

Financial Access of Unorganised Service Sector Enterprises in Assam

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Abstract

The unorganised sector has been playing an important role in the developing and underdeveloped countries, both in terms of its contribution to gross domestic product and employment generation. But despite of its importance, the enterprises in this sector are facing various problems. A large percentage of unorganised enterprises reports non availability of credit is the constraint faced by them. Moreover, existing reports and literature also state that the formal financial institutions are not interested to deal with the unorganised enterprises; which makes them to be dependent on the informal sources of credit. This paper based on secondary data analyses the importance of the unorganised service sector enterprises in Assam and their access to credit. Results indicate that the average size of outstanding loan per unorganised service sector enterprise in Assam is very low. However, larger percentage of the total borrowings made by the enterprises in this sector is originated from the formal financial institutions. This is because although larger segment of unorganised enterprises do not have access to credit from formal financial institutions and borrow from non-institutional sources, the size of loan from such sources is very small. And although limited number of unorganised enterprises have access to credit from institutional sources, the size of such loan is higher.

Keywords: Credit Gap, Debt-Asset Ratio and Financial Institutions.

I. INTRODUCTION

THE unorganised sector in the developing and underdeveloped countries is no more considered as a residual sector. Rather, it is considered as a common component of such economies. This sector has been playing an important role in the developing and underdeveloped countries like India, both in terms of its contribution to gross domestic product and employment generation [1]. However, despite of their significant importance in these economies most of them are suffering from a number of problems such as marketing facility, lack of raw materials, lack of skill and training, lack of access to credit and other financial services etc. Among different problems faced by the unorganised enterprises, access to credit is the most serious one as facilities like training and skill formation, technological improvement is also related to the availability of credit [2].

The very small production and service sector units in the unorganised sector are established by individuals who have little skill and capital. In fact, lack of alternative wage employment force many, specially the poor, to seek self-employment by setting up their own small production, trade

or service units. Thus, these units by definition have a capital constraint [3]. A large segment of the existing literature states that the micro enterprises rarely obtain credit from formal financial institutions (FFI) [4]. Compared to small scale organised enterprises also the unorganised enterprises have lesser percentage of their borrowings originating from the banks [4]. This problem is found to be more serious one for women entrepreneurs [5]. Beck, Asli and Peria [6] also found that banks in the developing countries were less exposed to small and medium enterprises; tended to provide lower percentage of investment loans, and charged higher fees and interest rate to those enterprises. As a result, internal funding and finance from non-institutional sources constitute the major source of funding in their growing stage [4][7]. In Indian context, the same conclusion was provided by existing reports and literature [2][7][8]. According to Bhavani [9], finance is the main obstacle on technological progress in Indian small enterprises. Bhavani and Bhanumurthy [10] [11] stated that the unorganised enterprises had limited access to financial services from external sources. To address this problem, the government of India has introduced various government subsidised credit schemes for those enterprises. Some of them are credit cum skill development programmes. But despite of those programmes the unorganised enterprises are facing financial constraints.

Here, queries arise regarding the status of financial access of the unorganised enterprises. Further, queries arise regarding the causes of lower financial access; i.e. whether it is due to lack of demand for or supply of credit. Assam is one of the relatively backward states in India, with higher impact of unemployment. Although the economy of this state is basically an agrarian economy, the nonfarm sector is also emerging in the recent years. The agricultural productivity in this state is very low and the overall condition of the organised industrial sector is also not a satisfactory one. Thus, the nonfarm unorganised sector is expected to play an important role in this State. Again, existing literature and reports also indicate that the overall indebtedness of households and enterprises is relatively lower in this state compared to all India average [10]. In this context, the investigation into the financial access of the unorganised service sector enterprises of Assam has become necessary. This paper addresses the following objectives:

- (a) To examine the importance of the unorganised service sector enterprises in Assam.
- (b) To analyse the financial access of the unorganised service sector enterprises in Assam.

The unorganised sector covers both the farm and non-farm sector. In Assam, already a large number of studies have been undertaken on farm sector; so this paper deals with the nonfarm sector. Again the non-farm sector consists of manufacturing and service sector enterprises. And within the non-farm sector, service sector is the largest segment of unorganised enterprises both in the rural and urban areas. For example, the 67th round of National Sample Survey (NSS) on unincorporated non-agricultural enterprises in India, states that in Assam trading enterprises have the largest share among all unincorporated non-agricultural enterprises (48.50%); followed by those in other service sector activities (32.51%). Thus, the aggregate share of the services sector in unincorporated non-agricultural enterprises in Assam is more than 80%. Moreover, a number of studies have already been carried out regarding the unorganised manufacturing enterprises in this state [12] [13]. All these have motivated to study the unorganised service sector enterprises in Assam.

