source: Field Survey, September-October 2022

owners illustrate the scale of the enterprise which is typically small. Some of the individuals have invested around Rs 10,000-20,000. Henceforth the enterprises were unaffectedly micro in nature, considering the initial investment. This proves that micro enterprise is still prevalent category suiting to the rural economy. Also, the suitability of setting-up an enterprise in the villages where the capital as well as financial resources are scarcely available.

Reflecting into the type of enterprise (as shown in Table 4.5) covered in the survey, of the 150 enterprises covered in the survey, more

than half of the entrepreneurs (65 percent) were conducting activities usually categorised as service activity whereas only 35 percent were running manufacturing enterprises. This result of the type of the enterprise and majority of

Type	Number	Percentage
Manufacturing	52	35%
Service	98	65%
Total	150	100%

Source: Field Survey, September-October 2022

services enterprise is due to the viability of starting service activity as it does not need very high investment and also there is low investment in establishing plant and procuring machinery.

4.5.6 Perception About Business

Looking into the sentiment and perception of entrepreneurs about their enterprise where 88 percent of entrepreneurs find their business profitable and one of the major reasons to make them running the business also supplements the viability of running a business which belongs to MSMEs sector. Also, the remaining 12 percent called the business as remaining in the same position but none of them has complained about the loss generated by the enterprise.

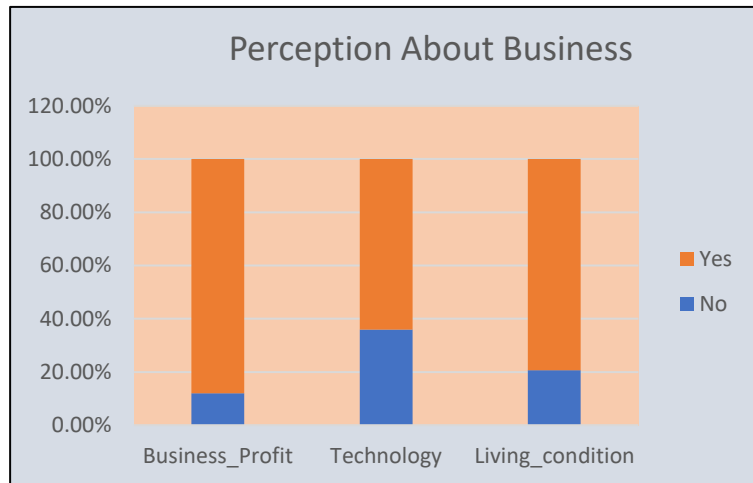


Figure 4.3 Perception About Business
 almost all of the MSMEs in the *Source: Field Survey, September-October 2022*

rural areas are profitable and boosting the earnings of entrepreneur particularly and villagers in general through its backward and forward linkages. The assessment of the rural areas, specifically the involvement of rural non-farm enterprises in changing the living standards reveals that around 79 percent of the entrepreneurs has noticed improvement in the living condition of their own as well as raising the living standard of their family by their monetary contribution in the running the business. Similarly, it has been noticed that around 64 percent of the entrepreneurs has adopted some kind of technology such as online payment method, marketing their products through online portals, linking themselves to different distributors to enlarge the reach of their product outside the state.

4.5.7 Reason for Starting MSMEs

On examining the reason for starting the enterprise (Figure 4.4) by the individuals, many of the entrepreneurs started the ‘business activity’ looking into the profitability of the business as well as following the similar business approach following the business from where they have taken some form of unguided apprenticeship. Of the total, 35 percent started the business because of possessing the skill required for the business and profitability of the business such as pharmacy, parlour or fashion designing. 14 percent of the entrepreneurs inherited the family business which composed of sweet and processed food shop, juice shop, barber shop, dairy shop etc.

The inherited family business majorly belongs to the generally classified as manufacturing activity. Only three percent of the individuals solely started the enterprise because of possessing skill and to serve the village population as the activity performed by these entrepreneurs were not present in the village and the villages has to travel to far of places such as to city or tehsil to get that product or service.

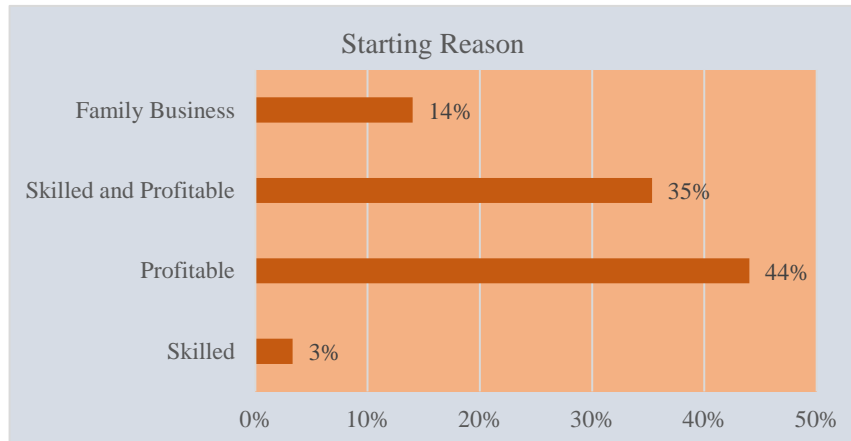


Figure 4.4 Reason for Starting Enterprises
 Source: Field Survey, September-October 2022

4.5.8 Institutions to meet Entrepreneurs’ Financial Requirements

Of the 150 entrepreneurs, 135 owners (90 percent) possess bank account. However when it comes for meeting the financial requirement or doing investment in the enterprise, banks are the one of the last sort of resource for the large number of owners (Figure 4.5) Large

