

Microenterprise as a Livelihood Source and Factors Affecting Their Success: A Study from India

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Abstract

Among various self-employment options, microenterprise has been recognised as an important tool for employment generation and poverty alleviation in developing countries by policy makers. This study is an attempt to look at some of the microenterprises as a livelihood source for the poor and constraints faced by them in establishing and running their microenterprise. The study involves a survey of 40 microentrepreneurs in the Maharashtra state of India. The study involves simple statistical analysis. This paper concludes that typically a microentrepreneur is a male, landless and young person between the ages of 21-40 years. These microenterprises are of diverse nature but largely these microenterprises are service oriented and been started with self-motivation with the objective of getting employment. Less than 50 percent of these microenterprise got support for establishing microenterprise from other sources like friends and other organisation largely for finance and skill. These are own account enterprises started with very minimal investment, mostly less than Rs. 10000 and most of these microenterprises are able to generate a annual profit of less than Rs. 20000. Among constraints faced by these microentrepreneurs, finance was the most important constraint identified.

Keyword: Microenterprise, Microentrepreneurship, Livelihood

Introduction

Indian economy is considered to be one of the largest agrarian economies in the world. In the year 2007-08,

agriculture sector contributed approximately 17.8 percent of India's GDP (at constant 1999-2000 prices) and 12.2 percent of total exports.

According to 2001 census, this sector provides employment to 58.2 percent work force of India (Annual Report, Ministry of Agriculture, 2009). Dependency on monsoon, lack of resources, financial constraints, climatic hazards, and small landholdings are some of the major factors associated with low productivity of agricultural commodity. This leads to low profit and employment/underemployment for farmers. Mostly, Indian agriculture is rainfed and is not able to provide sustainable income generation to the farmers (Bharti, 2014b).

Population growth at fast rate and slow growth rate employment opportunities in agriculture has led to severe unemployment problem in India. Coping with widespread unemployment and poverty always remained a major challenge before India. This makes the non-farm employment as a major complementary and supplementary area for generation of employment for unskilled, semiskilled, and skilled employment, a top priority issue (Parthasarthy, 2005). According to a report by NSSO on self employment situation in India, it was reported that self-employment was a prominent source of livelihood for both males and females in both rural and urban area as in rural areas 55 percent (male) and 58 percent (female) and, in urban areas 43 percent (male) and 42 percent (female) were self-employed. Considering self-employment as one of the major source of livelihood, several self-employment programmes were promoted by government and non government organisations to promote self employment. These programmes were targeted to provide proper training, guidance and financial assistance to needy and willing people for self employment.

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Microenterprise has been recognised as an important tool for employment generation and poverty alleviation (Bharti, 2014a). In India, microenterprise development (MED) programmes were recognised as a popular poverty alleviation strategy to promote textile production as early as 1947 (McPherson, 1996). Indian government decided to liberalise since 1991. Post liberalisation, the country's economy has performed well with 8.7 percent gross domestic product (GDP) growth during 2007–08 and 9.6 percent during 2006-07. Further, economic growth decelerated in 2008-09 to 6.7 percent. However, agriculture could not perform well. Growth in agriculture and allied activities decreased from 4.9 percent in 2007-08 to 1.6 percent in 2008-09. This growth saw a downturn in the year 2008-09 and rate of economic growth become negative (Economic Survey, 2008-09). The 61st round of National Sample Survey Organisation's (NSSO) survey estimated that poor people constitute 27.5 per cent of the country's population. Poverty levels were higher in rural areas (28.5 per cent) than (25.7 per cent) in urban areas.

Faster growth rate of Indian economy has failed to benefit poor. On the one hand, Indian economy is growing at fast rate, whereas, on the other hand, we also have 25 million poor households (Awasthi, 2004). For a sustainable economic growth of country it is necessary to mainstream

these poor people. This was the primary reason that led to the concept of "Inclusive growth" in the eleventh five year plan. We need to carry these 25 million poor households along with the fast rate of growth. Economic liberalisation and market reforms have exposed the Indian Micro and Small Enterprises (MSEs) to increased levels of domestic and global competition. It has also opened up access to larger markets. However, these microenterprises will be able to tap the opportunities only if proper policies are in place. The objective of this study is to explore microenterprises as a source of livelihood to the poor and constraints faced by these microentrepreneurs in establishing and running their microenterprise.