The concept of financial access is widely discussed in the existing literatures. The World Bank [14] considers financial inclusion (financial access) as the availability of financial services to all without any barrier. Thus, financial access is a broader concept that includes both those who have access to financial services and those who are voluntarily excluded. In fact, it is a supply side concept. Moreover, financial inclusion indicates the availability of financial services both from the institutional as well as from non-institutional sources. But, it is difficult to differentiate between the voluntary and non-voluntary exclusion from financial services. Moreover, due to exploitative characteristics of the non-institutional financial sources, one segment of literature measures financial access as the actual availability and adequacy of loan from formal financial institutions [10]. Bhavani and Bhanumurthy [10] used the concept of financial resource gap (FRG) to measure the adequacy of credit. FRG indicates the percentage of productive investment made by an enterprise not financed by the institutional sources. To derive the productive investment, they added total fixed asset of an enterprise to working capital of that enterprise. But, while the fixed asset is a static concept, working capital is a variable concept, so they cannot be added together. This is mentioned by the researchers themselves. Moreover, if an enterprise is able to finance his business from his own resources; he may not be interested to have credit from other sources. So, to measure the adequacy of credit from formal financial institutions, Credit Gap (CG) an index that indicates percentage of outstanding borrowing from the non-institutional sources is seemed to be a better measure.

Credit Gap= 1- (Amount of outstanding borrowing from the institutional sources/ Total amount of outstanding borrowing)

This paper is based on secondary data compiled from NSS 57th and 63rd rounds on unorganised service sector enterprises, and NSS 67th round on unincorporated non-agricultural enterprises. In India, NSS is the principal source of data for the unorganised sector enterprises. But, the

concepts and coverage of these surveys change from time to time. That is why, data are not strictly comparable over the years.

In this paper, data are produced at 2010-11 prices. To calculate the inflator data of Gross Value Added (GVA) in the unorganised manufacturing sector is used; as the national income accounting system in India does not provide data for the GVA in the unorganised service sector separately. Again data for all the years are not available at the same constant prices. Gross state domestic product (GSDP) data for Assam up to 2003-04 is available at 1999-2000 prices; and 2004-05 onwards it is available at 2004-05 prices [22]. To solve this problem, at first splicing is done to convert the earlier years' data to the new base of 2004-05.

This paper is arranged in to four sections. The second section discusses the importance of the unorganised service sector enterprises in Assam. The third section analyses the financial access of the unorganised service sector enterprises in Assam. The concluding section summaries the discussion.

II. UNORGANISED SERVICE SECTOR ENTERPRISES IN ASSAM

Before discussing other aspects of unorganised service sector enterprises, it would be beneficial to have an idea about the definition and coverage of the unorganised enterprises. The 15th International Conference of Labour Statisticians (ICLS) held in Geneva in January, 1993 for the first time tried to give an inclusive definition of the unorganised/informal enterprises. According to this definition, informal (unorganised) enterprises are those private unincorporated enterprises owned by individual or households who do not have any legal status independent of the individual or households who own them. As a result, no complete account of the enterprise is available that enables the financial separation of the enterprise from other activities of its owner. Further, this definition added that to be regarded as an enterprise, the production or service unit must sale at least a part of its product in the market. Neither the enterprise nor its employees are registered under national legislation. The issue of maximum number of workers employed in such unit was left to the country concern. This definition covered enterprises belong to the non- agricultural sector only.

In India, NSS 57th and 63rd rounds on unorganised service sector enterprises [15] [16] defined unorganised enterprises as all those private enterprises which are not registered under sections 2m(i) and 2m(ii) of Factories Act, 1948 and Bidi and Cigar Workers (Condition of Employment) Act, 1966. Actually, any enterprise in India, employing 10 or more workers with the use of electricity (and 20 or more workers without using electricity) has to register under Factories Act, 1948. And NSSO's unorganised sector enterprise survey covers those enterprises which are not registered under this act. But in reality, many bigger units (i.e. employing more workers) are not registered with the above mentioned acts and such bigger units are also covered by NSSO's unorganised service sector enterprise survey. NSS

56th and 62nd rounds on unorganised manufacturing enterprises in India also used the same definition [17] [18].