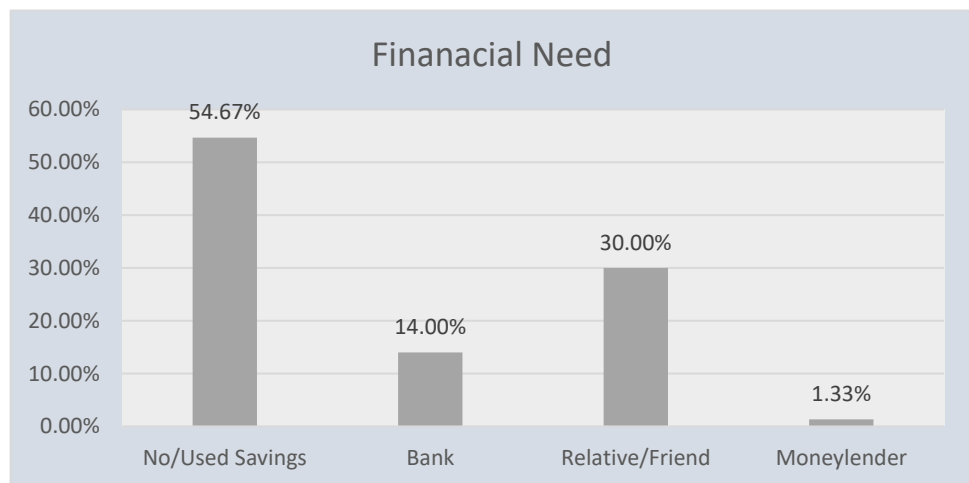


Figure 4.5 Financial Institution providing monetary help to Entrepreneurs
 Source: Field Survey, September-October 2022

number of entrepreneurs used their saving to meet the financial requirement and depended on their own resources accumulated through the profit of the same business or from other sources. However relative and friends happened to be the most approached help when it comes to taking monetary help. In all cases, there was pronounced fondness for meeting of financial help privately through relative and friends or from some known person rather than moneylenders. Also, a distinct diffidence was seen when it comes to approach financial institution or bank for loans despite being the availability and accessibility to a commercial bank. The surveyed

villages had a branch of a commercial bank either in the village itself or in the vicinity but the presence of these institution did not motivate the new entrepreneurs to access them for their necessities.

4.5.9 Extent of Formalisation of MSMEs

Looking at the formalisation of MSMEs, majority of the entrepreneurs were not registered under any authority (Figure 4.6)

Only approximately 25 percent of the enterprise were registered and barring few of the ‘Small category’ all of them were registered as ‘micro enterprise’ showing the prevalence and suitability of Micro enterprise in the rural arena. Also, it is obvious

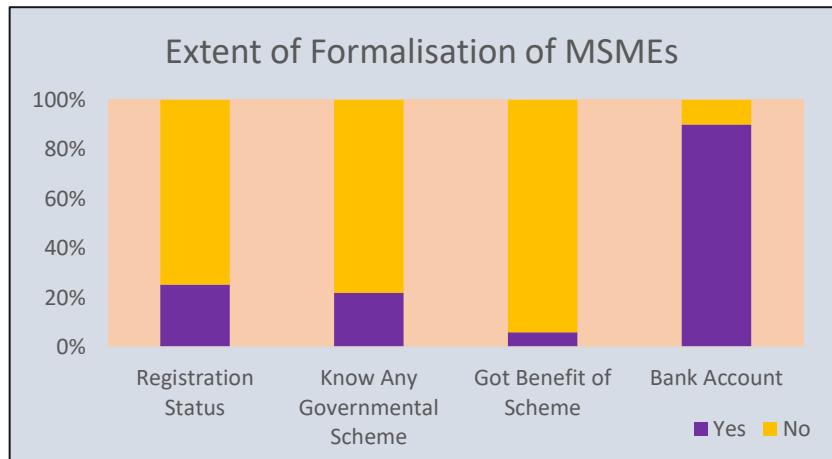


Figure 4.6 Extent of Formalisation of MSMEs

Source: Field Survey, September-October 2022

from the figure that during the survey, majority of the entrepreneurs appeared to be unaware of the numerous governmental schemes targeted towards the development of their enterprise and the entrepreneurs themselves. They were unaware of the developmental agencies including credit facilities for the promotion of MSMEs. However 22 percent of them entrepreneurs were familiar with the beneficial effects of scheme but due to information gap and conviction could not avail their benefits. Of the 22 percent who were aware of the scheme only 1-2 percent of the entrepreneurs availed some kind of credit help from the agencies. Refusal of establishments to authorize credit and information gap and were the limitations met by majority of the entrepreneur. The image that appeared out of the examination of the cases in the survey was that of prevalence of distrust on a recognized banking system and hesitancy to approach the infrastructure a even if it is available in the vicinity.

4.5.10 Diversification of Economic Activities

While doing the analysis of the different economic activities performed by the entrepreneurs other than engagement with MSMEs (Figure 4.7) it is found that 36 percent of the entrepreneurs were solely involved with their enterprise. However remaining were operating other economic activities chiefly under primary sector such as farming, agricultural labourer, dairy, labourer in stone cutting etc. 34 percent were involved in the occupation of farming, showing that the entrepreneurs were able

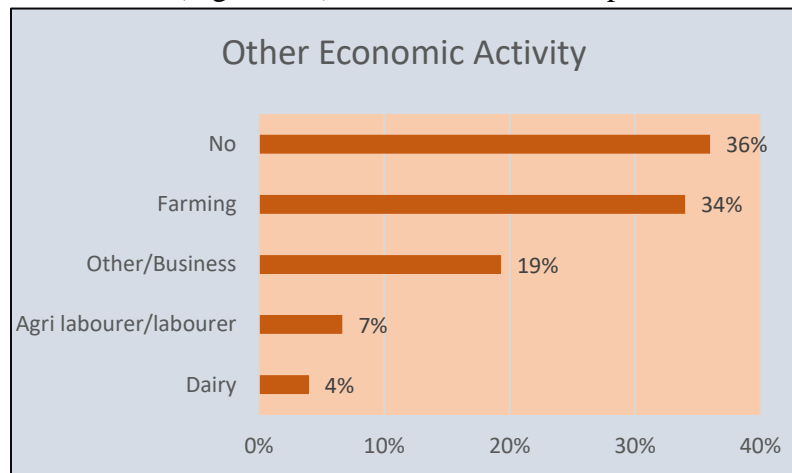


Figure 4.7 Diversification of Economic Activities

Source: Field Survey, September-October 2022

to manage their farm as well as their enterprise. Also, 7 percent of the entrepreneurs were working as agricultural labourer or some were working as labourer at stone cutting site particularly in Ajmer. Some entrepreneurs were doing animal husbandry alongside their enterprise maximising their profit. This allocation of work or mixture of economic activities performed by these entrepreneurs can be explained by neo-classical theory, where a household in a village divides its time equally between farm work, such as productive activities, harvesting crops from the farm, working off-farm for income or working for oneself in non-farm, and recreation. “The division depends on the potential to generate agricultural income, the opportunity costs of farm labour (non-agricultural wages) and the household’s utility function” (Bauer, 2000). However, the business was 'localised' in terms of their operation or input- output considerations and majority of them were micro-enterprise considering the average amount of initial investment, nevertheless these enterprises happened to be the mainstream economic activity as majority of the entrepreneurs responded that their participation in their enterprise was full-time also barring few of the enterprises all of them functioned throughout the year. Therefore, regardless of the size and scale of operations of village enterprise, the earnings of entrepreneurs through their business appeared to be a major source of income for the entrepreneurs and their family members and household.

