

Enterprise & Entrepreneurship in Rural India: Experience of the Pandemic Days

ISED Discussion Paper

by
Animesh Halder
&
John Sebastian



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Preface

The worst impact of COVID 19 on the Indian economy has been in its rural sector. Therefore, it is important to have a spotlight on the key facets of the rural problem today. This paper,, first of all, tries to situate the problem in the larger context of rural economic transition. The second dimension relates to the problem of migration. Thirdly, the opportunities in the rural context are explored, and a strategic approach is proposed.

Under the India MSME Communication Programme(IMCP), the Observatory, in co operation with the various Knowledge Centres of the Institute, makes a rigorous analysis of the latest currents in the MSME constituency, leading to a unique 'Development Report'. This study is a spill-over of this exercise of Development Reporting on micro, small and medium enterprises (MSMEs) at the ISED.

While the team of the Observatory did a meticulous job under the guidance and support of the Project Leaders, individual members of the Team, including the editors and the Associates, have made their special contribution in specific thematic areas. While this title is significant in the present context of the Indian economy , and of the MSME developments in specific,I hope it will contribute to wider discussions in the subject area.

As this title come out as a joint output of the Observatory and the ISED Centre for Enterprise Development, the Institute wishes to thank, without fail, the pains and efforts of the authors, and all who have supported it through inputs and suggestions. ISED has taken best efforts to ensure the quality and reliability of this paper. However, for the findings and views, the authors alone are responsible.



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November 15, 2020

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Animesh Halder & John Sebastian

Abstract

The worst impact of COVID 19 on the Indian economy has been in its rural sector. Therefore, it is important to have a spotlight on the key facets of the rural problem today. This discussion, first of all, tries to situate the problem in the larger context of rural economic transition. The second dimension relates to the problem of migration. Thirdly, the opportunities in the rural context are explored, and a strategic approach is proposed.

Key Words: India, entrepreneurship, Covid 19, rural economy.

1.0. Introduction

Apart from its epidemiological dimension, the worst impact of COVID 19 in the Indian economy has been in its rural sector. While these impacts have been rather indirect, it is important to have a spotlight on the key facets of the rural problem. The purpose of the following discussion is three-fold. First, to situate the problems arising out of the Pandemic, in the larger context of the issues surrounding rural economic transition. Secondly, it discusses the problem of migration in this larger context of rural transformation, and the growth of urbanisation. Thirdly, it explores the opportunities in the rural context, and offers a strategic approach for tapping such opportunities.

2.0. Rural Transition and Income Opportunities

In the conventional theory of economic growth, there is a uni-linear pattern of structural changes from an agrarian economy into one having the hegemonic growth of the services sector. This theoretical proposition assumes a tendency towards formalization, as, the dominant economic behaviour, though varying

in degrees among economies. However, the reality is much different in many countries today. In India, it is estimated that, nearly half of the country's GDP and 90% of employment are informal. This high share of the informal economy, which has been considered to be the highest in the world, is a structural problem, as well as an opportunity. The tendency within the Indian economy is that of a slow pace of formalization, which is likely to remain slow. From the angle of public policy, such a hard reality and experience necessitates a closer understanding of this segment of the economy in terms of its structure and progression.

Several studies have shown that the distinction between 'manufacturing' and 'services' is getting gradually blurred in most economies of the world. Services relate to production, mainly through their direct contribution to total output and final demand, but to some degree, also through their indirect contribution via other industries. However, services are more independent than manufactories. Most inputs that are necessary to produce services are derived from the services sector itself. Moreover, their role as providers of intermediate inputs to other industries is not yet as strong as that of the manufacturing sector.

Industrialisation: The Changing Context

The 'Kuznets model' of economic growth assumes structural changes from a rural agrarian economy into one having the hegemonic growth of the services sector; manufacturing is considered as a critical stage in between. This theoretical proposition assumes a tendency towards formalization as the dominant economic behaviour, though varying in degrees among economies. However, the reality is much different in many countries today. Several studies have shown that the distinction between 'manufacturing' and 'services' is getting gradually blurred in most economies of the world. Services relate to production, mainly through their direct contribution to total output and final demand, but to some degree, also through their indirect contribution via other industries. However, services are more independent than manufactories. Most inputs that are necessary to produce services are derived from the services sector itself. Moreover, their role as providers of intermediate inputs to other industries is not yet as strong as that of the manufacturing sector. Hence, it does not often pass the economist's test of inter-sectoral linkages.