NSS 67th round on unincorporated non-agricultural enterprises in India, 2010-11 considered those enterprises as incorporated, which are registered under Companies Act, 1956. In other words, this survey included those enterprises which are not registered under Companies Act, 1956. Additionally, it excluded (a) enterprises which were registered under section 2m(i) and 2m(ii) of the Factory Act, 1948 or Bidi and Cigar Workers (Condition of Employment) Act, 1966 and (b) government/ public sector and co-operatives enterprise. Further, it included Self Help Groups (SHGs), Private Non-Profit Institutions (NPIs) including non-profit institutions serving households and Trusts. Thus, all the unincorporated enterprises are unorganised enterprises, but an unorganised enterprise (which is registered under Companies Act, 1956) may not be an unincorporated enterprise. In other words, unincorporated enterprises constitute a subset of the unorganised enterprises. But, the difference between the estimated numbers of enterprises following these two definitions is very small. For example, NSS 57th round on unorganised service sector enterprises reported that at the all India level only 1.8% of the unorganised service sector enterprises were registered under

Companies' Act, 1956; which is slightly higher (3.9%) for the establishment enterprises. In Assam, 4.0% of the unorganised service sector enterprises (4.7% in case of establishment enterprises) were found to be registered under Companies' Act, 1956. So, data from unincorporated non-agricultural enterprise survey can also be used to analyse the condition of unorganised enterprises.

Considering the importance of the unorganised sector, the Government of India appointed the National Commission for Enterprises in the Unorganised Sector (NCEUS) to study different aspects of the unorganised enterprises. The definition provided by this commission [19] is a more inclusive one. According to this commission, unorganised/informal enterprises are all those unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis; with less than ten workers. This definition gave more emphasis on the maximum number of workers employed irrespective of the sector in which they lie. Moreover, the registration of such enterprises was made a flexible criterion. The present paper is based on the data compiled from different rounds of NSS; i.e. data used in this paper follow the definition provided by those respective rounds of NSS.

TABLE: 1
NUMBER OF UNORGANISED SERVICE SECTOR ENTERPRISES IN ASSAM

		2001-02	2006-07	2010-11	
				Trading Enterprises	Other Services
Rural	OAE	278,277 (3.69) {85.43}	424,327 (4.71) {84.32}	391,213 (3.93) {90.60}	264,214 (2.89) {87.12}
	Est.	47,462 (4.49) {14.57}	78,922 (8.80) {15.68}	40,574 (6.64) {9.40}	39,076 (3.70) {12.88}
	All	325,739 (3.79) {100.00}	503,249 (5.08) {100.00}	431,787 (4.09) {100.00}	303,290 (2.97) {100.00}
Urban	OAE	48,677 (1.07) {75.09}	68,606 (1.35) {73.89}	77,602 (0.99) {61.33}	51,060 (0.69) {72.02}
	Est.	16,145 (1.21) {24.91}	24,247 (1.59) {26.11}	48,930 (2.11) {38.67}	19,838 (0.95) {27.98}
	All	64,822 (1.10) {100.00}	92,853 (1.40) {100.00}	126,532 (1.24) {100.00}	70,898 (0.75) {100.00}
Rural + Urban	OAE	326,954 (2.70) {83.71}	492,934 (3.50) {82.69}	468,815 (2.63) {83.97}	315,273 (1.90) {84.26}
	Est.	63,607 (2.66) {16.29}	103,169 (4.26) {17.31}	89,504 (3.06) {16.03}	58,914 (1.87) {15.74}
	All	390,561 (2.70) {100.00}	596,102 (3.61) {100.00}	558,318 (2.69) {100.00}	374,188 (1.90) {100.00}

Values in '()' indicate the percentage share of Assam in the total number of enterprises in India.

Values in '{ }' indicate the percentage share of different types of enterprise in total number of enterprises in Assam.

Source: Compiled and calculated by the author from Unorganised Service Sector in India, 2001-02: Salient Features, Report No. 482, NSS 57th Round; Service Sector in India (2006-07): Operational Characteristics of Enterprises, Report No.528, NSS 63rd Round; Key Results of Survey on Unincorporated Non-Agricultural Enterprises (Excluding construction) in India, 2010-11, NSS 67th Round

Having discussed the definitions of the unorganised service sector enterprises, it would be informative to have an idea about the number of enterprises engaged in this sector in

Assam over the years. The unorganised service sector enterprises are broadly classified in to Own Account Enterprises (OAE) and establishment enterprises (Est.). Own

Account Enterprises indicate those enterprises working on a fairly regular basis without any hired worker. Again establishment enterprises are employing hired workers on a fairly regular basis. The total number of unorganised service sector enterprises over the years are shown in Table: 1. Total number of enterprises in the unorganised service sector is increased over the years. The total number of enterprises in different years is not strictly comparable; as the coverage of these surveys is changed over the years. For example, the unorganised service sector enterprise survey 2001-02 did not cover the unorganised enterprises dealt in financial services. Later, the unorganised service sector enterprise survey, 2006-07 along with the all those enterprises included in the 2001-

02 survey also included unorganised financial intermediaries. Further, the unincorporated non-agricultural enterprise survey, 2010-11 included the trading enterprises in the service sector. The trading enterprises, which is a major component of unorganised service sector were not included in the earlier two (57th and 63rd rounds) surveys; was included in the unincorporated non- agricultural enterprise survey. The overall annual growth rate of the unorganised enterprises in the service sector in Assam was 8.4% during 2001-02 and 2006-07 (7.2% excluding financial sector enterprises). The growth rate of the enterprises in the rural areas was higher than that in the urban areas. Again the growth rate of establishment enterprises was higher than that of OAEs.