Methodology

Data were collected from 40 microentrepreneurs who have started their microenterprise without organisational assistance. These microentrepreneurs were selected randomly from various districts of Maharashtra. Overall, data for these microenterprises was selected from 20 villages, 10 blocks, and 4 districts. Data on various aspects of socio economic profile of the microentrepreneurs and start up of the microenterprise activity were collected and are discussed in the following sections of this paper.

Table 1: Socio Economic Profile of Beneficiaries

S.No.	Particulars	No of Beneficiaries	Percentage
1	Age Group		
a	Below 20	1	2.5
b	21-30	18	45
c	31-40	13	32.5
d	41-50	6	15
e	51-60	2	5
f	Above 60	0	0
	Total	40	100
2.	Sex		
a.	Female	10	25
b.	Male	30	75
	Total	40	100
3.	Caste		
a	Hindu	37	92.5
b	Muslim	1	2.5
c	Others	2	5

S.No.	Particulars	No of Beneficiaries	Percentage
	Total	40	100
4.	Educational Qualification		
a	Illiterate	11	27.5
b	Upto 5th	7	17.5
c	6th-7th	3	7.5
d	8th-10th	11	27.5
e	11th-12th	5	12.5
f	Graduate	2	5
g	Post Graduate	1	2.5
h	Above than Post graduate	0	0
	Total	40	100
5.	Status		
a	BPL	19	47.5
b	Non BPL	21	52.5
	Total	40	100
6.	Land Holdings		
a	Landless	32	80
b	Land owner	8	20
i	less than 1 acre (Marginal)	1	2.5
ii	1-2.5 acre (Very small)	4	10
iii	2.5-5 (Small)	2	5
iv	6-10 acre (Medium)	1	2.5
v	More than 10 acres (Large)	0	0
	Total	40	100

Socio Economic Profile of Microentrepreneurs

Data on various socio economic indicators like age, caste, education, status and landholdings were collected from the beneficiaries to understand the background of the beneficiaries. In terms of age, most of the microentrepreneurs started their microenterprise in the age of 21-30 years (45 percent) followed by the age group of 31-40 years of age (32.5 percent). Socio economic profile of beneficiaries on different parameters is presented in Table 1.

It was noted that most of the microentrepreneurs (75 percent) were male and only 25 percent of the microentrepreneurs were women unlike microentrepreneurs with the organisational assistance in

which most of the microentrepreneurs were women. It indicates that, unlike men, women need support to start microenterprises.

In terms of education it was interesting to know that microentrepreneurs who have started their microenterprise are not well qualified. About 45 percent of the microentrepreneurs have received less than primary education. About 80 percent landless and 20 percent landholders have started microenterprise. Among landholders it was started by marginal and very small farmers. It was a method of diversifying their income source to deal with the uncertainty of the agriculture.

Livelihood Source

In terms of major livelihood source of the family, business/ trade dominated other category by being major

livelihood source of 82.5 percent of the respondents. Microentrepreneurs have taken up various activities. While selection of microentrepreneurs care was taken to select microentrepreneurs with diverse activities to capture the variation. 21 various types of activities were identified in this research which are presented in Table 2. Grocery shop (15 percent) and hotel and mess (10 percent) were the most commonly taken enterprises by the microentrepreneurs. Various other activities like tailoring, mobile repairing, barber shop, sweet shop, chicken centre were also started by the microentrepreneurs.

These activities were classified under various categories of type of business activity like manufacturing, trading and services was used. Being unorganised businesses with a narrow asset base, maximum percentage of microentrepreneurs i.e. 45 percent are engaged in service activities followed by trading activities (42.5 percent). As manufacturing activity required higher investment about 12.5 percent of the microentrepreneurs were involved in manufacturing activities. One of the objectives of this research was to see that how microentrepreneurs are able to start their enterprise on their own. Various aspects of enterprise startup like establishment or expansion of

enterprise with the support of intervention, age profile of enterprises, source of motivation for starting the venture were asked to understand the effect of interventions on startup of the microenterprise activity.

