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# Rural Preneurship : A Strategy for Stimulating Rural Development

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## **Abstract**

*Entrepreneurship development is now considered as the central force of economic growth and development of the rural economy. Other factors of development without or lack of entrepreneurial capability will fail to stimulate the rural Economy. This paper discusses key issues related to the role of entrepreneurship in this context. The analysis observes that while supportive environment is crucial, other determinants of the rural entrepreneurship development also need to be nurtured. The major challenges in the way of entrepreneurship development are creation of necessary rural infrastructure, education of the youth, finance and marketing facilities of products/services. The paper highlights how these challenges could be removed for the success of rural growth and in this context the role of some of the agencies working to support rural enterprises are discussed. This analysis finds several benefits of this strategy for the rural development. The rural entrepreneurship is viewed as an answer to minimize the level of poverty and this will ensure more egalitarian society and create jobs in rural India. This will in turn add economic value to the region and at the same time, it will keep scarce resources within the community. Thus, the conclusion is that in order to accelerate economic development in rural areas, it is necessary to promote entrepreneurship.*

**Keywords :** *Rural development, Entrepreneurship, Entrepreneurial orientation, Rural India, Rural Entrepreneurship development.*

## **Introduction**

In India, about 70% of population is still living below the poverty line. The main reason behind this situation is the unequal distribution of income and wealth as well as lack of education among the rural youth of India. It is observed that when the rural youth migrate to the urban area and get necessary support, they do start up new ventures. This can be taken as the indicator of potential entrepreneurial skills which should be developed when the youth lives in the rural area. Private companies such as SKS Micro Finance

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Ltd. and public institutions like NABARD, SIDBI, etc are giving supports to the entrepreneurs so that they can contribute in the development of rural areas by exploiting these opportunities. In fact, the government, NGOs and the private sector unanimously agree that **rural entrepreneurship is synonymous with the rural development**. For the government and the NGOs, this is possibly the best way to uplift the rural community and for the corporate, it provides value addition by giving them the opportunity to reach into remote areas. Thus, **Rural entrepreneurship development** is defined as an effective strategy in alleviating **rural** poverty in developing countries.

### Objective of the paper

- To examine the role of Entrepreneurship in the rural development in India.
- To analyze the entrepreneurial environment and factors responsible for promoting the rural entrepreneurship.
- To assess problems encountered by entrepreneurs to establish and run their new venture in rural areas.
- To find out ways to encourage the rural youth towards entrepreneurship.
- To discuss major hurdles in rural Entrepreneurship Development.

### Defining an Entrepreneur and Entrepreneurship

Definitions of an Entrepreneur vary as per the opinion of different authors. "The Entrepreneur in an advanced economy is an individual who introduces something new in the economy- a method of production not yet tested by experience in the branch of concerned manufacturing, a product with which consumers are not yet familiar with, a new source of raw material or of new markets and the like." (*Joseph A. Schumpeter*). "An individual who bears the risk of operating a business in the face of uncertainty about the future conditions." (*The New Encyclopedia Britannica*). The entrepreneur displays courage to take risk of putting his money into an idea; courage to take on the competition and courage to take a leap into an unknown future and create new enterprises.

"Entrepreneurship on the other hand is "the process of uncovering or developing an opportunity to create value through innovation and seizing that opportunity with regard to either resources (human and capital) or the location in a new or existing company" (Slaughter 1996:7)."Entrepreneurship involves the adoption of new forms of organizations, technologies, new practices in every area as well. That is why entrepreneurship is considered as the key mover in the development of the economy. **Entrepreneurship** is a vital component of productivity and growth (Baumol, 1993). The Organization for Economic Cooperation and Development (OECD) defines entrepreneurship as "essential agents of change who accelerate the generation, application and spread of innovative ideas and in doing so ... not only ensure efficient use of resources, but also expand the boundaries of economic activities" (Reynolds, Hay & Camp, 1999).

The definition of Entrepreneurship in the context of the rural development can be given as "A force that mobilizes other resources to meet unmet market demand", "the ability to create and build something from practically nothing", "the process of creating value by pulling together a unique package of resources to exploit an opportunity." (Definitions of entrepreneurship by Jones and Sakong, 1980; Timmons, 1989; Stevenson, et. al., 1985). Institutions and individuals promoting rural development now see entrepreneurship as a strategic development intervention that could accelerate the rural development process.