TABLE: 2
NUMBER OF WORKERS EMPLOYED IN THE UNORGANISED SERVICE SECTOR ENTERPRISES

		2001-02	2006-07	2010- 11	
				Trading Enterprises	Other Services
Rural	OAE	295,269 (2.98) {68.67}	732,006 (5.03) {81.13}	478,547 (3.51) {82.44}	373,810 (2.52) {78.95}
	Est.	134,739 (3.24) {31.33}	170,246 (4.75) {18.87}	101,948 (5.83) {17.56}	99,675 (2.25) {21.05}
	Combined	430,008 (3.05) {100.00}	902,251 (4.97) {100.00}	580,495 (3.77) {100.00}	473,485 (2.45) {100.00}
Urban	OAE	56,496 (0.95) {46.55}	96,637 (1.44) {42.66}	95,225 (0.88) {40.16}	63,310 (0.66) {48.17}
	Est.	64,879 (0.99) {53.45}	129,874 (1.50) {57.34}	141,916 (1.80) {59.84}	68,109 (0.67) {51.83}
	Combined	121,375 (0.97) {100.00}	226,511 (1.47) {100.00}	237,142 (1.26) {100.00}	131,419 (0.67) {100.00}
Rural + Urban	OAE	351,765 (2.22) {63.80}	828,643 (3.90) {73.41}	573,772 (2.34) {70.17}	437,120 (1.79) {72.26}
	Est.	199,618 (1.86) {36.20}	300,120 (2.45) {26.59}	243,865 (2.53) {29.83}	167,784 (1.15) {27.74}
	Combined	551,383 (2.08) {100.00}	1,128,762 (3.37) {100.00}	817,637 (2.40) {100.00}	604,904 (1.55) {100.00}

Values in ‘()’ indicate the percentage share of Assam in the total number of workers employed in the unorganised service sector enterprises in India.

Values in ‘{ }’ indicate the percentage share of workers employed in different types of unorganised enterprises in Assam.

Source: Compiled and calculated by the author from Unorganised Service Sector in India, 2001-02: Salient Features, Report No. 482, NSS 57th Round; Service Sector in India (2006-07): Operational Characteristics of Enterprises, Report No.528, NSS 63rd Round; Key Results of Survey on Unincorporated Non-Agricultural Enterprises (Excluding construction) in India, 2010-11, NSS 67th Round

Assam’s share in the total number of unorganised service sector enterprises in India increased from 2.7% to 3.61% during 2001-02 and 2006-07. During 2010-11, Assam’s share in the total number of unincorporated trading and other service sector enterprises in India were 2.69% and 1.90% respectively. Assam’s share in the total number of rural enterprises in India is higher than that in the urban areas. Noted that, Assam’s share in the total population of India during 2001 and 2011 were 2.60% and 2.57% respectively. Thus, during 2001-02, Assam’s share in the total number of unorganised service sector enterprises in India is almost equal to its share in the population of the nation. During 2006-07, Assam had a larger share in the total number of unorganised service sector enterprises in India relative to its share in the

total number of population. During 2010-11, Assam’s share in the unincorporated trading enterprises of the country was almost equal to its share in the population; while that of other services was significantly lower.

Here, it is imperative to have an idea about the share of different categories of unorganised service sector enterprises in Assam. All the unorganised service sector enterprises can be classified into trading enterprises and other service sector enterprises. NSS 67th round categorised the unincorporated trading enterprises into 4 sub-sectors viz. retail trading, whole sale trading, trade and repairing of motor vehicles and motor cycle, and activities of commission agents. Among different sub-sectors, retail trading has the lion’s share (90.73%) in the total number of trading enterprises; followed by those in

whole sale trading (7.18%). The share of whole sale traders, trade and repair of motor vehicle and motor cycle, and activities of commission agents are significantly higher in the urban areas.

Enterprises in other service sector (other than trading) are categorised into accommodation business, food service activities, land transport, water transport, warehousing and storage, support activities for transport, postal and courier activities, information and communication, financial service activities except insurance and pension funding, other financial service activities, real estate activities, professional, scientific and technical activities, administrative and support service activities, education, human health and social work, and other community, social and professional service activities. Among different sub-sectors, land transport has the largest share (37.40%) in the total number of unorganised service sector enterprises in Assam; followed by the other community, social and professional service activities (19.58%). Only a few numbers of enterprises are dealt in accommodation; warehousing and storage; support activities for transportation, postal and courier activities.