4.5.11 Constraints faced by Entrepreneurs

The entrepreneurs of the rural enterprises were asked to list down the restraints faced by them in running their business successfully. Figure 4.8 demonstrates the key obstacles to the growth of rural non-farm MSMEs.

Almost 34 percent of the entrepreneurs replied that they do not face any kind of problem in the management of their business.

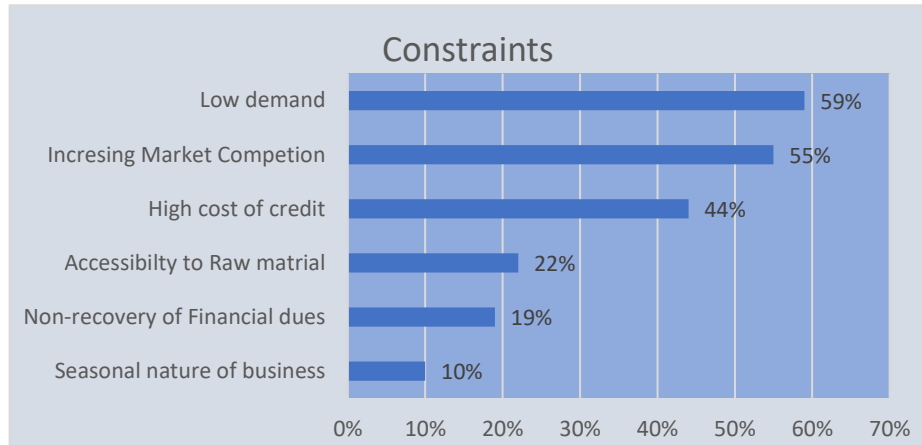


Figure 4.8 Constraints faced by Entrepreneurs

Comin to the *Source: Field Survey, September-October 2022*

constraints, the fall in

demand or less demand was mentioned as the entrepreneurs' principal constraint. Increasing market competition together with a high cost of credit are prominent problem zones for MSMEs. The increasing competition leads to the problem in the management of the business and reaching to a stage of maturity or saturation. This happened because the type of activity chosen by entrepreneurs were mostly of service enterprise having very less value addition and limited entry barriers. This led to entry of several other competitors in the field due to the success of service enterprise thus reducing the profit margins. The analysis provided illustrations of this problem in almost all the surveyed districts. Accessibility to raw material has been identified by 22 percent of the entrepreneurs as a major constraints. Seasonality of some of the enterprise also posed major problem as these enterprises could profit only in few months of the year i.e. during peak season of the demand such as sugarcane juices shop. A peculiar facet of the constraints also evolved out from the analysis where non-recovery of financial dues was sighted by 19 percent of the entrepreneurs as major problem. This spectacle can be explained as follows. To set-up and establish their business in the village, the entrepreneurs many of the time did not exact the financial due from their customers which accumulates over time. This seems to be one of reason why entrepreneurs might fall into the credit trap. Another reason for the credit gap might be attributed to the rural sector economy and the way it functions. Typically, some kind of credit was given by the MSMEs' owners during the year to their clients with a hope that repayment of debt would be made at harvest time when customers could have

sufficient cash by selling of their produce. These arrangements proved burdensome for the small entrepreneur for the simple reason that it severely eroded the liquidity of their establishment and gave rise to recurrent problems of working capital.

4.5.12 Utilisation of Income generated from MSMEs

On examination of the expenditure distribution by the entrepreneurs (Figure 4.9), the picture emerged out that almost 97 percent of the entrepreneurs spend on household consumption. Also, to increase the scale of the enterprise, entrepreneurs (83 percent) also appropriate some

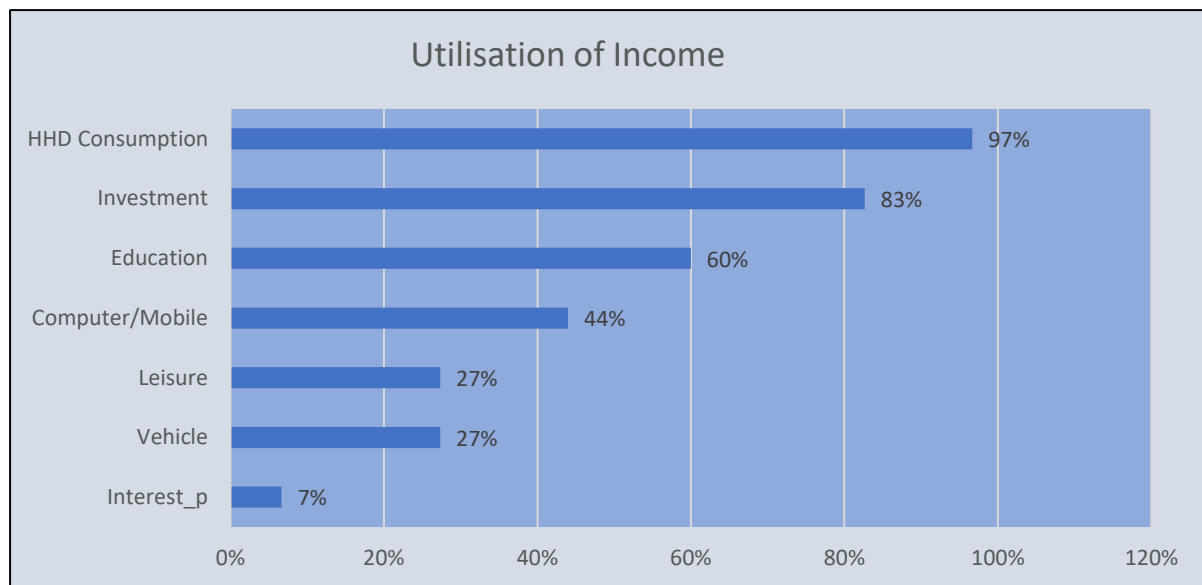


Figure 4.9 Utilisation of Income by Entrepreneurs

Source: Field Survey, September-October 2022

part of their income as investment in the same business. Since, survival of MSMEs is highly determined by the investments, they are crucial requirement to increase the efficiency as well as profit of the enterprise. Spending on education, computer, mobile also form a major portion of income generated from enterprise. This shows that MSMEs are helping the children to get the education as well as MSMEs are able to bring the connectivity and Information and communication technologies (ICTs) to the villages. This increase in the connectivity can help in the formation of rural-urban continuum and bridge the rural-urban divide. The spread of information and communication technology to villages also helps in widening the market reach of entrepreneurs and reduces the information gap a prevalent character in rural areas. Removing the information gap faced by entrepreneurs enable them to avail the benefits of numerous schemes target towards entrepreneurs and MSMEs. Vehicle which may needed by the entrepreneurs for the transportation of the raw material or products to the consumers has been