Evidence suggests that development of socially economically backward areas is not possible only through injection of external investment funds and expertise. Without well developed or potentially available entrepreneurial capabilities, external funds will be wasted on projects and not provide long term economic growth. To create such an environment, Porter contends that the Government must use the public fund in ways that do not distort business incentives but rather focus on providing infrastructure to support "genuinely profitable businesses" (Porter 1995). Institutions and individuals promoting the rural development see entrepreneurship as a strategic development intervention that could accelerate the rural development process. Big Corporate and entrepreneurs are looking towards the rural areas.

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Innovations also play a major role in entrepreneurship and contribute towards the rural development.

According to the 2001 **Rural Poverty Report (RPV)**, 75% of the world's poor live and work in **rural** areas, and the majority will remain so for several decades (IFAD **Rural Poverty Report**, 2001; IFAD 2002). India is the 3rd largest economy in the world in terms of Purchasing Power Parity (PPP), but today still a large part of the population remains under poverty line. According to the **Results of 60<sup>th</sup> round of NSSO survey conducted in Jan-June-2004**:

- About 72% of the households belong to rural India and accounted for nearly 75% of total population.
- In the usually rural employment (all workers) category, 57% among males and nearly 62% among females were self employed.

### **Determinants of Rural Entrepreneurship and Environment**

While some entrepreneurs may be born and others made, they cannot flourish without community support. Rural entrepreneurship is usually community based, has strong extended family linkages and a relatively large impact on a rural community. Since national economies are more and more globalized and competition is escalating at an unparalleled pace which is affecting not only the industry but any economic activity inclusive of agriculture, it is not surprising that the rural entrepreneurship is gaining its importance as a force of economic change that must take place if rural communities are to survive. However, **entrepreneurship demands an enabling environment in order to flourish**. Entrepreneurial ability is highly correlated with both income and education levels and successful business operators tend to be above average in both categories.

The existence of such an environment largely depends on policies promoting rural entrepreneurship. The effectiveness of such policies in turn depends on a conceptual framework about entrepreneurship, i.e., what it is and where it comes from. National agricultural policies such as price subsidies to guarantee minimum farm incomes and keeping of land in production when over-production already exists

are definitely counter-productive to entrepreneurship. While prices can set the direction, entrepreneurs are needed to meet the challenge of increasingly demanding international markets, profitable alternative uses of land and alternative business opportunities and so on.

Opportunity recognition is a critical issue and a key element in **entrepreneurship** (Shane & Venkatraman, 2000). Opportunities exist in the environment (Stevenson & Gumpert, 1985) and scanning the external environment for information leads to entrepreneurial opportunities (Kaish & Gilad, 1991). An entrepreneur focuses on the environment and develops an innovative process and brings innovations to the market through new products, production or organizational methods, markets, sources of inputs or market structures (Schumpeter, 1942). Entrepreneurship means more than just the creation of business. It is an integrated concept that captures change and competition in the market structure that come about due to the energy and passion of a particular set of individuals. The most apparent contribution of entrepreneurship is the creation of new jobs and generation of additional income as new firms start and existing ones grow. Thus, small enterprise developments through linkage effects of demand and income generation have the multiplier effect in the rural area.

Following factors are encouraging initiatives of entrepreneurs especially in rural areas.

- **Entrepreneurial-friendly government-** The Government needs to be favorable towards rural entrepreneurship to promote rural development programs in the targeted under reserved rural communities. The Government has been providing assistance for establishment of training institutions/ Entrepreneurship Development Institutes (EDI) for imparting entrepreneurship and skill development training. Ministry of Micro Small and Medium Enterprise has set up 3 national level EDIs namely *National Institute for Micro, Small and Medium Enterprises (NIMSME, Hyderabad)*, *National Institute for Entrepreneurship and Small Business Development (NIESBUD, Noida)* and *Indian Institute of Entrepreneurship( IIE,*

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*Guwahati*) to undertake the task of entrepreneurship and skill development on a regular basis.

