PREPARATION OF ADMINISTRATIVE BLOCK LEVEL CLUSTER PLANFOR INVESTING INENTERPRISE DEVELOPMENT AT ROWTA

EXECUTIVE SUMMARY

TITLE OF THE STUDY

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The North Eastern Region of India is located in the southern part of the eastern Himalayas and characterised by abundant natural resources, bi-diversity and cultural diversity. It has 8% of the total land area of the country and 3.7% of the total population. According to recent estimates, an average of 31.88% of the population is below the poverty line and 70% of the population lives in the rural and semi-urban areas. Theregion has strong community organisations and institutions which are adaptable towards organised developmental work. The mainstay of the economy is agriculture; and as the population is growing there is pressure on agricultural land and urban habitation. Floods in the plains and soil erosion in the hill areas are two main environmental problems that have adversely affected the rural economy. However, the region has high potential for producing hydroelectricity along with other major infrastructure required for agribusiness and international trade.

In this unique setting the mission of North Eastern Development Finance Corporation Limited (NEDFi) is to catalyse the economic growth of the northeast by assisting in the efficient formation of fixed assets by investing in commercially viable industry, infrastructure, agro-horticulture, fishery and animal husbandry projects in the region. It also proposes to focus in the economic development of rural areas of northeast India.

As a part of organisational strategy for the region, NEDFi intends to develop a mechanism to invest in Small Enterprise Development through a block level cluster investment plan. The rationale for a administrative block level cluster investment plan is to develop a way for financing small enterprise development in rural areas in order to cover larger geographic areas and target groups. Also to develop plans that facilitate convergence of small enterprise finance and business development services within a specific area with a comparative advantage in terms of specific potential sub-sectors for enterprise development, including forward, backward and horizontal linkages.

There are three main objectives in the process of developing the block level cluster investment plan. Firstly, to develop a cluster plan that links profitable commercial activity to related infrastructure; secondly, to refine existing methodology so that it can produce a quality plan within the shortest possible time; and finally, to develop annual action plan within a long-term perspective plan. The strategy is to use Sub-sector Business Services approach and to incorporate sub-sector analysis methodologies. Then planning small enterprise financing programmes whereby individuals, activity groups, farmers associations and SHGs would be financed mainly through NGOs or Mutually Aided Cooperative Societies as financial intermediaries. Scope of work comprises: sub-sector identification and analysis; key enterprise models and financial analysis; development of cluster level perspective and action plan; that include implementation and M&E plans. A dynamic log-frame is prepared, which shows the vertical and horizontal logic for the goal, purpose, output and input levels for this pilot initiative. This will be revised over time, during implementation.

Rowta Development Block is one of the ten developmental blocks of the newly formed Udalguri District of Assam, with a population of 77,979 covered under 8 *gram panchayats*. Bodos are the majority but there is also a mixed population of other ethnic groups in the locale. Stakeholders of this investment plan for small enterprise development have been classified into primary, secondary, and external: based on the sector theybelong; function and interest; and their importance in the social and economic system as well as their powerover capital.

Climate of Rowta Block is characterised by hot sultry summers with a maximum temperature of 35 degree Celsius and cold winters with temperature a minimum of 10 degree Celsius. The area receives rain during April through October; and there is five months of dry spell starting from the month of November. The soil is sandy loam; and the area in general is rich in bio-mass. Rowta has a rice-based farming system. The farmers grow the major cereals, potatoes, sweet potatoes, pulses, oil seeds, sugarcane, chilli, onion, turmeric, banana, and pineapples. Preliminary assessment shows potato, bamboo and aromatic plants are some of the potential cash crop sub-sectors. Piggery, dairy and goat rearing appear to be potentialsub- sectors in the Livestock and Animal Husbandry sector. Free range poultry is also being practiced in the households. Whilst in the non-farm sector, textile and equipment leasing appear to be promising small enterprise development areas where investments could be made.

Rural Financial landscape of Rowta is composed of formal and informal financial intermediaries. Formal Financial Institutions are commercial banks and rural banks, while informal financial institutions are professional moneylenders, trader moneylenders, and NGOs that provide micro-credit to individuals and Self-help groups. The Formal Financial Institutions had planned a total amount of INR9,29,04,000 for investment in Rowta Block for the financial year 2004-05.