also bought by the savings from the business by the operators (27 percent). Entrepreneurs also utilise their income as part of payment of interest to the advances taken by entrepreneurs for starting their enterprise.

4.5.13 Resource requirement and mobilisation

Nature of raw material utilised by the enterprise has been categorised into three division i.e. Agriculture based, non-agriculture based and forest based to understand the linkages of MSMEs crested due to their demand for raw material. 40 of the entrepreneurs has demand for the raw material which was agro-based. Also, 5 of the enterprises has demand for forest based raw material. These enterprises were mainly were associated with wooden furniture work. 70 percent of the enterprise has demand from other sources.

Table 4.6 Resource requirement and mobilisation

Nature of Raw Material		Availability of Raw Material		Market of Products	
		Locally Available/village	47 (31.00)	Locally Available/Village	70 (46.67)
Agriculture Based	40 (26.67)	Within District	75 (50.00)	Within District	74 (49.33)
Non-Agriculture	105 (70.00)	Within State	13 (9.00)	Within State	3 (2.00)
Forest Based	5 (3.33)	Outside State	15 (10.00)	Outside State	3 (2.00)
Total	150 (100.00)	Total	150 (100.00)	Total	150 (100.00)

Source: Field Survey, September-October 2022

The availability of the raw material also forms a strong linkage with the villages and its rural population benefitting them from the payment in exchange of the raw material. From the analysis it is obvious that the business activity of the entrepreneurs is truly localised as evident from the periphery of the source of raw materials as well as the area of marketing of their products and/or services for their particular business operation. Nearly 81 percent of then entrepreneurs fulfilled their raw material requirement locally from the village or within the districts. On the same line, almost 96 percent of the enterprise operations market their product locally or outside the village but within-district. Jaipur was the major site for sourcing the raw material for the entrepreneurs who needed their raw material within-state and Haryana, Gujarat and Delhi were the major site for sourcing raw material outside the state.

4.5.14 Location of MSMEs' Unit in Rural Areas

Location of the enterprise operating in the village also forms a backward linkage with the rural areas because of the rent imbursement by the enterprise to the owner of premises (Figure 4.10).

Closely 41 percent of the operators began their business operations in rented premises and sustained to operate from the same when survey was done. 19 percent of the enterprise were operating from their home and 38 percent were operating in the village but their premise was not rented as the operators of these enterprise were operating their business from some kind of

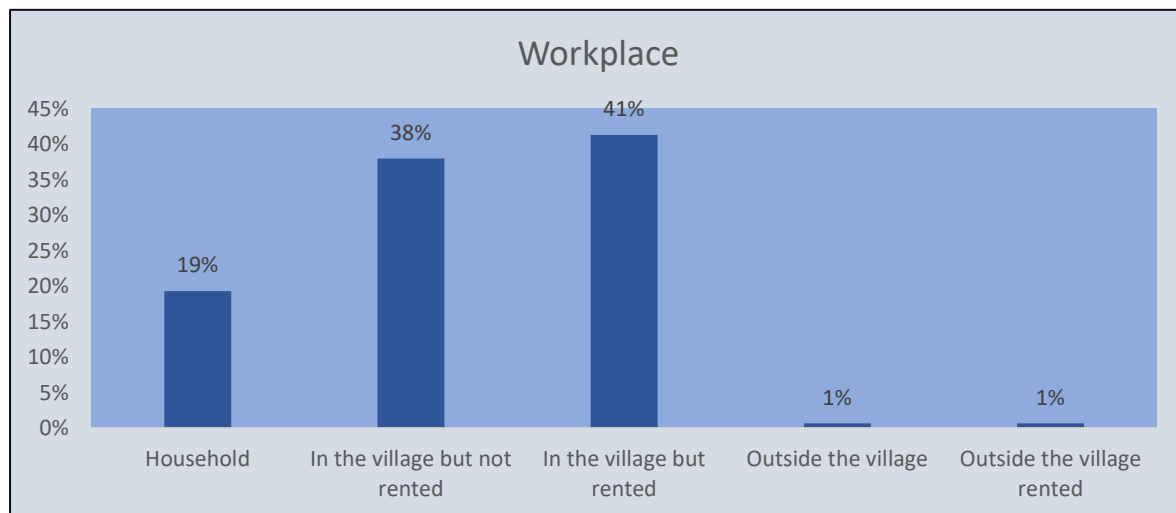


Figure 4.10 Location of MSMEs Unit

Source: Field Survey, September-October 2022

public ground or community place present in the village. Meagre number of the entrepreneurs of the were operating their enterprise outside the village some in rented or some at some public property. Also, location of the enterprises on the rented premises owned by villages started bringing some sort of utility to the large land area unsuited for the agriculture. Thus, it changed the unfertile and uneconomic land to a productive asset for the owner.

