

## **CHAPTER 5**

### **DISCUSSION**

This chapter presents a comprehensive interpretation and explanation based on the results and analysis documented in Chapter 4. The presentation is made in two sections. Section-I provides socio economic profile, challenges, value chain analysis and prospects of rural micro enterprises of Assam and Section-II provides determinants and relationship of micro enterprises growth and performance

The interpretation and explanation under Section-I is intended to provide a treatise of socio economic profile of the rural micro enterprises of Assam followed by a discussion on challenges faced by the micro entrepreneurs. An insight drawn based on sector specific value chain analysis of the micro enterprise sector is presented in the Section. Besides, an outline of the prospects of the micro enterprise sector is also outlined here.

Section-II presents a discussion on the status of growth of rural micro enterprises in Assam based on the analysis of primary data. The selected socio-economic and strategic growth determinants and their relationship with the growth of rural micro enterprises in Assam have been looked into in the Section. An account of the performance of rural micro enterprises in Assam is another aspect of presentation in this section. Finally, a discussion portraying the relationship between growth and performance of rural micro enterprises of Assam has been outlined.

#### **Section-I**

#### **Socio Economic Profile, Challenges, Value Chain Analysis and Prospects of Rural Micro enterprises of Assam**

##### **5.1. Socio Economic Profile of Rural Micro enterprises of Assam**

The socio economic profile of the sample micro enterprises has thrown several important insights into the status of micro enterprise sector in Assam. In terms of

**social category**, the micro enterprise sector is still dominated by general category of population. The participation of socially disadvantageous sections like SC, ST and OBC is minimal. Another important dimension is that the participation of STs continues to be limited to the handloom sector only. Thus, it infers that there is a need for improving the reach of the micro enterprises development initiatives among the socially disadvantageous categories of population. The participation on account of **gender** reveals unequal participation in micro enterprise activities as women proprietors accounting 36.25 per cent is much lower than their male counterpart. Again, the sectors like Cane and Bamboo and Carpentry are heavily dominated by male with very little participation of female. The participation of female is more than fifty per cent only in two sectors i.e. food processing and handloom. In other words, female participation is limited to certain micro enterprise sectors only. There is thus a strong need towards encouraging and capacity building among women to bring about gender parity in the promotion of entrepreneurship in the State.

The empirical evidences on the **education attainment** of the entrepreneurs show that majority (78%) of the entrepreneurs have studied only up to HS level. Secondly, none of the entrepreneurs have any technical education. There is thus a need to promote entrepreneurship among the technical and higher educated section of people. In other words, entrepreneurship as a profession still lacks the charm among the higher and technically educated section of people.

In terms of **religion**, the surveyed micro enterprises are found to be from two religions only i.e. Hindu and Muslim. It is notable that the participation of the two religious groups in micro enterprise activities is almost at par with the population distribution pattern of the concerned districts. In Barpeta district, for example, the majority of the entrepreneurs are from Muslim religion. It may be stated that religious belief, per se, has little bearings on entrepreneurship in the State.

The **employment generation** of the micro enterprise sectors on being analysed by three types of skills, it is observed that more than two third of the total are skilled and semi-skilled manpower. The low skill or unskilled manpower particularly in carpentry, handloom and cane and bamboo sector constitutes a very small portion. This indicates that the absorption of skilled workers in the micro enterprise sector is high in the State. Any skill development initiatives necessarily need to take into account the type of skilled manpower required for these sectors. Therefore, the skill development programmes have to be need-specific and conducting them in association with the MSMEs can help in maintaining and improving the manpower support as well as ensuring the productivity of the sector in Assam.

In the analysis of the **production** of the surveyed micro enterprises, it is observed that the production in carpentry sector is highest among all and the same is lowest in the food processing sector. This high and low production scenario, however, revolves around a monthly average production value of just above Rs. 50,000/- which is not at all an encouraging figure. Likewise, similar status is observed in the case of average **income** too as it works out to be only at Rs.8145/- per month. Across the sectors, it is quite low in the food processing and handloom sectors i.e. Rs.5250/- and Rs.5656/- per month respectively. The monthly average income is more than ten thousand rupees (Rs.11,806 per month) only in case of the carpentry sector. The average production and income in micro enterprises, therefore, are causes of concern in the State. There is obvious need for improvement in the productivity and earning level in order to attract young workforce towards the micro enterprise sector.