The unorganised enterprises are employer of large number of semi-skilled and unskilled labourers. Literature states that many unorganised enterprises are established by individuals who are unable to have jobs in the organised sector. Thus, the principal objective of establishing many unorganised enterprises is to generate self-employment rather than profit earning. The number of workers employed in the unorganised service sector enterprises in Assam over the years is shown in Table: 2. It shows that the absolute number of workers employed in the unorganised service sector enterprises in Assam is increased over the years. Over the years, Assam's share in the total number of workers employed in the rural unorganised service sector enterprises are higher than that in the urban areas. Compared to other service sector enterprises, trading enterprises in Assam occupies a larger share in the total number of workers employed in the unorganised service sector enterprises in India during 2010-11. By definition, OAEs do not employ any workers on a fairly regular basis; but data indicate that the OAEs have employed more than one worker over the years.

To know the contribution of the unorganised service sector enterprises to the economy of Assam, one should have a clear idea about the contribution of this sector to the State Gross Domestic Product (GSDP). The percentage share of the unorganised service sector enterprises in GSDP of Assam can be understood with the help of Table: 3. It shows that during 2001-02, the unorganised service sector enterprises in Assam were contributing 3.31% to the GSDP of the state; which increased to 4.26% during 2006-07. NSS 63rd round conducted during 2006-07 also included the unorganised enterprises in the financial services, which is one of the causes of increased share of this sector in the GSDP of this state. Higher percentage of the GVA in this sector is generated in the rural areas. During 2010-11, the unincorporated trading enterprises contributed 5.04% to the GSDP of the state; while the other services sector enterprises

contributed 2.36% to the GSDP of the state. Thus, the total share of the unincorporated service sector enterprises in the GSDP of Assam was 7.40%. By definition one segment of the bigger unorganised enterprises (registered under Companies Act, 1956) are excluded from the unincorporated enterprises; so it can be concluded that the actual contribution of the unorganised service sector enterprises to the GSDP of Assam would be higher than this.

TABLE: 3
SHARE OF UNORGANISED SERVICE SECTOR ENTERPRISES IN
THE GROSS STATE DOMESTIC PRODUCT OF ASSAM

	2001-02	2006-07	2010-11	
			Trading Enterprises	Other Services
Combined*	100.00 (3.31)	100.00 (4.26)	100.00 (5.04)	100.00 (2.36)
Rural	73.11	53.52	58.73	69.92
Urban	26.89	46.48	41.27	30.08

*Figures in the bracket indicate the percentage share of unorganised service sector enterprises in the GSDP of Assam.

Source: Compiled and calculated by the author from Unorganised Service Sector in India, 2001-02: Salient Features, Report No. 482, NSS 57th Round; Service Sector in India (2006-07): Economic Characteristics of Enterprises, Report No.529, NSS 63rd Round; Economic Characteristics of Unincorporated Non- Agricultural Enterprises (Excluding construction) in India, 2010-11, Report No. 549, NSS 67th Round & Internet.

Here, it is imperative to have an idea about gross value added (GVA) per service sector enterprises in Assam. It can be seen (refer to Table: 4) that across different categories of unorganised service sector enterprises, the GVA per enterprise is increased between 2001-02 and 2010-11; after a decline during 2006-07. During 2001-02, among the different sub-sectors the GVA per enterprise was highest in the hotel business (Rs.494,967); followed by that in mechanized road transport business. During 2006- 07 the annual GVA per enterprise was highest among the enterprises in the storage and warehousing business (Rs.653,372), followed by those in hotel business. In case of OAE, annual GVA was found to be highest for the enterprises in the mechanized road transport. The enterprises in the urban areas are found to be more productive than those in the rural areas. The GVA per enterprise is lower in Assam compared to that at the all India level.

In case of unorganised service sector enterprises in Assam, the overall productivity of the worker is also increased (please refer to Table:5) between 2001-02 and 2010-11; after a decline during 2006-07. The productivity of workers in the establishment enterprises is higher than that in the OAEs. The GVA per worker is higher in the trading enterprises than that in the other service sector enterprises during 2010-11.

During 2006-07, among the different service activities the annual average GVA per worker was highest in the storage and warehousing business (Rs.88,467), followed by those in the hotel business (Rs.72,102). Among the OAEs, annual GVA per worker is highest for the enterprises in the mechanized road transport activity.