4.5.15 Nature of Change seen due to MSMEs

The entrepreneurs were asked to list down the changes occurring due to coming of the MSMEs in their villages and the picture that emerged out of the analysis is as follows. Large number pf owners (66 percent) have found increased in the availability as well as accessibility to the products and services (Figure 4.11). Earlier for accessing the same services or products villagers had to travel to far off places such as tehsil of the village or to the main city, but now this has reduced to a large extent. There has been increase in the commercial vehicle as identified by 34 percent of the entrepreneurs. This increase in the commercial vehicle is largely due to these MSMEs located in the villages. These enterprises demand for the commercial vehicle for the transportation of their raw material or to market their products. For example, enterprise related to dairy uses commercial vehicle to deliver milk daily to the consumers. The

surge in the demand for the commercial vehicle also creates demand in the automobile sector forming a forward linkage due to MSMEs. The operators of the enterprise have also noticed the increase in the number of customers coming from outside the villages. This increase in the volume of customers benefits the MSMEs directly as well as the entrepreneur’s family indirectly by increasing their profit and sale. Due to the benefits arising from clustering of

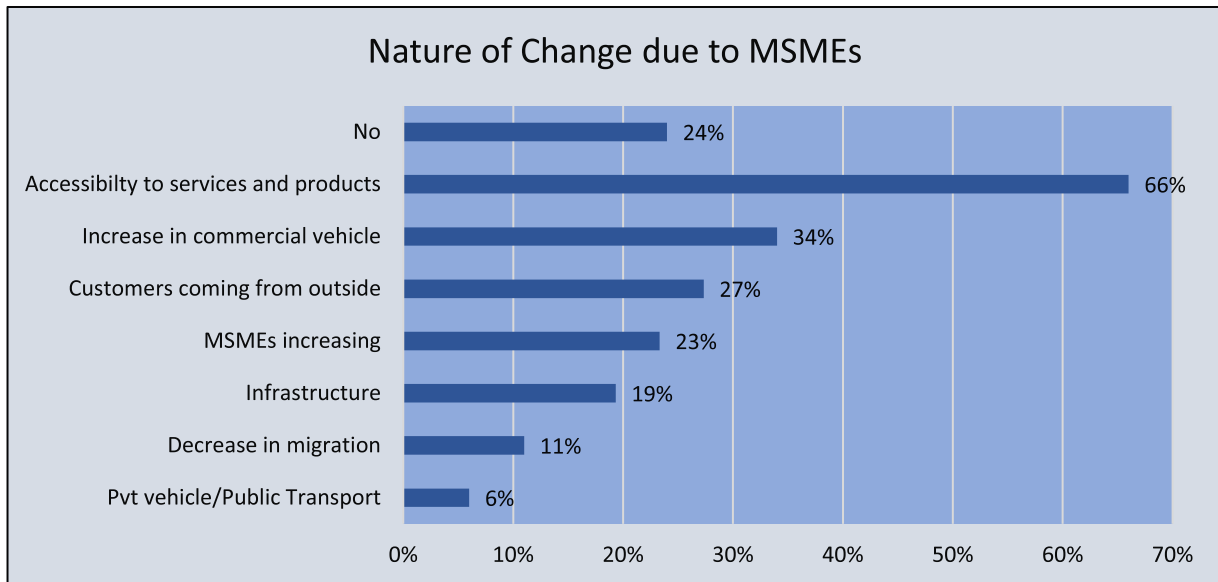


Figure 4.11 Outlook of Entrepreneurs about changes brought by MSMEs
Source: Field Survey, September-October 2022

MSMEs’ units there has been increase in the number of MSMEs in the villages itself. This happens because of the induce effect which boost the confidence of other villagers to start their enterprise so as to diversify their income source and shift from dwindling source of income to some constant and regular source of income. Lohagal village situated near the Ajmer railway station and near highways represent a unique case where enterprises are coming in-line due to the profitability and convergence of the other MSMEs and services in the same village. entrepreneurs (19 percent) has also noticed the change in infrastructure, few of the respondents has identified the construction or repairment of the road, some of them noticed the construction of hospital and other identified coming of the fuel filling station. Fuel filling station might have been brought in the village due to increase in the commercial and private vehicles which generated demand for the same and create a consumer forward linkage. Employability by the enterprise has shown its effects on the out-migration which has decreased as identified by 11 percent of the entrepreneurs. Since, the working youth could get employment in the enterprises located in the villages which in turn created a pull-effect or retain effect reducing the out-migration of youth to town or cities in search of job-opportunities. 6 percent of the entrepreneurs

has acknowledged the increase in private vehicle or public transport. The increase in the private vehicle can be attributed to the increase consumer expenditure as well as to the necessity of the entrepreneurs to market their services. The increase in the public transport could be attributed to the increase in the commutability of the costumers to these enterprises as well as surge in the movement of entrepreneurs to fetch the material required by them.

4.5.16 Lesson for the Stakeholders responsible for the development of MSMEs.

Given the significant role played by MSMEs in rural development through employment generation, reduction in poverty level, provision of basic amenities, attracting the growth of physical and social infrastructure, diversification of sources of livelihood, supplementing agricultural income, providing suitable opportunities to youth population and building entrepreneurial capacity, it is required that MSMEs must be supported to grow.

However, it is quite complex to identify the necessary stimulus to be given to rural MSMEs given wide range of activities performed by them and varied nature of rural area having a comparative advantage for different kinds of economic activity.

Given different stages of rural economy and MSMEs, Start, (2001) has given a four staged model in a temporal context:

- i. In Stage 1 of pre-modern and subsistence societies having high rural remoteness and low-level urbanisation, the non-farm rural economy is small characterised by local provision of services.
- ii. In Stage 2 where the agricultural economy starts to grows which facilitates the capitalisation and expansion of MSMEs activity or rural non-agriculture economy.
- iii. In Stage 3 where rural areas start connecting with urban due to growth of urban economy the rural non-farm economy comes in competition with urban goods and products and therefore rural MSMEs must modernise to survive.
- iv. In Stage 4 where the economic and social costs start increasing due to urban congestion, new forms of Rural MSMEs may develop such as emergences of clusters or sub-contraction due to outsourcing of activities.

However Start, (2001) highlights that this four staged model is not supposed to be applied uniformly because parts of the economy would grow at different rates and different rural areas will exhibit varying degrees of all stages simultaneously. “The definite stage would depend on the level of agricultural development, rural infrastructure, rural income, and urbanisation”.

Nonetheless, four staged model of Start, (2001) points out the different kinds of interventions need to be taken for the development of MSMEs particularly in the early stages of the MSMEs.

Interventions are particularly required for the rural MSMEs owing to their geographical location and information gap and entry barriers faced by the entrepreneurs. Some of the interventions are provision of training and credit facilities as well as institutional interventions to facilitate the smooth the transition to MSMEs with long-term comparative advantage.

Based on above discussion, strategies to be adopted for the development of MSMEs can be categorised into four groups Table 4.7 namely “removing general constraints to growth; facilitating urban-rural links; facilitating enterprise growth; and sector or sub-sector interventions”.