On the **investment** front, it is observed that the average investment in plants and machineries is only Rs.65,427 during the last 5 years. Except the carpentry sector, where the average investment is more than a lakh, the same in rest of the three sectors is below rupees fifty thousand (Rs. 50,000). Low infusion of technology thus is evident in the micro enterprise sector in Assam. Given the level of investment in technology and machinery, the enhancement of productivity, quality and profitability is difficult to achieve. The analysis of the source of finance reveals further that most of

the investment requirement of the sector is fulfilled from own finance while institutional credit from banks and financial institutions fulfill only 15.43 per cent. In other words, the penetration of institutional credit among the micro enterprises is at low level. Further, a small portion of the entrepreneurs availing credit from non-institutional sources for meeting their investment requirements reveals disturbing evidence that stands on the way to enterprise growth and performance in the State.

The status of availability of the **raw material** shows that large portion of the raw material (80%) is available to the micro enterprises throughout the year. But in the case of the food processing sector, the availability of a considerable portion of the same is found seasonal. In the cane and bamboo sector, on the other hand, the availability of cane is witnessing a declining status impacting adversely the price of cane products.

It is found that the micro enterprises in Assam are selling their product mainly in the local **market**. More than half (52.5%) of their total produce is being sold in local or nearby market places. Only a small portion (16.25%) have national level exposure and experience. Not a single surveyed micro enterprise has exported its products outside the country. The linkage with national and export market abroad thus is big gap as well as of critical nature and invites serious attention for creation of provisions enabling support to the micro enterprises.

The analysis of **market channels** reveals that there is considerable dominance of hawkers or marketing agents (34%) in the marketing activities of the micro enterprise sector. The presence of government and private institutions is negligible although governments have established marketing agencies like North Eastern Regional Agricultural Marketing Corporation (NERAMAC) for food processing, North Eastern Handicrafts and Handloom Development Corporation (NEHHDC), Assam Apex Weavers & Artisans Co-operative Federation Ltd. (ARTFED) and Tribal Cooperative Marketing Development Federation of India Limited (TRIFED) for handloom and handicraft sector. A greater delink of these agencies with the targeted micro enterprise

sectors thus persist. In addition, on market exposure account, it is found that around one third of the micro enterprises do not have experience of participating in exhibitions and fairs. The entrepreneurs having experience of participating in fairs outside the State is only 20 per cent. The above reflect the need for generating better market awareness among the micro enterprises in the State.

It is observed that there lies behind a host of **motivational factors** for driving the entrepreneurs towards their entrepreneurial venture. The most important among these factors are found to be the urge for higher income and the visibility for better future prospects which have motivated 50 per cent of the entrepreneurs in setting up their ventures. Unemployment and job dissatisfaction are also found as driving factors for more than twenty per cent of the entrepreneurs.

## **5.2. Challenges of the Micro enterprise Sector in Assam**

The most prominent **problem** as opined by the entrepreneurs is **lack of access to finance**. Majority of the entrepreneurs (72.5%) view that lack of access to bank credit, inadequate amount of loan sanctioned, delay in loan sanctioned procedure and above all, problem of collateral requirements are the major issues faced by the entrepreneurs regarding access to finance. Even though there are scheme like Credit Guarantee Fund Trust for Micro and Small Enterprises (CGT-MSE) and prioritisation of lending to micro enterprise sector, the entrepreneurs still face lot of problems in availing institutional credit. In the order of second, the problem faced by the entrepreneurs is related to the production operation management of the micro enterprises. In this regard, the problems viewed by the entrepreneurs are lack of skilled manpower, problem of retention of skilled manpower, inadequate storage facilities, lack of quality management, licensing and regulatory issues and inadequate utilisation of production capacity.

The third major problem encountered by the entrepreneurs is related to access to raw material where issues like fluctuations in the price of quality raw material (Handloom Sector), regulatory issues with raw material suppliers (carpentry sector) and seasonal availability and cost variation (food processing sector) causing hardship to the entrepreneurs in their respective sectors.