Infrastructure of the District comprises of a net-work of gravelled roads connecting the main roads. The National Highway 52 runs across the block. The district has schools, health centres, Vetinerary Animal Care unit, one Rural Development Block, a bus stand, restaurants, and one industrial training centre run by Tata Tea Limited. There are small industrial units such as brick manufacturing, quarrying, rice milling unitsand tea gardens.

There is a fairly strong base of NGOs in the area that have been institutionalised and capacitated to a certain extent; and this organisational resource needs to be utilised to its full extent. In doing so, the line agencies will demonstrate a greater readiness to involve them as partners as have financial institutions. This will be almost vital for delivering enterprise development service to make finance for development attain its goal. A meaningful collaboration is possible only when agencies involve NGOs in carrying out those activities which NGOs can do better than line agencies, due to their specialised expertise such as social mobilisation, micro-credit, training, group formation, producer association formation, adult education; and their ability to operate flexibly.

A sub-sector analysis has been undertaken and piggery has been identified as the most preferred sub-sector by the primary stake holders followed by diary, weaving, commercial potato, and small rural restaurants. The analysis is based on the following criteria: a) unmet demand; b) potential for employment and growth;
c) agency mandate; and d) potential for increase in income and wealth. In addition tothese potentially attractive sub-sectors pineapple, citrus, banana and aromatic plant cultivation have been offered as viable options to be done in home gardens as income generating activities. A common facility centre and a modern shopping complex are also small enterprises identified for financing in the block. In addition, economic analysis has been undertaken and the internal rate of return (IRR) and the return on investment (ROI) of the potential sub-sectors are calculated. Project accounts are not large and could be aggregated without the use of sophisticated computerised tools. However, farm models for the major enterprises are formulated for the project and appraised. The project period has been taken to be seven years but analysis has been done beyond this period. All calculations are on the basis of prevailing market prices of products or the consumer's willingness to pay during the appraisal period. Prevailing rates of inflation during the appraisal period has been factored in the analysis. A sales tax of 8 percent and a Standard Conversion Factor (SCF) of 0.90 for all input and output have been used for the analysis of the

sub-sectors.

Risk management is one aspect that has been identified by the stake holders to be of importance for the success of the project. Risks are categorised as management risk, technical risk, financial and price risks. Management risk would be initially reduced bythe Project Steering Committee (PSC) with the support of NGOs and Line agencies. Likewise, the other three risks would be reduced and managed by the PSC by providing effective Business Development Services and information on price and markets. Apart from this the PSC under the Bodo Land Territorial Council (BTC) would undertake the development of the common facility centre by supporting the PSC to initiate the processof construction of the Common Facility Centre. This committee will be responsible for preparing leasing arrangement of space to entrepreneurs within the premises of the facility and providing equipment and technical support for operating the facility.

The project implementation is phased out by taking 22 villages in the first year from all the eight gram panchayats, and then 31 villages in the second and 18 villages in the third year. The pilot project will establish a total of 539 micro and small enterprises by the sixth year over the total project period of seven years. And invest a total of INR3.39 crores by the sixth year. In the first year INR114.5 lakhs would be invested followed by INR59.77 lakhs, INR77.29 lakhs, INR34.65 lakhs, INR18.67 lakhs, and INR35.00 lakhsin the second, third, fourth, fifth, and the sixth year respectively. A total of 602 jobs would be directly created by the project; and a larger portion of these jobs would be created within the first three years of the project period.

Investment funds would flow from BTC through NGOs to micro enterprises; and directly to small and medium enterprise from NEDFi; and in both cases the BTC would stand as aguarantor. It is also envisaged that a guarantee fund would be created by the BTC which would be done in conjunction with the formation of the Project Steering Committee.

Steps for preparing the village level plans are as follows: a) needs would be listed and prioritised during village annual meeting; b) village plans would be reviewed, priorities would be ranked based on available resources at the disposal of various service providers and the community; c) annual planning meeting would be held for not more than 3 days and chaired by the district planning officer along with BTC representatives and stakeholder representatives, and a district level AWPB would be developed; and e) the NGOs would get approval from the BTC the portion of the plan they would have to implement with credit from NEDFi and grant component from the BTC and other donors.

The training cost estimates are done on the basis of the following planned programmes: a)project orientation; b) annual workshops; c) half-yearly review; d) non-residential workshop costs for Government officials; e) non-residential work shop costs for NGO staff, Extension Staff and Community level Extension Workers (voluntary workers); f) specialist training for Government line departments; and g) farmer workshop costs.

