



**Rural entrepreneurship a tool for eradication of poverty: A conceptual frame work**

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**Abstract**

Entrepreneurship is an important engine of growth in the economy. Rural entrepreneurship has an important role to play in the development of Indian economy. The majority of the population in India lives in villages. Rural entrepreneurship is now a days a major opportunity for the people who migrate from rural areas or semi - urban areas to Urban areas. On the contrary it is also a fact that the majority of rural entrepreneurs is facing many problems due to not availability of primary amenities in rural areas of developing country like India. Rural entrepreneurship is not only important as a means of generating employment opportunities in the rural areas with low capital cost and raising the real income of the people, but also its contribution to the development of agriculture and urban industries.

**Keywords:** rural industries, rural entrepreneurship, rural development, economy

**Introduction**

“India’s place in the sun would come from the partnership between wisdom of its rural people and skill of its professionals.”

- Verghese Kurien

The majority of the population in India lives in villages. The economic development of our country largely depends on the progress of rural areas and the standard of living of rural masses. Village or rural industries play an important role in the national economy, particularly in the rural development. Rural entrepreneurship is based on stimulating local entrepreneurial talent and the subsequent growth of indigenous enterprises. It recognizes opportunity in the rural areas and accelerates a unique blend of resources either inside or outside of agriculture. Rural entrepreneurship brings an economic value to the rural sector by creating new methods of production, new markets, new products and generate employment opportunities thereby ensuring continuous rural development. But, these rural entrepreneurs are suffering with various problems like fear of risk, lack of finance, illiteracy and competition from the urban entrepreneurs. Rural entrepreneurs increase the standard of living and purchasing power of the people by offering employment opportunity to the people in villages. According to Government of India, “Any industry located in rural areas, village or town with a population of 20,000 and below and an investment of 3 cores in plant and machinery is classified as a village industry”.

**Concept of Rural Entrepreneurship**

Entrepreneurship, in general, and rural entrepreneurship, in particular, has become a dynamic field of research in the last two decades. It seems therefore timely to present a

quantitative survey of the literature in this area, aimed at identifying the most important sub-topics, contributors and their geographical distribution, major outlets, main empirical methodologies employed, as well as the most frequently studied countries. In general, rural regions represent about 75% of the land and almost a quarter of the population in OECD countries (OECD, 2006). Considering the European Union (EU), rural regions cover 57% of the territory and 24% of the population (EC, 2012). Rural regions face significant challenges in comparison to other regions (Brown & Schafft, 2011) [6], which are even more critical in the so-called peripheral or mountain regions (López-i-Gelats *et al.* 2009). Regarding the latter, the problems generally stem from a rapid decline in employment in a supposedly dominant agricultural sector (Terluin, 2003), a poor socioeconomic environment, a low density, ageing population and also from distance to markets and services (OECD, 2006). Such characteristics, among others, have substantial influence on entrepreneurial dynamics and job creation (Dinis, 2006a), on the quality of educational and other public service resources, and on the existence and quality of certain types of infrastructure (OECD, 2006). Problems are particularly evident in terms of employment opportunities (Bosworth, 2012) and access to public services, such as education and health services (Lehmann *et al.* 2008). Indeed this type of vicious cycle (cf. Figure 1), in which unemployment and lack of services lead to depopulation and population ageing has been well documented by several authors (e.g., Paniagua, 2013; Walsh *et al.* 2012).