- **Entrepreneurship education-** whether educational background influences potential entrepreneurs or not is a matter of debate. The popular idea of an entrepreneur is that of a totally self-made man lacking in formal qualifications. Apparently, two things are involved simultaneously namely, propensity to start an entrepreneurial venture and skills to run the venture successfully.
- **Supportive infrastructure-** Rural Infrastructure Development Fund (RIFD) is set up by the Government for financing the ongoing infrastructure projects.
- **Enabling culture-** With the advent of new economic policies such as privatization, liberalization and globalization, the best solution for the rural empowerment could be nothing but the creation of entrepreneurial culture among rural masses. This initiative would not only create self-employment and employment opportunities among rural masses but also arrest rural migration to urban areas.
- **Supportive institutions-** Rural institutions play critical role in translating agricultural production into profit, which is *sin-qua-non* for equitable societal development. These institutions act as potential agent of rural areas. Several models of modern institutions such as Panchayati Raj Institutions, Corporate models including rural retail chains and the Self-help groups (SHG) are being experimented in different parts of the nation to development infrastructure for entrepreneurial development to reduce income gaps.

### **Constraints/ Challenges Faced by Rural Enterprises**

The lack of confidence amongst most of the rural population has proved to be a deterrent to the idea of innovative rural entrepreneurship.

The major problems/challenges faced for promoting rural entrepreneurship development are listed below:-

- Lack of committed Government officials
- The Government policies such as licensing, taxes and tariffs
- Management problem comes up as in many small firms due to the fact that the same individual is responsible for executing miscellaneous tasks including production and management.
- The entrepreneur still has to make the decision relating to the marketing and finance operations. One of the challenges facing the rural entrepreneurs is a cost effective management of the project and utilizing the promotional services. Potential clients are geographically widely distributed and their needs are often diverse.
- Due to lack of awareness on technology and processing for different level of entrepreneurial experience, data and information at all levels are poorly managed.
- Large firms can afford transport, storage facility, advertising and product development efforts which a small entrepreneur more often, cannot.
- Mostly forced to rely on personal savings, borrowing from friends and relatives and moneylenders and formal credit facilities are not available for most of the SMEs.
- Large Business houses, Local Economic Development Agencies, Chambers of Commerce are ignorant problems about the rural entrepreneur.

### **How to Move Forward in this Direction**

Rural Entrepreneurship is more looked upon as a non-profit social venture in which money goes out and recovery of money is virtually impossible. This mind set needs transformation.

**In order to develop rural entrepreneurship, it is necessary to work on the following ideas**

- Recognizing Agricultural producers as entrepreneurs
- Business planning assistance
- Helping with financing issues
- Developing new marketing channels
- Identifying new value-added opportunities
- Community based Agricultural Development
- Establishing Farmers Markets
- Coordinating "buy fresh, buy local campaigns"
- Conducting community-supported agricultural visioning sessions

#### **What Can be Done to Help Meet Those Needs?**

- Educational support and advocacy
- A voice for policy change
- Business training and technical assistance
- Access to markets, capital and networking
- Research and related communications

#### **Need for Sowing Dreams in Minds of the Rural Youth:**

**"Youths in the rural areas have limited options",** this is what they are given to believe. This is the reason that many of them either work at farm or migrate to urban land. There is need to plant other options in the minds of the rural youth. Entrepreneurship could be the best option, which if planted and nurtured in the minds of the rural youth could lead to real revolution occurring in Indian economy.

#### **NGOs and Social activists are taking initiatives for grooming the rural youth towards this direction. Some encouraging examples are cited below:**

1. Pratham, a leading NGO dedicated to child education and Barclays have come together to

foster wealth creation in villages by grooming entrepreneurship among the rural youth. Pratham would identify the poor rural youth with acumen for entrepreneurship and provide the much needed skills in various fields while Barclays would help with the initial investment for their businesses. The program will focus on grooming entrepreneurs in farming, dairy processing, SSIs and the automobile servicing sectors.