Monitoring and evaluation of the pilot project would be the joint responsibility of NEDFi and BTC. The capacity of the M& E cell formed under the auspicious of the BTC would be built by NEDFi. Monitoring would be done by the cell in collaboration with NEDFi. The monitoring and evaluation system would be set up and concurrent evaluation would be undertaken along with the production of monthly, biannual and annual project progress and status reports. Additionally the cell would facilitate the preparation ofannual financial and audit reports. This cell would build the capacity of the NGOs in participatory monitoring and evaluation (self-monitoring by SHGs and Producer associations) and plan preparation at the community level. Monitoring indicators have been developed for monitoring the functioning of NGOs, small enterprise, self-help groups, solidarity groups as well as indicators for monitoring sub-sector development progress. Impact evaluation would be carried out and the indicators for developing evaluation survey questionnaire to assess impact of the project have been prepared.

Initial policy initiatives for refining the old or forming new policies for small enterprise development, couldtake shape in various forms. The underlying policies of the project are: strengthening the NGO sector in their commercial role over and above their social development role; increasing the awareness of the target group; supporting and strengthening the participatory process of identifying and prioritizing the needs of the primary stakeholders; facilitation for the formation of sustainable groups of rural entrepreneurs; assistance in market linkage and service provision; utilisation of their resources available at the block, district and village levels with the government, local communities, NGOs and the private sector; and augmenting the inter-agency and inter- sector coordination at the local level.

The government policy toward NGOs is quite positive; encouraging their wider involvement at the grass- roots level to complement the roles of line agencies. Although line agencies do not make provision in their annual budgets for activities to be carried out in collaboration with NGOs, they however coordinate activities with these NGOs in areas of mutual interest. However, the actions of NGOs are quite independent to those of the line agencies. The pilot project will provide credit to the eligible target group membersfor income generation activities that include options in on-farm and off-farm and value- adding enterprises. The extension and skills training component will enhance the capability of the beneficiaries in better identifying their needs and options to participate in the programmes, and in obtaining the required assistance from different line agencies, NGOs and private sector entities.

Given the diverse ethno-cultural setting of the block and the District as a whole, some ethnic groups such as the Bodos and Nepalies tend to be more forthcoming in learning about existing programmes of the government and seeking assistance. However there are other communities such as the tea-tribes and casts tend to know less about new opportunities, even if they know, tend to remain indifferent or even averse to such new opportunities. Coming to the poorer section of the community, they remain poor because as such we have failed to provide the critical information required for enabling them to better their economic and social well-being. In Rowta particularly, most of them possess the skill, and some carry the potential to enhance their skills which would provide them with better options for self-employment; and work for others who are better off. But due to their lack of awareness and marginalisation from the mainstream of developmental activities, they have missed out on new opportunities and have remained poor. If this situation prevails then they will become a burden on the rich and those who are well off. As a result, the future net gain from economic development in the society would be less than what it is today. Group formation and associations are important institutional structures that enhance the value of already existing social capital in the villages and creates an enabling environment for poor to have access to economic opportunities and take part in the overall development process. The project intends to assist the poor to participate on a voluntary basis in small activity groups with their own initiative and desire to be involved in the project activities that they themselves have chosen to participate.

In North Eastern Region the crucial bottleneck to production and income generation potential of communities in the rural areas is marketing. The markets are usually small, locally oriented, with a narrow base and low purchasing power of the local people. Often they fail to realise remunerative prices as a result of low level of market knowledge and information in terms of trends and patterns of price and demand. Asides addressing some of these problems, policy needs to be more focussed towards the development of an area or region for its comparative advantage for local, domestic and export markets. It would be desirable to have policy orientation towards tailoring changes in legal aspects of marketing, establishment of infrastructure and investment in technological backstopping in terms of applied research and development (particularly in low cost packaging, improving the durability of products etc.) that are tailored to different demand patterns, quality, and value chains.

A District Developmental Forum could be formed where business and commercial ideas would incubate and take shape through the support and guidance of government agencies. For NEDFi to strengthen its current initiative in finance for development in the rural areas of north east India, it could explore the possibilities of a technical cooperation tie- up in the area of livestock development and capacity building in agribusiness with competent agencies for developing the NGO sector with government support. Rural non- farm enterprise market development, technology transfer, and market linkage with western part of India and the neighbouring countries of north east India needs to be thrashed out with organisations in the north east with similar goals under the leadership of the North Eastern Development Finance Corporation Limited. So that actions plan for convergence of resources for small enterprise development could be prepared for theentire North Eastern Region of India.