The fourth major problem observed in the micro enterprise sector is marketing related problems. Here problems like lack of production of market oriented products, incompetency to compete with branded products and cheap alternatives, packaging and branding problems and delink with institutional buyers are common hurdles creating hindrances for the entrepreneurs. Therefore, the micro enterprise sector fails to channelise their products directly to their targeted customers with significant prevalence of hawkers and middle men in the entire marketing system.

The fifth major problem as highlighted by the entrepreneurs is lack of technology. The micro enterprises in the State have been using outdated technology and tools and these are limiting their productivity and quality. In case of the handloom sector, the weavers are still using age-old fly shuttle looms. The use of semi-automatic and jacquard handlooms is negligible. Similarly, in case of the carpentry sector where the use of technology is relatively more than the other sectors, majority of the enterprises are still performing their work with hand held tools. High-end machineries that could have improved their productivity, quality and marketability are still grossly far from the sector. In case of the cane and bamboo and food processing sectors similarly, use of machineries and equipments is quite limited. Especially in the case of the food processing sector, due to non-availability of vacuum packaging and bottling plants, the marketability of the produce in most of the cases is grossly affected. Another important problem faced by the entrepreneurs is the lack of awareness involving product and design development. This is particularly prominent in the handloom and carpentry sectors which are still using traditional designs and motives with limited product diversification. This is restricting their reach to national and

international markets. In addition to the above problems, irregular power supply is also hindering production process of the entrepreneurs, especially in the carpentry sector.

There is therefore, an immediate need from the stakeholders and promotional agencies to address the concerns and issues raised by the micro entrepreneurs of the State for providing a boost to the sector and enabling the sector to contribute substantially to the GDP, and therefore, economic development of the State as well.

### **5.3. Value Chain Analysis of Micro enterprise Sector in Assam**

Value chain analysis technique is very effective in highlighting the needs and requirements and achieving process improvements for any micro enterprise sector. Sector wise value chain analysis carried out in the study has thrown several valuable insights into the specific requirements and concerns of each sector. The empirical evidence suggests that in the area of primary activities, the inbound logistics and the operational stages are responsible for almost 80 per cent of the total cost of production incurred during the manufacturing process. Whereas the cost involved in marketing and outbound logistics is quite low. Without investing on marketing process and distribution channels, appropriate price discovery cannot be achieved for the produces of micro enterprises. Similarly, in the operational stage, manpower related cost comes up as the major cost component with minimum spending on the technology front. Hence, there is lack of technology infusion with such minimum spending on the same and this has resulted in higher manpower cost which again gets reflected in the higher production cost. It is a well known fact that higher the production cost, lower is the profit margin and competitiveness of the produce. Thus, the value chain results suggest that there is an immediate need for upgrading the technology of the enterprises for reducing production cost and increasing profitability of the products. Further, the cost incurred on product and design development is almost absent in most of the micro enterprises. Without spending on innovative products and design development as also on diversification, reach to market and fetching remunerative prices for their products will remain a big challenge.

In respect of the secondary activities, the value chain shows that procurement and human resource contribute to 75 per cent of the cost of production. So, any step towards reducing production cost and profitability needs to address the challenges of procurement of raw material and high level manpower cost. The procurement cost of raw material can be addressed through facilitating initiatives like raw material depot/bank and working capital in order to enable the micro enterprises to procure quality raw material at reasonable price and in a hassle free manner. To address the problem of high manpower cost, initiatives like skill up-gradation as well as technology up-gradation can help in achieving cost efficiency. Low level expenditure on infrastructure and technology also suggest that enterprises do not have adequate resources for capital and technology expansion and thus depend highly on manpower for production activities.

