

Enterprise & Entrepreneurship in Rural India Today

ISED Discussion Paper

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ISED Small Enterprise Observatory
Jointly with
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Preface

With the large size of its rural economy, India's dreams on enterprise development and entrepreneurship creation needs to be rural- centred. Covid 19 has adversely affected the rural economy as also the rural-urban balance. It is now time to examine the dimensions of the rural crisis with special focus on MSMEs. This paper has three important tasks: First, to situate the problems arising out of the Pandemic in the larger context of rural economic transition. Secondly, it discusses the problem of migration and the labour market issues. Thirdly, it explores the entrepreneurial opportunities in the rural context, and offers a strategic approach for tapping such opportunities.

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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Abstract

With the large size of its rural economy, India's dreams on enterprise development and entrepreneurship creation needs to be rural-centred. Covid 19 has adversely affected the rural economy as also the rural-urban balance. It is now time to examine the dimensions of the rural crisis with special focus on MSMEs. This paper has three important tasks: First, to situate the problems arising out of the Pandemic in the larger context of rural economic transition. Secondly, it discusses the problem of migration and the labour market issues. Thirdly, it explores the entrepreneurial opportunities in the rural context, and offers a strategic approach for tapping such opportunities.

Key Words: Enterprise, entrepreneurship, India, rural.

1.0. Introduction

Considering the spatial characteristics of the country, especially its large size of the rural sector, makes India's dream of enterprise development and entrepreneurship creation to be rural-centred. The twenty-fourth volume of the India Micro, Small and Medium Enterprise Report, at the Institute of Small Enterprises and Development, examines how the Pandemic has affected the rural situation as also the rural-urban balance. It is now time to examine the dimensions of the rural crisis with special focus on MSMEs. 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 the larger context of such 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. Income Opportunities in the Rural Economies

The high share of the informal economy in India has, along with it, a structural problem, as well as opportunities. 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.

The emerging global reality is one of the

declining distinctions between 'manufacturing' and 'services' it 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. There are five main differences between 'services' and 'manufacturing' organizations: 1) the tangibility of output; 2) production on demand or for inventory; 3) customer-specific production; 4) labour-intensive or automated operations; and 5) 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. But, to what extent was the balance between manufacturing and services affected under a Pandemic?

Some of the recent studies show that services are the most adversely affected (OECD, 2021). Therefore, it is important to examine the distributional effect of the Pandemic on services. In a country like India, with its huge size of the informal sector, the adverse impact on rural services is much greater, with significant macro-economic and social implications. While rural industrialisation, in India, 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.

The above analytical distinction between manufacturing and services, in India, 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. Rural Labour Market and Migration

The perception and strategies of employment promotion itself has changed over time. Today, thanks to the penetration of information and communication technologies (ICT), the distinction between traditional and modern sectors is progressively coming down. Apart from the nature of the product, it is the extent of the market and the marketing strategies that are really decisive in shaping the prospects of a product or service today.

Since 1990s, while technology has immensely contributed to radical changes in the rural economy; it also contributed to enhanced integration of rural and urban areas. Consumption pattern in rural India has changed radically, with its obvious effect of rural push. However, the integration was more with regard to culture and value system than in the domain of economy. This, in fact, was the objective ground for accelerated migration, both within the country and across the borders.

Migration in India is a critical factor having important policy implications relating to self-employment promotion and non-farm employment. The discussion in early literature on the subject considers it as a phenomenon confining to the erstwhile BIMARU States, and limited to agricultural employment in States like Punjab, Haryana and Eastern U.P. Data from the Census 2011 indicates that there might be a reduction in the number of people migrating for work and business, even as overall internal migration has increased since 2001. However, a closer examination suggests that there is an increase in the share of workers moving to urban areas. Over 1991-2011, 3.4% of the base year rural workforce and 5.1% of the base year urban workforce migrated to urban areas. Over

2001-11, these numbers had risen to 4.1% and 6.8%, respectively. The rise in urban to urban migration for work is a new phenomenon. Possibly, there might be entry barriers for rural migrants. The latest Census also reiterates the idea that, migration in India is a two-way flow with people moving back and forth between the rural and urban. The pattern is such that, in 2011, 30 million migrants appear to have moved into urban areas (as compared to 20 million in 2001) while 10 million have moved back to rural locations (6 million in 2001).

Some studies on internal migration in India, according to space and gender, leads to interesting results. Male migration, especially in rural areas, shows a declining trend. Perhaps the stagnant employment growth may discourage labour mobility and also influence the LFPR. Imbalances in development with rural-urban economic gap brought about a significant increase in urban ward and inter-State migration from underdeveloped States. This is further evident from the steady increase in migration rate in low economic quintile in urban areas.

Migrants, especially males from poorer sections, move to urban areas. A substantial increase of migrants from the poorest sections, especially to urban areas, appears a puzzle especially in the context of high economic growth of the country. On the one hand, it implies an uneven distribution of the benefits of economic growth across economic classes and the in formalisation of the labour market, on the other, leading to a higher rate of migration from the poorest and vulnerable sections. Given the current pace of development and growth of urbanization, it is likely that migration of the poorer sections to urban areas will accentuate.

3.1. Rural Wages

The economics of migration in India has been brought out by some of the recent studies. Rural wages in India have witnessed sharp movements in the recent years. According to Kundu(2019), during the last 10-year period, a high growth phase in rural wages from 2007-08 to 2012-13 was followed by a phase of significant deceleration. According to this study, real agricultural wages, with minor fluctuations, have broadly remained stagnant over the past ten years.