Box No: 1

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While, in India, rural industrialisation has continued as a policy agenda from time to time, in practice, the mainstay of income and employment is small and tiny enterprises, mostly services. There are five main differences between 'services' and 'manufacturing' organizations: 1) the tangibility of their output; 2) production on demand or for inventory; 3) customer-specific production; 4) labour-intensive or automated operations; and 5) the need for a physical production location. However, in practice, 'services' and 'manufacturing' organizations share many characteristics. Many manufacturers offer their own service operations, and both require skilled people to create a profitable business.

In India, the above analytical distinction between manufacturing and services has not often been used for administrative purposes. The nature and type of fixed investment forms the criterion for demarcation. Until recently, manufacturing enterprises were identified with investment in 'plant and machinery', whereas; service enterprises are identified with 'equipments'. Since different sources of data, and various agencies having their distinct purpose and interests deal with and guide development policy and practice, a 'total system' approach to management of the rural economy is often constrained.

3.0. Foundations of India's Rural Entrepreneurship Policy

The traditional model of economic growth, often called the 'Kuznets Path', visualises a linear path of economic growth. This model considers a transformation of agriculture from traditional to modern agriculture, which, in turn, acts as the source of enhanced surplus creation for industrialisation. Such early thinking has influenced India's post-Independence development thinking and strategy. With the dawn of the Planning era, the practical aspects of diverting "surplus labour" from agriculture to other sectors, especially small-scale industries, were considered meticulously by many scholars. For example, Herman (1955) pointed out on the huge cost of training people. He considered, apart from economic cost, the question of social values in a democratic setup, where such occupational choices cannot be dictated by the state.

Government policy was an important area of extensive debates during the 1950's and 1960's. Such debates need to be understood against the early exercises of Planning in the country. While the Industrial Policy Resolution (IPR) 1956 formed the basic building blocks of India's industrialisation strategy, that itself produced significant debates. The Resolution outlined

the role of cottage, village and small scale industries, as follows:

"They provide immediate large scale employment; they offer a method of ensuring a more equitable distribution of the national income and facilitate a effective mobilization of resources of capital and skill, which might otherwise remain unutilized. Some of the problems that unplanned urbanization tends to create will be avoided by the establishment of small centres of industrial production all over the country." (Page no. 47).

The IPR made its arguments in relation to various inter-related aspects of, employment, decentralisation, social and political virtues, and drawing out of latent resources of enterprise and capital. However, these arguments were, subsequently, questioned on the basis of a series of empirical studies. The operational part of the policy, more crucial, was meant for protection of cottage industries, through a common production programme, differential tax treatment, and direct subsidies. These areas became the touchstone of debates; the arguments were questioned for cottage industries, and seen in the "choice of technique" debate, as also for modern small-scale enterprises (Dhar and Lydall, 1956). Most of the empirical works that followed were geared to examining the underlying postulates of the official policy. At the operational level, this involved two things: 1) protection of cottage industries through a common production programme; 2) differential tax treatment; and 3) direct subsidies. In addition to this, a broad based promotional package also was introduced, touching upon areas such as technology, infrastructure, finance, training and marketing facilities.

On 'small-scale industry', there was significant definitional ambiguity, which itself triggered wide debates. Apart from the definitional debates, the relative position of 'traditional' and 'modern' small scale industry was, again, a reflection of the emerging developmental needs of the country. In the 1950's and 1960's, village industries such as Khadi, Handloom, edible oils, coir, tannery, etc., had a significant position in the consumption basket of the common man, as also in the employment structure of the regional economy. While, on the one hand, these industries were essentially satisfying the local needs of agro-processing, they had a significant role in meeting the local consumption demand. Putting together both these aspects, the traditional small scale industry had relevance in the economy both at the regional and national levels. The approach of Indian Planning, generally, had been one of rehabilitating the cottage industries and to regard them as the major source of supply of wage goods, source of employment opportunities, and device for mitigating inflationary