2. T. Mariappan, a banana grower in a village close to Tiruchi, who designed a banana dehydrator by trial and error method to produce a type of sweet from the fruit. Impressed by what Mr. Mariappan had to offer, the Indian Overseas Bank has sanctioned Rs. 11 lakhs for his project. Currently marketing the produce in 400-kg packs and in sachets, the rural entrepreneur's future plan is to use a solar energy-operated dehydrator for large-scale production.
3. Project Shakti started by HLL (now HUL) in 2000 is aimed at the Women Empowerment by offering them opportunities to start up with micro business. It created around 45000 women entrepreneurs in 12 states by the end of 2007.
4. Harish Hande, founder of SELCO, is based in outshirt of Bangalore. Harish received his engineering degree at the Indian Institute of Technology, Kharagpur and his doctorate in energy engineering at the University of Massachusetts. But his real education came as a result of spending two years living in a rural village with no electricity.
5. He pioneered access to rural solar electrification for families below the poverty line through a combination of customized lighting systems, innovative doorstep financing and understanding the market needs of different user groups. To further the effects, he created SELCO entrepreneurs who distribute solar powered lights to low-income communities. Thus, he has reached 80,000 clients across Karnataka and Kerala and has recently moved into Gujarat. It should be emphasized that projects undertaken by these entrepreneurs should not be

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constrained by its location in rural area. It should enjoy all the advantages of the location.

The following advantages of rural industrial projects are provided by the Government for the development of Entrepreneurial initiatives:

- Tax holidays and other tax advantages given to rural projects.
- Abundance of cheap labor.
- Advantage of local and regional resources in case the unit uses them as a raw material.

The model for frozen peas market developed by MAFCO in Maharashtra is another success story. This venture was started eight years ago. During the first year only 10 tons of peas were sold which went up to 42 tons in the second year, 120 tons in the third year and 140 tons next year and so on. Behind this success story is also that the entrepreneur who could foresee and implement his plans of marketing. The success story of rural entrepreneurship exhibits following .

- Prestige and respect among the local community
- Live example for local youth for taking up entrepreneurial project
- Support and motivation from local people
- Competitive advantage over the big business due to the proximity to the raw material and labor.
- Employment generation for local people.

### **Suggestions/ Recommendations**

#### **i. Increased Synergy and Incentives for Organized Rural Groups:**

The Government needs to encourage the re-organization and mobilization of rural associations. This could be done by ensuring that those individuals who belong to standing financial associations such as the Cooperatives are given preference and better consideration in situation where development aids are given to rural communities. The enhancement of

members' synergy encourages better performance and capital re-investment for employment generation.

#### **ii. Provision of Functional and Sustainable Infrastructure:**

Social and physical infrastructure (such as roads, electricity, and market) that could re-invigorate rural cottage industries should be provided in every nook and cranny of rural communities. Apart from stemming rural urban drift, such infrastructure would encourage business activities in terms of production and distribution.

#### **iii. Establishment of Participatory Development Projects:**

Government needs to put in place appropriate money generating projects in various communities, with the involvement of the ruralites themselves. The conceptualization, design, planning and execution of such projects must involved all. Local farmers and cottage industrialists need to be encouraged to be part of the decision-making process during project planning and implementation. This will no doubt encourage rural folks to identify with programs of action, particularly when they are co-founders of such projects.

### **Conclusion**

Entrepreneurship is the central force of economic activity development. They are persons who initiate, organize, manage and control the affairs of an enterprise that combine the factors of production to supply goods and service in any sector. The three major banes of (rural) development which are unemployment, inequality and poverty, need to be thoroughly addressed to forestall rural-urban drift and rural isolation.

Some crucial factors that hinder the growth of entrepreneurship and employment promotion in the rural area comprises of infrastructure availability, education and accessibility to information. To manage agricultural sector and non-enclave projects in rural areas, rural entrepreneurs need to apply entirely

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different management and administrative concepts. Otherwise we shall only be creating islands of apparent prosperity in the ocean of the rural poverty. Rural entrepreneurship is the answer to removal of rural poverty in India. Therefore, there should be more stress on integrated rural development programs. The problem is that most of the rural youth don't think of entrepreneurship as their career option. Therefore, the rural youth need to be motivated to take up entrepreneurship as a career with training and sustaining support systems providing all necessary assistance.

In today's fast-changing economy, rural sector viability depends on a dynamic entrepreneurial sector. This creates real opportunities/imperatives for policy makers and the university system in their efforts to build vibrant rural communities.

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