TABLE: 4
ANNUAL GROSS VALUE ADDED (IN RS.) PER ENTERPRISE (At 2010-11 prices)

		2001-02	2006-07	2010-11	
				Trading Enterprises	Other Services
Rural	OAE	41,153	29,367	69,721	53,212
	Est.	131,907	53,938	147,567	115,118
	All	54,376	33,219	77,036	61,188
Urban	OAE	62,148	56,763	96,637	71,950
	Est.	215,002	440,083	325,698	220,062
	All	100,210	156,856	185,215	113,393
Combined	OAE	44,279	33,180	74,177	56,247
	Est.	152,989	144,687	244,948	150,456
	All	61,984	52,478	101,553	71,080

Source: Compiled and calculated by the author from Unorganised Service Sector in India, 2001-02: Salient Features, Report No. 482, NSS 57th Round, Service Sector in India (2006-07): Economic Characteristics of Enterprises, Report No.529, NSS 63rd Round; Economic Characteristics of Unincorporated Non- Agricultural Enterprises (Excluding construction) in India, 2010-11, Report No. 549, NSS 67th Round

In the urban area, the annual average gross value added per worker was highest for the enterprises in the health and social work (Rs.154,030); while in the rural area that was highest among the mechanized road transport activity.

TABLE: 5
ANNUAL GROSS VALUE ADDED (IN RS.) PER WORKER IN UNORGANISED SERVICE SECTOR ENTERPRISES IN ASSAM (AT 2010-11 PRICES)

		2001-02	2006-07	2010-11	
				Trade	Other Services
Rural	OAE	38,785	17,025	56,997	37,611
	Est.	46,464	25,004	58,729	45,130
	All	41,192	18,531	57,302	39,194
Urban	OAE	53,547	40,298	78,752	58,027
	Est.	53,494	82,285	112,294	64,098
	All	53,519	64,356	98,824	61,173
Combined	OAE	41,155	19,740	60,608	40,568
	Est.	48,748	49,770	89,901	52,830
	All	43,905	27,721	69,345	43,969

Source: Compiled and calculated by the author from Unorganised Service Sector in India, 2001-02: Salient Features, Report No. 482, NSS 57th Round, Service Sector in India (2006-07): Economic Characteristics of Enterprises, Report No.529, NSS 63rd Round; Economic Characteristics of Unincorporated Non- Agricultural Enterprises (Excluding construction) in India, 2010-11, Report No. 549, NSS 67th Round

The above discussion clearly shows that the unorganised service sector enterprises have been playing an important role in Assam. However, existing reports and literature states that the enterprises in this sector are facing various problems such as small and fluctuating level of income, lack of skill, use of poor technology and non-accessibility to capital etc. Among these, non-availability of credit is regarded as the most important one; as other problems such as lack of technology or skill formation are also related to availability of adequate amount of credit. This information inspires to have an investigation into the financial access of the unorganised service sector enterprises in Assam; which is done in the next section.

III. FINANCIAL ACCESS OF UNORGANISE SERVICE SECTOR ENTERPRISES

Access to finance is one of the pre-requisite for any enterprises to work smoothly. The World Bank [14] considers financial inclusion or financial access as the availability of financial services to all without any barrier. In other words, financial access indicates timely availability of adequate amount of credit and other financial services to all at affordable cost. In fact, access to finance is a broader concept which includes access to saving, credit and insurance services. But, due to limited scope of this paper, it analyses access to credit only. An entrepreneur needs credit for

different purposes. Debraj Ray [20] classified the purposes of credit into three categories viz capital expenditure, working capital expenditure and consumption expenditure. Capital expenditure is that part of expenditure made to start up new businesses or for large scale expansion of the existing one. Expenditure on working capital includes the ongoing production expenditures like cost of raw materials or wage. An entrepreneur may also borrow for consumption purposes to bridge the gap between consumption period and income receipt period or due to win fall losses in businesses. Existing literature and reports state that larger segment of unorganised service sector enterprises do not have access to credit and other financial services. During 2001-02, in Assam 19% of the unorganised service sector enterprises were suffered from shortage of capital. During 2010-11, in Assam 23.9% of the unincorporated (unorganised) trading enterprises and 14.5% of the unincorporated enterprises in other services reported access to capital is a constraint faced by them.

To understand the problem in a better way, let's have an idea about the outstanding amount of borrowing per unorganised service sector enterprise in Assam (please refer to Table: 6). There is an increase in the average amount of outstanding borrowing per enterprise during 2001-02 and 2006-07. The outstanding amount of loan per enterprise was higher during 2006-07, compared to that in rest of the years.

One of the causes may be that this round of survey included the unorganised enterprises in the financial sector, such as micro-finance institutions, self-help groups, co-operative credit societies and other financial service activities. These institutions borrow funds from different agencies to on lend to their clients. The average amount of loan per establishment enterprise is higher than that of OAE. Again, the average amount of borrowing is higher among the urban enterprises than the rural enterprises. Moreover, the average amount of outstanding borrowing per enterprise at the all India level is higher than that in Assam over the years and across different

categories. The outstanding average amount of loan per trading enterprises is higher than that of other service sector enterprises. During 2010-11, the outstanding amount of loan per enterprise was lower than that of the earlier years. Actually, this round of NSS (unincorporated non-agricultural enterprise survey) excluded some of the larger unorganised enterprises (registered under Companies' Act.1956). As the larger enterprises generally have higher access to credit, the outstanding amount of loan per enterprise is lower in this particular year.