Table 4.7 Strategies for Supporting Rural MSMEs

Strategy	Method of Intervention
Removal of constraints faced by Enteprenuers	Investment in Education, Communication, Health, transport
Enabling Rural-Urban Linkage	Reduction in Information Gap and improvement in flow of market to rural areas Framing regulations that enable sub-contracting and Out-sourcing Recognizing options for improving access to social-enterprises networks
Enabling MSMEs Growth	Facilitate Producers organisation and association for sourcing and marketing Removing regulatory constraints for MSMEs Extension of Business advisory service for MSMEs
Specific Interventions for Sector/Sub-sector	Support industrial clusters Encouraging Industrial relocation Use of planning gain in concession allocation to encourage local economic linkage

Source: Modified after Ashley & Maxwell, (2002)

Therefore, enabling factors for the success of MSMEs such as training and credit support, skill enhancement, tooling and testing support, reservation for production function and for exclusive purchase by state, export promotion must be provided in order to exploit the significance of MSMEs in rural development.

4.6 Conclusion

The profile of entrepreneurs and that of their businesses in rural areas is fairly uniform in terms of the pattern of their emergence, and struggles of survival. Even assuming that there would be strong regional flavours which would alter the dynamics in the local settings, four broad initiatives at the policy level to vigorously promote entrepreneurs and small business owners in rural India.

It is important to recognise the strengths of 'apprenticeship' mode of entry into an entrepreneurial activity as seen our study. Therefore, it would be worth- while to formalise and to institutionalise the system of 'guided-apprenticeship'. Existing institutions and ongoing developmental schemes can be reoriented so that a new stream of entrepreneurs are identified and nurtured in the villages.

The second important thrust area is the urgent need to redesign the working of the financial institutions at the village level. Their working has to be sensitive to the fact that their customers and borrowers could be genuine customers even if most of them do not possess formal educational qualifications or professional diploma. It is this set of people who would need a supportive banker to promote their entry into small business. The perceived negative image of the bank- ers in the minds of rural entrepreneurs also provides opportunities for introspection and process-system modifications. To make clients perceive that bankers are their best friends is a great challenge for the develop- mental banks, especially those operating in rural India.

Associated with the above is a need to evolve a suitable credit policy taking into considerations peculiar working capital prob- kms, discussed earlier, faced by rural entrepreneurs. A credit delayed is credit denied. How to strengthen the liquidity and, in turn, stability of these numerous small-business is a challenge for bankers to respond with innovative approaches. A 'venture capital' of different quality is required for these micro-enterprises and there needs to be to- tally different orientation in financing such units.

As we observed in our earlier analysis, almost all the units were facing a stage of saturation arising out of entry of new entrants and increasing competition. To enable them to survive in a competitive environment, it is important for these units to look for better avenues, new projects

and opportunities. Unfortunately, there are hardly any 'consultants' available in their neighbourhood with whom these entrepreneurs can have a dialogue. Our study suggests that there is an urgent need to have a pool of consultants/counsellors to advise these units. As argued earlier, here also a new and innovative approach would be required to work out the consulting requirements of the sector, as these services are important. Our study of entrepreneurs operating in rural India indicate the 'self-made' characteristics of a large number of individuals in the country side, who without proper education and training have ventured into small business. It is important to sustain these numerous enterprises through appropriate policy initiatives

Chapter 5

CONCLUSION

Policies aimed at rural development are now being advocated throughout Africa, among which agricultural development, rural industrialisation and the provision of social infrastructure are prominent. In the industrial sphere the emphasis is on rural small-scale industries, which utilise local resources of materials and fuels but, even more important, provide much-needed employment and reasonably-priced goods for the rural population.

Micro, Small and Medium Enterprises have been given major thrust since start of the regional and sectoral planning era in India and which has been intensified in recent decades to generate productive employment and absorb the large and increasing labour force. Though MSMEs is not the only strategy to deal with the employment and industrialisation situation of rural areas but it is given special emphasis to bring diversification in rural economy.

Rural MSMEs hold a significant place in rural economy when viewed in relation to the increasing saturation of agricultural employment and growing rural labour force and the ever increasing rural-urban divide. The serious situation has arisen due to differential impression of developmental policies in urban and rural regions. The impacts are out-migration of youths from rural areas to the towns or cities and the worsening economic growth and living standards of rural occupants. In addition to being important for reducing poverty, advancing the economy, and fostering rural development, the creation of jobs by MSMEs has also been demonstrated to improve the sustainable use of natural resources and food security in rural regions (Bhalla 2002; Chadha 2002; Davis 2003; Ellis 1998). MSMEs create possibilities for rural women in particular and may be a means of bridging the economic gender gaps that exist in rural areas by creating in-situ employment prospects with better wage rates. Rural out-migration, if unresolved, could result in unsustainably high and uncontrollable urban growth on the one hand and increased susceptibility of the migrating rural population on the other. Thus, by limiting rural-to-urban migration by employment generation through MSMEs could also have a positive externality effect on towns and cities (Davis 2003; Ellis 1998).

In the present research, an effort has been made to comprehend how MSMEs might deal with the difficult circumstances of stagnated agriculture and the economy in rural parts of north-eastern region of Rajasthan. The size, structure and growth of MSMEs has been analysed with respect to units, employment, wages and Gross value added. Change in the intensity of MSMEs, growth in the productivity and efficiency of MSMEs in the region has been examined

in the study. Various facets of the MSMEs such as composition in terms of manufacturing and services enterprise, type of enterprise in terms of Own account Enterprise (OAE) and Establishment (Estt.) and Nature of operation of MSMEs such as perennial, seasonal and casual enterprise in the region. Also, the growth status of MSMEs has been evaluated by looking into the expanding, stagnating and contracting MSMEs. Also, the impact of MSMEs has been examined by looking the effect of MSMEs on number of workers, emoluments to workers and output in terms of Gross value Added (GVA). Similarly, the impact of concentration of MSMEs has been analysed on the same variables.

To investigate the significance of MSMEs in rural development and understand the various linkages between MSMEs and agriculture and rural areas an index has been constructed taking 5 dimensions namely Economic, Employment, Social, Accessibility to Institutions and Enabling Environment. To achieve these objectives and for scrutinizing the situation a regional and temporal analysis has been done.