This research made an effort to capture the age profile of the enterprise. The results of the research indicated that most of the enterprises (62.5 percent) were found to be young – having been set up between the year 2001 and 2009. Of the rest, 25 percent of the enterprises have been set up between 1990 and 2000 and 12.5 percent were commenced prior to 1990. The results of the research indicated that 62.5 percent of the enterprise were first generation entrepreneurs and established their enterprise on their own. Only, 2.5 percent of the enterprises were found to be family inherited, whereas, about 30 percent of enterprise were traditional.

This study explored the motivation source for starting their business and it was concluded that mostly, these microentrepreneurs were started with self-motivation (87.5 percent). However, organisational staff (2.5 percent) and friends and relatives (10 percent) also helped in promoting microenterprise. This study also explored the

Table 2: Details of Major Livelihood Source, Microenterprise, Nature of ME and Annual Income of The Participants

<i>Major livelihood source</i>	<i>ME</i>	<i>Annual Income</i>	<i>Nature of ME</i>
Agriculture (10)	Grocery Shop (15)	Less than 20000 (54.29)	Trading (42.5)
Allied agriculture (5)	Hotel & Mess (10)	20001-50000 (45.71)	Service (45)
Business/Trade (82.5)	Tailoring (7.5)	50001-100000 (0)	Manufacturing (10)
Wage labour (2.5)	Mobile repairing (7.5)	100001-200000 (0)	Non Farm (2.5)
Service (0)	Stationary shop (7.5)	Above 200000 (0)	
Artisans (0)	Barber shop (7.5)		
Any other (0)			
Total	40		

Table 3: Nature of Enterprise

<i>Nature of ME</i>	<i>Motivation source</i>	<i>Reason to start ME</i>
Established own (62.5)	Self (87.5)	Get employed (75)
Traditional (30)	Organisation staff (2.5)	Increase Income (15)
Family Inherited (2.5)	Friends (10)	Wanted to do something different (5)
	Saw Another ME (0)	Wanted to gain self respect in the society (0)
	Other (0)	Others, please specify (0)
Total	40	100.00

basic motivation behind starting the own ventures. The results indicated that most of the microentrepreneurs (75 percent) started enterprise with the objective of getting employment. 15 percent found their existing source of livelihood insufficient and started microenterprise with the objective of increasing their existing income. Only 5 percent microentrepreneurs quoted that they started their enterprise because they wanted to do something different in the society and 5 percent wanted to also fulfill the need of the village.

Other than the organisation selected there are several other players, formal as well as informal, provides support to the microentrepreneurs. It was noted that 47.5 percent of the microentrepreneurs received support from various sources. Among nature of support received finance (42.11 percent) and skill (42.11 percent) was the most commonly received assistance. In terms of source of support other organisation was one of the largest support providers with 31.58 percent of the microentrepreneurs followed by friends (26.32 percent) and banks (26.32 percent) of the microentrepreneurs. SHGs and some other organisation like *gram panchayat* and other persons in the same business also supported some of the microentrepreneurs. Interestingly, it was noted that none of the microentrepreneurs took support from money lenders.

Table 4: Type of Assistance Received by Microentrepreneurs

Nature of Assistance	Source of Assistance
Finance (42.11)	Friends (26.32)
Skill (42.11)	Moneylender (0)
Subsidy (5.26)	Organisation (31.58)
Others (10.53)	Bank (26.32)
	SHG (5.26)
	Other (10.52)
Total (19)	

Number of total employees is an important way to determine the size of an enterprise. This research defined microenterprise as enterprise having 5 or less than 5 employees. 72.5 percent of the enterprises were started and run by the microentrepreneurs themselves and were Own Account Enterprises (OAEs). Among rest of the enterprises, 7.5 percent were started with 2 employees, but these were not hired employees. These microenterprises ran with the help of family members

only. About 20 percent of the enterprises had 3 employees in the beginning. This study examined the purpose of the borrowings by the microentrepreneurs, their loan amount and the outstanding loan amount. Only 20 percent of the microentrepreneurs had borrowings that too only for business purposes and only 10 percent had outstanding loan amount.

Financial Performances

The study collected data on financial performance of enterprise like source of investment, initial capital investment, present capital investment, the enterprise and its profitability. Next section describes the status of enterprise on these parameters.

Source of Investment

Microentrepreneurs have taken finance for the business from various sources. Mostly, these microentrepreneurs have started these microenterprises with investment from their own savings. Banks (15 percent) and friends (12.5 percent) also played important role in financing the business of these microentrepreneurs.