TABLE: 6
OUTSTANDING AMOUNT (IN RS.) OF BORROWING PER ENTERPRISE IN ASSAM (AT 2010-11 PRICES)

		2001-02	2006-07	2010-11	
				Trading Enterprises	Other Services
Rural	OAE	659	1,636	133	496
	Est.	5,276	3,648	2,144	8,250
	All	1,331	1,952	322	1,495
Urban	OAE	1,352	500	947	1,910
	Est.	17,561	349,120	9,242	35,827
	All	5,389	91,532	4,154	11,401
Combined	OAE	762	1,479	268	725
	Est.	8,395	84,839	6,024	17,536
	All	2,005	15,905	1,191	3,372

Source: Compiled and calculated by the author from Unorganised Service Sector in India, 2001-02: Salient Features, Report No. 482, NSS 57th Round; Service Sector in India (2006-07): Economic Characteristics of Enterprises, Report no.529, NSS 63rd Round; Economic Characteristics of Unincorporated Non- Agricultural Enterprises (Excluding construction) in India, 2010-11, Report No. 549, NSS 67th Round

Information about outstanding amount of loan only is not sufficient to understand the financial health of an enterprise. To have a clearer picture, information about fixed asset of the enterprises is also of importance. Because an entrepreneur with higher level of fixed asset have higher credit absorption capacity. Thus, outstanding amount of loan as a percentage of fixed assets of an entrepreneur can give a clearer picture of the financial status of the unorganised enterprises. The outstanding amount of borrowing of an unorganised service

sector enterprise as a percentage of their fixed asset is given in Table: 7. It can be seen that the average debt asset ratio per enterprise is not very high in Assam. In other words, these enterprises have the capacity to borrow higher amount of resources. Again the overall debt asset ratio of the enterprises is lower in Assam relative to that at the all India level. The overall debt asset ratio of the unincorporated enterprises in the other services is relatively higher than that of unincorporated enterprises in the trading services.

TABLE: 7
OUTSTANDING AMOUNT OF LOAN PER ENTERPRISE AS PERCENTAGE OF THEIR FIXED ASSET

Year		Rural			Urban			Rural+ Urban		
		OAE	Est.	All	OAE	Est.	All	OAE	Est.	All
2001-02		0.49	0.39	0.43	0.34	0.43	0.41	0.44	0.41	0.42
2006-07		0.14	0.04	0.09	0.03	2.72	1.98	0.09	1.83	1.22
2010-11	Trading Enterprises	0.01	0.30	0.06	0.10	0.13	0.12	0.06	0.15	0.10
	Other Services	0.26	1.42	0.61	0.09	0.84	0.50	0.19	1.06	0.56

Source: Compiled and calculated by the author from Unorganised Service Sector in India, 2001-02: Salient Features, Report No. 482, NSS 57th Round, Service Sector in India (2006-07): Economic Characteristics of Enterprises, Report No.529, NSS 63rd Round; Economic Characteristics of Unincorporated Non- Agricultural Enterprises (Excluding construction) in India, 2010-11, Report No. 549, NSS 67th Round

From the above analysis, it is clear that the average amount of outstanding loan per unorganised service sector enterprise is lower (lower debt asset ratio) than the potentiality they have to borrow. Here queries arise whether it is due to lack of demand for or supply of credit. It could be partially answered with the help of information regarding the sources of credit. The sources of loan can be broadly divided into institutional and non-institutional sources. The institutional sources include co-operatives, commercial banks, regional rural banks and various governments and semi-government institutions. On the other hands, non-

institutional sources include the indigenous money lenders, traders and merchants, friends and relatives, Self Help Groups etc. Regarding financial inclusion of the unorganised enterprises it is commonly believed that the institutional (formal) sources denied providing loans to those enterprises. As a result, they have to depend on the non-institutional sources, who exploit them by charging higher rates of interest. It is assumed that if an individual is able to have credit from institutional sources he would not move to a non-institutional source. In other words, institutional sources are the first choice of any borrower. Only if he is unable to have

credit from institutional sources he would borrow from the non-institutional sources. Thus, when an entrepreneur borrows from the non-institutional sources one can say that there is demand for credit, but the actual supplier (Formal Financial Institutions) is not in a position to fulfill his demand. The proportion of loan an individual borrow from the non-institutional sources can be termed as the Credit Gap (CG). In other words, CG explains the percentage of demand for credit could not be fulfilled by the existing supply.