**Literature Review**

The origin of the word ‘entrepreneur’ comes from the French

verb ‘entreprendre’, which means ‘to undertake’ (Landström, 2005). Joseph Schumpeter contributed significantly to the theory of entrepreneurship through his seminal book ‘The Theory of Economic Development’ (published originally in 1934), where entrepreneurship is viewed as the primary engine of economic development with innovation as a central element (Lordkipanidze *et al.* 2005). According to Schumpeter (1934), an entrepreneur is an individual who innovates and creates new combinations, thus becoming a dynamic agent of change for the economy. Such combinations can take various forms, such as (Brockhaus, 1987; Bull *et al.* 1995): developing new products; developing new methods of production; identifying new markets; developing new sources of supply; and implementing some new organizational forms of the industry. In this sense, entrepreneurship is a multifaceted phenomenon with diverse definitions and meanings. In fact, almost 80 years since the publication of Schumpeter’s pioneering work (1934), there is still little agreement among scholars regarding the concept. Entrepreneurship has distinct meanings for a diverse range of authors, namely: innovation (Dinis, 2006a), risk taking (Hawley & Fuji, 1993), establishment of a market (Polo-Peña *et al.* 2013), and the creation and management of a (small) business (Bryden & Keith, 2004). With regard to rural areas, which encompass territories with specific physical, social and economic characteristics (Stathopoulos *et al.* 2004), there is increasing demand and interest in proposing entrepreneurship as a new form of business and therefore as a key element in the process of rural development, especially of more laggard areas (Laurent *et al.* 2007). Indeed, entrepreneurship viewed as the creation of businesses or the modernization and expansion of existing ones have become key topics in rural development (Baumgartner *et al.* 2013). However, it is important to note that even when business creation is the focus, creating a new business is not the sole condition for rural development (Hernandez-Maestro *et al.* 2009). Businesses must be innovative in some way (Bhattacharyya, 2006). According to Bhattacharyya (2006), businesses need to create something different that would change the rules of the game and add value. This is often achieved by extracting new value from the 5 traditional and by linking the uniqueness of the local to emergent global values (Anderson, 2000). In fact, as in other businesses in urban areas, the ability to recognize unexploited market opportunities is also important in rural entrepreneurship (North & Small bone, 2000a).

### Types of Rural Entrepreneurship

Rural industry or village industry can be broadly classified into the following categories:

#### 1. Agro Based Enterprises

This category includes direct sale or processing of agro products such as jiggery, pickles, sugar industries, oil processing from oil seeds, dairy products, fruit juice, spices etc.

#### 2. Forest Based Industries

These industries include wood products, coir industry, beedi making, honey making, bamboo products, etc.

#### 3. Mineral Based Industry

These include stone crushing, cement industries, wall coating powders etc.

#### 4. Textile Industry

These include weaving, colouring, spinning and bleaching.

#### 5. Handicrafts

These include making of wooden or bamboo handicrafts that are local to that area, traditional decorative products, toys and all other forms of handicrafts typical to the region.

#### 6. Engineering and services

These include agricultural equipments, tractors and pump sets, repairs etc.

#### Objective

- To generate new business and employment opportunities.
- To know the various types of rural entrepreneurship.
- To know the importance of rural entrepreneurship.
- To study the problems of rural entrepreneurship.
- To analyze the performance of rural industries.

#### Methodology

The present study is based only on secondary data. The data were collected from books, journals, website and annual reports.

#### Rural Entrepreneurship in India

Who should be capable of making use of the government policies and schemes for the betterment of rural people? Some individuals who happen to be local leaders and NGOs and who are committed to the cause of the rural people have been catalytic agents for development. Though their efforts need to be recognized yet much more needs to be done to reverse the direction of movement of people, i.e. to attract people in the rural areas. It means not only stopping the outflow of rural people but also attracting them back from the towns and cities where they had migrated. This is possible when young people consider rural areas as places of opportunities. Despite all the inadequacies in rural areas one should assess their strengths and build on them to make rural areas places of opportunities. This is much to do with the way one sees the reality of the rural areas. The way a survivor or job seeker would see things would certainly be different from those who would like to do something worthwhile and are ready to go through a difficult path to achieve their goals. It isn't that there is a dearth of people with such a mindset. But with time they change their minds and join the bandwagon of job seekers due to various compilations. Enabling them to think positively, creatively and Entrepreneurship purposefully is most of the development of rural areas. Young people with such perspective and with

the help of rightly channelized efforts would usher in an era of rural entrepreneurship.