Initial and Present Capital Investment

The initial capital investment indicates the scale of the business and was examined in the study. Overall, the study revealed that total investment made by the 40 microentrepreneurs amount to Rs. 1183000/-. Average investment amount to Rs. 29575/, which falls within the limit of microfinance of Rs. 50,000/- as per the microfinance bill. The highest investment made in microenterprise was Rs. 2,50,000/-. Some of the enterprises were even started without any investment. 40 percent entrepreneurs have initially invested less than Rs. 5,000 in their enterprises. Only 27.5 percent of enterprises had initial investment between Rs. 5,000- 10,000/-. Only 15 percent of the enterprises fell above Rs. 50000. This indicates that the microenterprises taken up by these microentrepreneurs are with very less investment and falls within the limits of microfinance and microenterprises.

The present capital investment of enterprises was also assessed to see that upto what level these businesses have been able to grow their net worth from the time of inception. It is expected that over a period of time, these

Table 5: Initial and Present Investment in the Enterprise

Investment (Rs.)	No. of Enterprise (Beginning)	Percentage	No. of Enterprise (Present)	Percentage
0 - 1000	7	17.5	0	0
1001-5000	9	22.5	0	0
5001-10000	11	27.5	2	5
10001- 50000	7	17.5	12	30
50001- 100000	3	7.5	7	17.5
Above 100000	3	7.5	19	47.5
Total	40	100.00	40	100.00

enterprise will grow. The comparison between initial and present capital investment showed that in terms of scale of business there has been improvement in the enterprises. Total present investment amount to Rs. 50, 85, 000/- among 40 microentrepreneurs showing 330 percent increase over total initial investment. The average investment also showed an increase of 329 percent over the average initial investment i.e. from Rs. 29575/- in the beginning to Rs. 97,550/- presently. The initial investment was less than Rs. 1000 for 17.5 percent enterprises in the beginning. This percentage has improved to none of the microenterprise falling in the category of below Rs. 1000/- for present capital investment. It indicates that there are lesser units with a low capital base now than the initial stage. Approximately about 15 percent of the enterprises had investment of more than Rs. 10000 in the beginning; however, this category has also shown considerable improvements by increasing percentage of enterprises to 65 percent.

An analysis of profit per year indicated that largely these microenterprises are low return oriented and 57.5 percent of the microenterprises generate annual profit of less than Rs. 20000. 35 percent are generating an annual profit between Rs. 20000-50000 and only 7.5 percent generate an income of above Rs. 50000 per year.

Growth in Turnover

Based on the comparison of their present turnover with initial turnover the study concluded that there was an overall growth in the turnover of enterprises. An analysis of the findings showed that, 92.5 percent of the enterprises exhibited a positive growth and 5 percent enterprises showed zero growth. It was very interesting to note that only 2.5 percent enterprises showed negative growth. There have been improvements in the level of investment

of the microenterprises but, it requires further progress to increase the extent of the improvements in the worth of enterprises. Showing a positive sign, more than 90 percent of the enterprises showed positive growth and 2.5 percent enterprise showed negative growth. There has been 10 percent of enterprise having no growth. The results indicates that though these microenterprises have been able to grow over a period of time, there is ample scope for further improvements in terms of financial performance of these microenterprises.

Constraints

All respondents were asked to identify the problems or constraints that they faced in establishing and expanding their enterprise. In terms of problems, finance was considered as one of the major problems (32.5 percent) hindering the establishment and growth of microenterprises followed by market (10 percent). 35 percent of the microentrepreneurs did not face any problem in establishing and running an enterprise. Skill (7.5 percent) and infrastructure (5 percent) was considered another major factor restricting the establishment and growth of their enterprises.

Conclusion

This paper concludes that typically a microenterprise is a male owned enterprise. Microentrepreneur is a landless and young person between the age of 21-40 years. These microenterprise are of diverse nature but largely these microenterprise are service oriented and been started with self motivation. The microentrepreneurs started these microenterprises with the objective of getting employment. Less than 50 percent of these microenterprise got support for establishing microenterprise from other sources like friends and other organisation largely for finance and

skill. These are own account enterprises started with very minimal investment, mostly less than Rs. 10000 and most of these microenterprises are able to generate a annual profit of less than Rs. 20000. Among constraints faced by these microentrepreneurs, finance was the most important constraint identified.

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