To delve into the real picture and to identify the various dimension related to the entrepreneurs a field survey has been done and data has been collected through semi-structure questionnaire and interview. This survey gave insight to the changes brought by the enterprises in the lives of the entrepreneurs and as well as in their family and villages. The survey has looked into the type of the enterprise, occupational background of the entrepreneurs training status utilisation of income generated from the enterprise, employment opportunity to working labour of the village, average income generated to workers, the perception of the entrepreneurs about their business activity, the extent of formalisation of the entrepreneurs in the villages, changes identified by the entrepreneurs in their villages due to coming of the MSMEs, hindrances faced to run the business, awareness about the government schemes and help taken under these programmes.

In the study, both primary and secondary data were employed. An overview of the size, structure, and growth of MSMEs has been given based on the NSSO data of 2010-11 and 2015-16 on Key Indicators of Unincorporated Non-Agricultural Enterprises (Excluding Construction) in India and Population Census (2011) data on workforce and demography characteristics. The overview has been provided in regional, comparative and temporal frameworks. The characteristics of MSMEs and entrepreneurs has been examined to study the impact created by MSMEs in rural areas. Also, the same has been analysed in different districts

in the region and reason associated with outcome has been tried to elaborate. The comprehensive analysis about the entrepreneurs is based on the primary data.

5.1 Findings

In the study it has been found that MSMEs and their size, structure and growth play a determining role in rural economy by augmenting the job creation, supplying additional income to the rural workforce and increasing the share of Gross value added of MSMEs in particular and of rural sector in the economy of the country. The employment and emoluments endowed to workers are closely determined by the upsurge in the proportion of MSMEs in the region. Additional workforce is demanded by MSMEs since, it involves labour-intensive manufacturing processes than big productions. Subsequently, they contribute immensely in creating productive employment opportunities reduce poverty by income generation and diversification of income source. Hence, they can make a significant difference in providing job opportunities to the rural underemployed and unemployed population. The density of MSMEs has been examined and comparative analysis has been done. Also, the overall density has increased in the region from 2010-11 to 2015-16 but the regional pattern has changed in the two period. Also, it has been found that the proportion of Expanding MSMEs is large and has increased whereas the proportion of contracting MSMEs has decreased showing the healthy status of MSMEs. The share of perennial MSMEs is highest among seasonal and casual enterprises when the nature of operation of MSMEs is considered which shows that the employment is provided by the MSMEs throughout the year. The share of unregistered or unincorporated MSMEs is enormously high at the national. Similar is case in the study region. This emphasises the need to prioritise the unregistered sector in upcoming policies and strategies for the growth of MSMEs.

Micro Enterprise and Entrepreneurs has been analysed through the use of case-study method. It has been found that service enterprise account for 65 percent of the share and the majority of the enterprise belong to the micro category however the share of women owners is less in MSMEs and account for 14 percent. The share of age group 20-40 is highest which own the enterprise and start their enterprise at an early age. Then comes the age group 40-60 years owning the enterprise. Other age-group proportion is lesser than these two-age group. The share of entrepreneurs receiving professional or informal training is less. However, the owners' perception about their business is overall positive where they find their business profitable and improvement in the living standard of their lives and families and has also adopted some kind of technology to increase the market periphery of their products/services. MSMEs through their

technology adoption or in other ways also, empower farmers to obtain crucial information about their farming, admission to new markets, innovative skills and expertise, credit, and facilitate co-operative endeavours, therefore, improves the performance of the agriculture sector. As a result, the quality of agricultural products and the quantity of food produced have improved, allowing the agricultural sector to adequately feed its population and effectively compete in the markets. Yet, obstacles including ineffective governance, a lack of experience, inadequate linkages, and a low level of R&D for the betterment of agriculture have negatively impacted the functioning of the two sectors.

The reasons for starting the business for the enterprise are numerous such as Family Business, Skilled or Profitability. When it comes to financing the monetary requirement saving and relative/ friend are prominent whereas the banks/financial institution and moneylenders are last recourse for help. It is also found that the registered enterprise are very less in number and awareness about the governmental scheme and the benefit received under these programmes is also very less. There is high proportion of entrepreneurs who are also engaged in other economic activities such as farming, agricultural labourer or labourer, dairy and other business which shows the diverse income sources of operators situated in the village.

Furthermore, it is vital to recognize the nature of interruptions and obstacles afflicting the MSMEs so that by seizing those hindrances MSMEs can appreciate their full capacity and potential and escalate the rural socio-economic development and offer impetus to rural-based enterprises and businesses. The constraints faced by the entrepreneurs in the villages are numerous such as low demand, increasing market competition, high cost of credit, accessibility to raw material, non-recovery of financial dues and seasonal nature of the business. The entrepreneurs spend their income on different things such as household consumption, Investment in the business to increase the scale of operation of their business. The income is also disbursed on education of their children or to acquire the mobile or computer which increases the connectivity of villages to other parts of the country and expand the reach of the entrepreneurs to large market. Entrepreneurs also spent some part of their income on leisure, to purchase vehicle or for the payment of the loan taken from different sources. The workplace premise of most of the entrepreneurs is rented premise which helps in building different linkages of MSMEs with villages. The nature of change seen by the entrepreneurs due to the forthcoming of MSMEs in villages is several such as escalation in availability and accessibility of products and services for the villagers as well as operators of the MSMEs, increase in the volume of customers, increase in the frequency of commercial vehicle as well as public

transport, lessening of out-migration of rural youth for towns and cities for better job opportunities, construction of infrastructure and also due to convergence effect MSMEs are also increasing as specified by the cases in the survey.

5.2 Policy Implications

Interconnectedness of MSMEs and rural areas can be a measure for the development in agricultural structure and earning avenues of farmers. However, a more qualifying plan is needed at the ground level to bridge the information gap and connectivity between the enterprise and institution created specifically for the development of MSMEs. The numerous institutions such as “Khadi Village Industries Commission (KVIC)”, “National Institute for micro, Small and Medium Enterprises (NIMSME)”, “National Small Industries Corporation (NSIC)”, Coir Board, “Mahatma Gandhi Institute of Rural Industrialisation”, should take pro-MSMEs stance to eliminate their restrictions and create better conditions for its formalisation and enhance the spending on innovation, research and developmental activities.

Even though MSMEs is far from being a remedy for all the problems of rural areas and of poor, small and marginal farmers, women and other marginalised section of population a new policy and orientation is required which increases the access of the rural population to local resources as well as encourages MSMEs as a diversification approach in the region to make efficient and effective use of the rural area most abundant asset, i.e., labour.