### Performance of Village or Rural industries

GOI Grant and the loan portion from the lending agencies to assist such women shall be routed through NGOs engaged in assisting poor women through income generating activities. While the loan amount will be passed on to women beneficiaries, the Grant shall be utilized by the NGOs for activities accepted as grant activities in the appraisal report of the lending agency and capacity building of the NGOs. NGO

which has been selected for Government Grant will not be considered for GOI grant again in the subsequent two years from the date of release of GoI grant Institutions such as Entrepreneurship Development Institutes (EDIs), NIMSME, NIESBUD, IIE, MSME-DIs, EDIs sponsored by State Govt. and any other suitable institution of repute will be provided need based Government grant limited up to Rs. 5.00 lakh per project primarily for undertaking activities aiming at empowerment of women such as field surveys, research studies, evaluation studies, designing of training modules, etc. covered under.

**Table 1:** Year-Wise Performance of Village Industries

S. No	Year	GOI Grant Released / Expenditure(Rs. in Lakh)
1	2004-05 to 2011-12	630.09
2	2012-13	138.79
3	2013-14	233.40
4	2014-15	254.20
5	2015-16	200.00
6	2016-17	0
	Total	1456.48

*Source:* Ministry of micro, small & medium enterprises.

### Credit Link Capital Subsidy Scheme for Technology Upgradation Summary of the Scheme

The Ministry of Micro, Small and Medium Enterprises is operating a scheme namely "Credit Linked Capital Subsidy Scheme (CLCSS) for technology up gradation of Micro and Small Enterprises. The scheme was launched in October-2000 and revised from 29.9.2005. The revised scheme aims at facilitating technology up gradation of Micro and Small Enterprises (MSEs) by providing 15% capital subsidy (limited

to maximum Rs.15 lakhs) for purchase of Plant & Machinery. Maximum limit of eligible loan for calculation of subsidy under the scheme is Rs.100 lakhs. Presently, more than 1500 well established/improved technologies under 51 sub-sectors have been approved under the Scheme.

This is a revolutionary scheme, which was introduced by ministry of micro and small enterprises. Credit Linked Capital Subsidy Scheme (CLCSS) became very successful. According to the year the performance of the scheme are given below;

**Table 2:** Performance of Credit Linked Capital Subsidy Scheme (CLCSS)

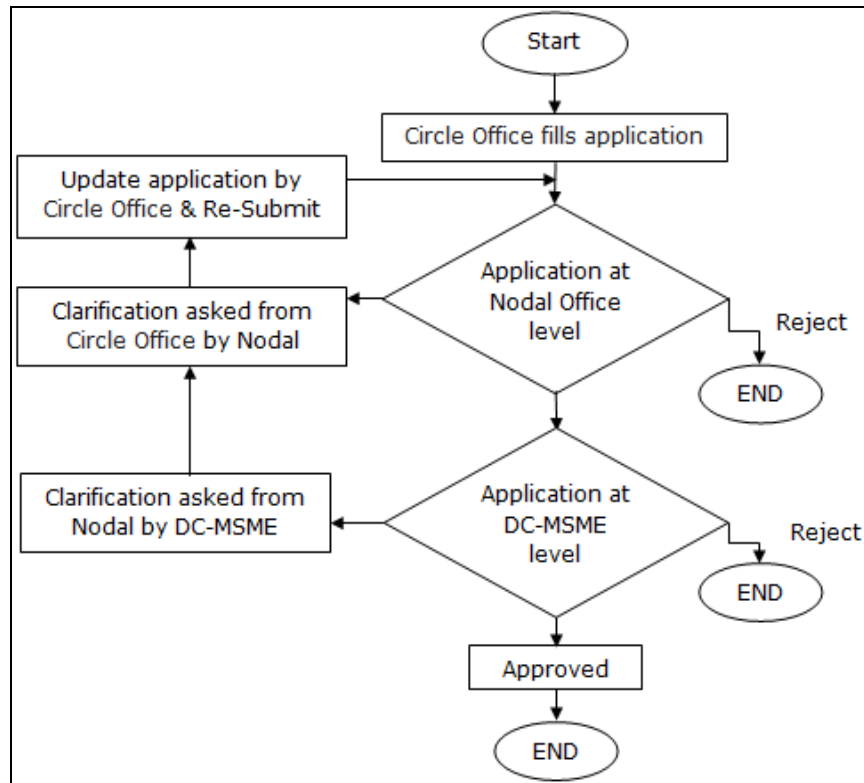
Year	No. of MSE Beneficiaries	Total Amount of subsidy released (Rs. Core)
2001-02 to 2011-12	16295	854.05
2012-13	5713	343.79
2013-14	6279	421.48
2014-15	7246	448.85
2015-16	5047	322.44
2016-17 (Up to 30/09/2016)	3391	216.42