The percentage share of different sources in the average amount of loan per enterprise is shown in Table: 8. It shows that larger percentage of outstanding borrowing per unorganised service sector enterprises in Assam is originated from the institutional sources. Among the institutional sources the commercial banks, regional rural banks and the

co-operative credit societies have played the principle role; followed by the central and state government lending institutions. Among the non-institutional sources, friends and relatives have been playing the major role. The share of different sources in the outstanding amount of borrowing is similar both in the rural and urban areas. Business partners have no role as a source of credit among the urban enterprises in Assam. In Assam, the credit gap (CG) is 0.173 i.e. only 17.30% of loans per unorganised service sector enterprise are taken from the non-institutional sources. In Assam credit gap is highest among the rural establishment enterprises and it is lowest among the rural OAEs. The overall credit gap is higher among the rural enterprises compared to that of urban enterprises. Credit gap is higher at the all India level than that in Assam.

TABLE: 8
PERCENTAGE SHARE OF DIFFERENT SOURCES IN THE TOTAL AMOUNT OF OUTSTANDING LOANS PER ENTERPRISE IN ASSAM, 2001-02

		Central & State level lending Institutions, Government	Commercial Banks/ Co-operatives	All Institutional Sources	Money Lenders	Friends & Relatives	Others	All Non-institutional Sources
Rural	OAE	1.52	87.56	91.35	2.58	6.07	0	8.65
	Est.	6.20	63.63	72.61	1.04	20.45	5.96	27.45
	All	4.13	73.78	80.46	1.58	14.35	3.45	19.38
Urban	OAE	23.30	57.91	81.21	0	18.79	0.14	18.93
	Est.	22.52	62.34	86.56	6.10	6.51	0.83	13.44
	All	22.68	61.51	85.58	4.95	8.83	0.71	14.49
Combined	OAE	7.22	79.66	88.71	1.70	9.32	0	11.02
	Est.	14.85	62.92	79.98	3.73	13.05	3.22	20.00
	All	12.37	68.18	82.69	3.14	11.92	2.3	17.36

Source: Calculated by the author from Unorganised Service Sector in India, 2001-02: Salient Features, Report No. 482, NSS 57th Round

In other words, relatively smaller segment of unorganised service sector enterprises in Assam are dependent on the non-institutional sources of credit compared to that at the all India level.

From this analysis, it cannot be concluded that the institutional sources of credit are not interested to provide credit to the unorganised service sector enterprises. Generally, it is argued that the rural and smaller enterprises are the ultimate victim of such behaviour of the institutional sources of credit. But here in case of rural OAEs the credit gap is found to be lowest. At the same time, the amount of loan per enterprise is also lower in Assam compared to that at the all India level. Thus, it seems that probably there is either lack of demand for credit from the unorganised service sector enterprises or the loan taken from non-institutional sources are not reported. The latter may be due to the ignorance of the unorganised entrepreneurs. Again, the former may be the situation, if the entrepreneur is not being ambitious enough regarding the expansion of their business; and happy with their existing status. Another possibility is that the institutional sources are not interested to deal with the unorganised enterprises and the non-institutional sources are also not in a position to fulfill their credit needs.

Existing literature reports that larger segment of the unorganised entrepreneurs are dependent either on non-institutional sources or on their owned funds to finance their business. In general, people from the marginalised section of

the society borrow from the non-institutional sources very frequently; however, the size of the loan taken from non-institutional sources is very small [21]. The same study reports that although only a few individual borrow from institutional sources, the size of loan from these institutions is relatively higher. This is one of the probable reasons why the percentage share of the institutional sources in the total amount of borrowing made by the unorganised entrepreneurs is higher.

IV. CONCLUSION

The above discussion makes it clear that the unorganised service sector enterprises have been playing an important role in Assam both in terms employment creation and income generation. Larger percentage of unorganised enterprises over the years has reported lacking of adequate amount of capital as the constraint faced by them. The average amount of loan taken by the unorganised service sector enterprises in Assam is smaller than that of all India average. But having analysed the share of different sources in the outstanding amount of borrowing per enterprise, it is found that larger percentage of loan is originated from the institutional sources of credit. It contradicts the traditional belief that the formal financial institutions are not interested to provide credit to the unorganised enterprises. One of the probable reasons of this result is that although small and tiny entrepreneurs borrow from the non-institutional sources very frequently, the size of the loan is very small. And although

only a few entrepreneurs have access to credit from institutional sources, the size of loan from these sources is relatively higher. That is why on the average, the share of institutional sources in the total amount of borrowing made by the unorganised entrepreneurs is higher. However, in reality a large segment of unorganised service sector entrepreneurs are dependent on their own funds and borrowings from non-institutional sources to finance their business.

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