#### **5.4. Prospects of Rural Micro enterprises Sector in the Light of Common Felt Needs**

Based on the responses of entrepreneurs, it is observed that the micro enterprise sector has immense prospects provided the challenges of the sector are adequately addressed and appropriate handholding support is provided to the entrepreneurs to enhance market reach. The responses suggest that the facilitation of the access to credit by promotion of dedicated venture capital fund, provision of collateral free time bound credit delivery from banks and other financial institutions, and financial literacy drive among the entrepreneurs are some of the immediate steps required for the sector. There is no doubt that the sectors like cane and bamboo, carpentry and food processing have adequate availability of raw materials. However, in order to grasp market opportunities as felt by the entrepreneurs, orientation for production of market driven diversified products, design interventions, technology up-gradation and facilities for branding and packaging are the needs of the hour. In addition, need specific capacity building and skill development of the existing work force is also equally important for the sector to hold onto the scope and opportunities available. Similarly, there is a requirement for achieving greater synergy amongst the support



service provider institutions/ agencies and the entrepreneurs so that the latter receive appropriate handholding facilities to produce market oriented quality products for achieving greater market reach.

## **Section-II**

### **Patterns, Determinants and Relationship of Micro enterprise Growth and Performance**

#### **5.5. Status of Growth of Rural Micro enterprises**

The empirical evidences suggest laggard growth of sample micro enterprises with majority (70 per cent) of the micro enterprises falling in low growth category. Only about three per cent of the micro enterprises exhibit high growth. As such, the growth of micro enterprises measured in terms of investment, employment and sale proceeds is not encouraging. Similar trend in terms of micro enterprise growth is noticed across all micro enterprise sectors.

#### **5.6. Growth of Micro enterprise: Determinants and Relationship**

As described in the previous chapter, two sets of determinants have been explored for their role in inducing growth of rural micro enterprises. The two sets are socio-economic determinants and strategic determinants. The results show that socio-economic factors do not have significant influence on the growth of rural micro enterprises. The factors like entrepreneur's age, education, gender, family size, marital status, religion, social category, monthly income and family income have no significant influence in augmenting or limiting the growth of sample rural micro enterprises. On the other hand, with respect to strategic determinants, product diversification has shown significant influence on the growth of rural micro enterprises as reflected by the empirical results. Therefore, the strategy for growth of rural micro enterprises needs to emphasise upon strategic aspects like product and design diversification which can help in production and development of market oriented competitive products to foster growth of rural micro enterprises.

## **5.7. Status of Performance of Rural Micro enterprises**

As described in Chapter 4, the performance status of rural micro enterprises has been investigated in terms of production efficiency index. The results show that majority of the enterprises reflect low production efficiency in terms of cost, manpower and time. Only about five per cent of the micro enterprises exhibit high production efficiency. Therefore, there is a need for improving the efficiency of cost, manpower and time among the rural micro enterprises for improved productivity. Also, there is need for building capacity of rural micro enterprises for enhancing production efficiency. Interventions like skill development, technology infusion and adoption of innovative approaches may play useful role in achieving performance efficiency.

## **5.8. Growth and Performance of Rural Micro enterprise: Determinants and Relationship**

Empirical evidence reveals that there is significant positive influence of performance efficiency on the growth of the rural micro enterprises in Assam. Thus, emphasis of improving performance efficiency in terms of cost, manpower and time of production of rural micro enterprises can aid in fostering the growth of rural micro enterprises in Assam. In this context, actions like sectoral level value chain analysis of various micro enterprise sectors can help in finding out the performance deficiencies of the rural micro enterprises. These deficiencies can be targeted with right sets of interventions to improve performance efficiency.

## **5.9. Conclusion**

The micro enterprise sector in the State is lagging behind in terms of growth and performance parameters as revealed by the study. The sector is also facing several challenges like access to finance, market, technology, raw materials etc. Addressing these problems through sector specific value chain analysis can help a great deal in capturing the scope and opportunities available for the sector. Accordingly,

interventions like technology infusion, product diversification, sector specific skill development, market promotion and facilitating access to credit and raw materials is the need of the hour to boost the sector in terms of production, income, investment and employment generation.

The study rejects both the null hypotheses. In case of the first hypothesis, it is found that the strategic factor in the form of product diversification plays a crucial role in fostering the growth of rural micro enterprises though the role of socio- economic factors are found to be insignificant. With regard to the second hypothesis, it is found that the efficiency of production performance of rural micro enterprises significantly influences the fostering of the growth of rural micro enterprises.