*Source:* Ministry of micro, small & medium enterprises

### Procedural Aspects

This Scheme is linked with term loans availed by the MSEs from Banks or Financial Institutions. To claim subsidy under CLCSS, eligible MSEs are required to apply online through Primary Lending Institutions (PLIs), from where the MSEs availed term loan for up-gradation of technology. The completed application is being uploaded by PLI through Online Application and Tracking System to the attached

Nodal Agency, which, in turn, recommends the application online to Office of DC (MSME) for release of subsidy. After processing of application and subject to availability of funds, due approval is accorded from competent authority and concurrence of Internal Finance Wing, after which funds are released to Nodal Agencies. Funds are then transferred by the Nodal Agencies to the PLIs where the account of the MSE is operated.

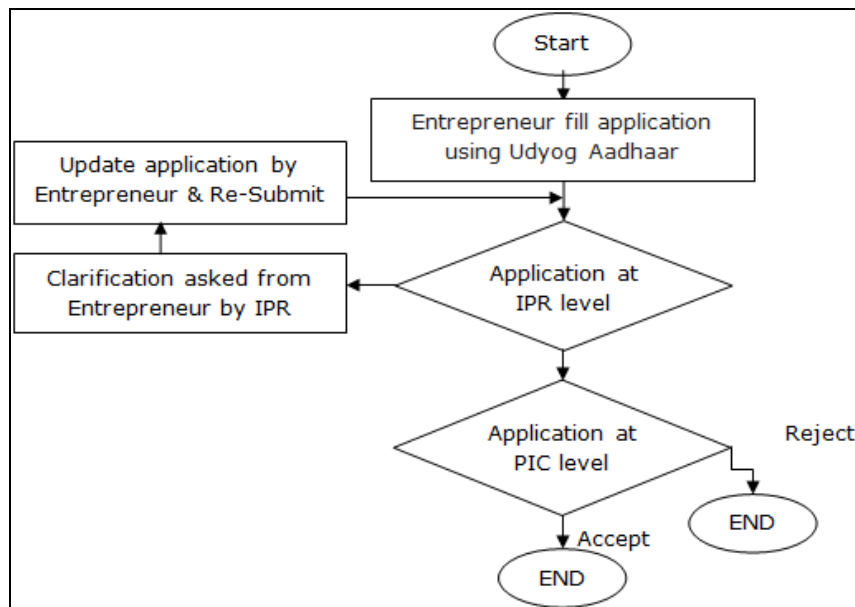


**Fig 1:** Flow of Scheme

**Table 3:** Financial Progress (2012-16) of Rural Entrepreneurship

S.No.	Year	Expenditure (Rs. In Cr.)
1	2012-13	1.88
2	2013-14	1.61
3	2014-15	0.83
4	2015-16	1.74
5	2016-17	1.77
	<b>Total</b>	<b>7.83</b>

*Source:* Ministry of micro, small & medium enterprises As the scheme is demand driven, hence achievements may be taken as 100%.