The MSMEs play a crucial role in the rural economy by generating job opportunities and income for rural households. MSMEs predominate in rural manufacturing (including agricultural processing), trade, and service activities that are incredibly diversified and primarily comprise micro-scale businesses with low capital requirements and configurable technologies. MSMEs have varied growth potential, owing to their operational characteristics, geographic locations, and degree of connectivity (linkages) with both agricultural and non-agricultural industries. There is diverse and inconclusive evidence about role of MSMEs in rural development by lessening poverty and income disparity. The present analyses and comprehensions are favourable and identify them as dynamic elements of pro-poor development rather than a haven for the poor. The emergence of a robust MSMEs sector is thus clearly deserving of acknowledgment in rural development strategies, and the interdependence of the agricultural, MSMEs, and industrial sectors must be carefully considered when formulating sectoral development policies and regulations. To ensure the equitable development of both the farm and non-farm sectors simultaneously, a virtuous circle embracing

all poor, rural, farm, and non-farm growth must be developed. The requirement that the proposal be based on a sufficient, dependable, and accessible database is a very pertinent issue with relation to the development of MSMEs planning processes. Unfortunately, the lack of statistics continues to impede efforts to develop MSMEs. This shows that it is essential to prioritise research investigations in order to create the necessary yardstick and set up a mechanism for routinely updating the yardstick for strategy planning objectives. There cannot be a "one size fits all" policy solution for promoting various activities owing to the high degree of diversity, vast range of subsistence requirements, and persistent large array of operational restrictions facing MSMEs. Similar reasons limit the recommendation of a single holistic policy framework to promote the expansion of the MSMEs sector. Rather, the policy interpositions have to be devised to the specific requirements of the different scales of MSMEs and their activity located in diverse geographical locations across regions.

The significant component of the anticipated policy design may include the following:

Giving high priority diversification of income sources through the growth of MSME sector and their linkages with agriculture in particular and rural areas in general.

There is requirement of construction of rural infrastructure and development of social (i.e., education and skill) to safeguard planned utilisation and accessibility of local resources used by MSMEs and circulation of goods and services across rural areas, towns, and cities. Local towns also need to have good infrastructural facilities to attract new firms and help them grow. Free flow of information on market functioning and their dynamics. Connecting to markets for products manufacture or services provided by rural in both domestic as well as export markets is significantly important. The provision of technical, entrepreneurial, and managerial skills to rural-based small entrepreneurs will go a long way toward supporting growth and high-productivity of MSMEs. Efforts must be made to increase educational and training facilities for entrepreneurs in rural areas.

Growth of services, commerce, and manufacturing activities in rural regions will be made possible by MSMEs that are supportive of financial institutions as well as the establishment of a good legal and regulatory framework (to secure property rights and enforce contracts). To encourage investments in rural areas, small household savings and capital surpluses must be mobilised.

The rural industrialization strategies must be more comprehensive and should be more "rural enterprise" focused than "rural industries" focused in order to even out the playing field

between small manufacturing enterprises and other non-farm activities (i.e., trade, commerce, services, and construction activities). The entire potential of MSMEs in rural areas can be realised through strengthening local government and raising awareness of pro-MSMEs programmes.

The creation of an integrated and interconnected institutional network in rural areas has a significant impact on how non-farm rural economy and households view their way of life. Accessibility to and utilization of the local resources are largely governed by a conducive organised environment (natural, economic, human and social). Appropriate decentralised governance arrangement managed by a well-synchronized assembly of functionaries on behalf of all private and public sector stakeholders is significantly important towards successful designing and implementation of policies and programmes related to MSMEs and consequently impacting rural development.

Appendix I
Questionnaire For Entrepreneurs

Date of Survey		Surveyed By _____.
Objectives	Question	Choices/Answers
Socio-economic background		
	1. Name of the respondent	
	2. Present Age	
	3. Sex	Female/Male
	4. Age at which the enterprise has started	16-20
		21-25
		26-30
		31-35
		36-40
		41 and above
	5. In which year Business has been Started	
	6. Educational qualification	Uneducated
		Primary
		Middle Stage
		secondary
		Senior Secondary
		Graduate
		Above Graduate
	7. Have you received any kind of Professional training?	Yes/No
Factors which led to the entry		
	8. Parents' occupation at time of entry	Agriculture (farming)
		Agriculture labour
		Service
		Business
		Other

	9. Ownership of resources at the time of entry	Land -Yes/No
		Milch Animal -Yes/No
		Farm equipment -Yes/No
Reason to choose a particular non -activity	10. Reason to choose a particular non - activity	Skill
		Profitability
		Skill with profitability
		Family Business
Type of Activity and employment		
	11. Type of Activity performed by Entrepreneurs	Manufacturing/service
	12. Do you employ workers	Yes/No
	13. Place of work	Household
		In the village but not rented
		In the village but rented
		outside the village
		outside the village rented
Resource requirement and mobilisation		
	14. Nature of Raw material used	Agriculture based/non-agriculture based/Forest Based
	15. Availability of raw material	Locally available
		Available within-district
		Available within State
		Available outside State
	16. Marketing of Products and Services	Locally
		Within the district
		Within the state level
		Outside state
Outlook of the entrepreneur		
	17. Has the income gain increase due to the business	Yes/No
	18. Utilisation of income	Education

		Household Consumption
		Vehicle/
		Compute or Mobile
		Interest payment
		Investment
	19. Has Living condition improved	Yes/No
	20. Change noticed due to coming of MSMEs	Yes/No
	21. Nature of Change	Public Transport
		Infrastructure
		Customers increased
		MSMEs increased
Methods to improve business		
	22. Is your business profitable	Yes/No
	23. Has adopted any technology to improve the business	Yes/No
	24. Is your business registered under any authority	Yes/No
	25. Do you have Bank Account	Yes/No
	26. Skill upgradation training taken	Yes/No
	27. Are you aware about any governmental schemes for the benefit of MSMEs	Yes/No
	28. Has benefited from any government programmes	Yes/No
Hindrance in Business and policy Implication		
	29. Problem faced	Yes/No
	30. Nature of problem faced	
	31. Investment at the time of entry	
	32. Financial help taken	Yes/No
	33. Source of Investment	Bank
		Relative/ Friends
		Moneylenders
		No Help

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