**Fig 2:** Of Scheme

## **Importance of Rural Entrepreneurship in India**

Rural entrepreneurs play a vital role in the overall economic development of the country. The growth and development of rural industries facilitate self-employment, results in wider dispersal of economic and industrial activities and helps in the maximum utilization of locally available raw materials and labour. Following are some of the important role which rural industries play in ameliorating the socio-economic conditions of the rural people in particular and the country in general.

### **1. Proper utilization of local resources**

Rural industries help in the proper utilization of local resources like raw materials and labour for productive purposes and thus increase productivity. They can also mobilize rural savings which help in increase of rural funds.

### **2. Employment generation**

Rural industries create large-scale employment opportunities for the rural people. The basic problem of large-scale unemployment and underemployment of rural India can be effectively tackled through rural industrialization.

### **3. Fosters economic development**

Rural industrialization fosters economic development of rural areas. This curbs rural urban migration on the one hand and also reduces disproportionate growth of towns and cities, growth of slums, social tensions and environmental pollutions etc. on the other.

### **4. Earnings of foreign exchange**

Rural industries play an important role in increasing the foreign exchange earnings of the country through export of their produce.

### **5. Entrepreneurial development**

Rural industries promote entrepreneurial development in the rural sector. It encourages young and promising entrepreneurs to develop and carry out entrepreneurial activities in the rural sector which finally facilitate the development of the rural areas.

### **6. Balanced regional development**

Rural entrepreneurship controls the concentration of industry in urban areas and thereby promotes balanced regional development in the economy.

### **7. Promotion of artistic activities**

Rural industries also help protect and promote the art and handicrafts, i.e. the age-old rich heritage of the country.

#### **▪ Check on social evils**

The growth of rural entrepreneurship reduces the social evils like poverty, social tensions, atmospheric pollution, the growth of slums and ignorance of inhabitants etc.

#### **▪ Awaken the rural youth**

Rural entrepreneurship encourages young and promising entrepreneurs to develop and carry out entrepreneurial activities in the rural sector.

#### **▪ Improves standard of living**

Rural entrepreneurship will also increase the literacy rate of rural people. Their education and self-employment will

prosper the community, thus improving their standard of living.

#### **▪ Improvement in per capita income**

Rural entrepreneurship generates more output, employment and wealth by exploiting new opportunities, thereby helping to improve the per capita income of rural people.

#### **▪ Produces goods of consumers' choice**

Rural industries including cottage and village industries produce goods of individual consumers' taste and preferences, jewellery, sarees; artistic products are produced to cater to the needs of different consumer according to their taste, preferences and design.

## **Problems of Rural Entrepreneurship**

Developing entrepreneurship especially rural entrepreneurship is not so easy. It is constrained by several problems. Some of the problems faced by rural entrepreneurs are as follows:

### **1. Lack of finance**

Finance is the lifeblood of the business. Most of the rural entrepreneurs are mainly struggling to raise the finance for their businesses. Non availability of adequate collateral security often mars the chances of rural youth in obtaining Adequate funds in time to set up their own venture. Due to this, the entrepreneurs are forced to take credit from village money lenders who charge exorbitant rates of interest.

### **2. Lack of knowledge**

There is a distinct lack of adequate knowledge of entrepreneurial opportunities among the rural youth. The educated and trained youths mostly leave for urban destinations in search of jobs.

### **3. Lack of technical know-how**

On account of the faulty education system rural youth lack managerial, professional, technical know-how which is an impediment in developing the spirit of enterprise, consequently not many people come forward to establish self-employment units.

### **4. Absence of enterprising skill**

Most of the rural people in India lack risk bearing ability. Reluctant to involve oneself in business, inclination towards wage employment, lack of creative thinking are few reasons which have restricted the growth of self-employment in rural area.

### **5. Lack of infrastructural facilities**

Rural areas are characterized by poor infrastructural facilities viz, roads, water, market, electricity, street lighting, road transport, storage and communication etc. which hamper the smooth movement of various industrial activities.

### **6. Adverse social, cultural and industrial environment**

Social evils, caste systems, fatalism, religious superstitions, particularly in the country side, do not allow development of adventurous spirit. Lack of skill and expertise in labourers, their tendency to migrate to cities and consumer's habit to buy goods produced by big companies create many problems for new entrepreneurs.

### **7. Lack of market information due to poor communication facility**

The absence of effective communication and access to the right information makes it difficult for rural entrepreneurs to understand market trends and policies followed by the government on industrialization.

### **8. Non availability of skilled labours**

In rural areas, skilled labours cannot be found easily by the entrepreneurs. Highly skilled personnel prefer to work in big cities due to high salary than rural areas.

### **9. Low quality products**

Nowadays, the consumers are more sensitive to the quality of the products. But, rural entrepreneurs cannot produce quality products due to poor quality of raw materials and lack of standardized tools and equipments.

### **10. Fear to invest in the business**

Rural entrepreneurs have low risk bearing ability due to lack of financial resources and external support. So, they restrict to invest in their businesses in rural areas.

### **11. Competition**

Rural entrepreneurs are facing tough competition from urban entrepreneurs and larger scale organizations. They cannot compete with the urban entrepreneurs due to lack of standardization and branding of the products.

### **12. Middleman**

Rural entrepreneurs mainly depend on middlemen for marketing their products. But they betrayed by offering low prices to their goods.

### **Opportunities**

- Free entry into world trade.
- Improved risk taking ability.
- Governments of nations withdrawn some restrictions
- Technology and inventions spread into the world.
- Encouragement to innovations and inventions.
- Promotion of healthy completions among nations
- Consideration increase in government assistance for international trade.
- The establishment of other national and international institutes to support business among the nations of the world.
- Benefits of specialization.
- Social and cultural development

### **Suggestions**

In the light of the above problems, the following suggestions can be put forth to develop the rural entrepreneurs:

- Separate financial assistance for rural entrepreneurs should be provided by the Government.
- Rural entrepreneurs should be provided adequate and timely financial assistance from all the financial institutions and banks.
- Special training programmes for rural entrepreneurs should be arranged by the Government to improve their knowledge and skill.

- The rural educated youth should come forward in the field of entrepreneurship.
- Modernization of their technology is very much essential.
- Sufficient finance must be given to modernize their outdated technology, tools and implements in order to enable them to compete with the large scale industries.
- Rural entrepreneurs must be provided with adequate infrastructural facilities.
- Government Role: To provide infrastructure, warehousing, marketing facilities and assist rural entrepreneurs to export their goods to foreign countries.
- Establishment of Ancillary units to support big industries of urban.
- SWOT Analysis: Strengths, Weaknesses, Opportunities and Threats of small businessmen have to be identified and properly trained to motivate them to become entrepreneurs.

### **Conclusion**

Rural entrepreneurship plays a vital role in the economic development of India, particularly in the rural economy. It helps in generating employment opportunities in the rural areas with low capital, raising the real income of the people, contributing to the development of agriculture by reducing disguised unemployment, reducing poverty, migration, economic disparity, unemployment. Government should go for appraisal of rural entrepreneurship development schemes and programmes in order to uplift rural areas. The rural development programmes should combine infrastructure development, eructation, health services, investment in agriculture and the promotion of rural non-farm activities in which women and rural population can engage themselves. Without rural industrialization, it would not be easy to solve the problem of unemployment in rural areas. Rural entrepreneurship can be considered one of the solutions to reduce poverty, migration, economic disparity, unemployment and develop rural areas and backward regions.

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