



MICRO ENTERPRISES CAN PLAY A CRUCIAL ROLE IN ALLEVIATION OF RURAL POVERTY

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Abstract

Helping the poor escape poverty is easier by way of investing in the entrepreneurial spirit of the poor themselves, providing them with the tools to participate in the marketplace and work their way to a better life. The issue of poverty can be addressed either through Social Programmes or enabling participation of affected persons in economic activity. Social Programmes or agenda include doling out money, fully subsidizing education, creating awareness or even programmes like 'food Security', etc. while 'social agenda' would certainly address the problem, but only the immediate one, the long term solution remains elusive. Therefore, enabling poverty afflicted persons to establish an income generating activity can have a long term outcome. Acting on such belief, several countries have instituted specific programmes to promote enterprise development as a solution to the problem of poverty, which have yielded some results, but still have a long way to go before poverty is fully eradicated. In our country, several programmes such as, Prime Minister's Rojgar Yojna, Swarna Jayanti Gram/Sahri Rojgar Yojna, National Programme for Rural Industrialization, Rural Employment Generation Programme, Swayamsidha have facilitated establishment of micro enterprises. Consequently, today India has 44.35 million enterprises (according to NSSO data) employing almost 80 million workers. The challenge is to use this talent pool to further consolidate the achievement in poverty alleviation. More than 25 million enterprises could be supported, promoted to ensure their long-term survival and ultimately bring them into the mainstream of the economy if appropriate policies and procedures are set in place. The present paper tries to explore the challenges which the micro enterprises face and the best approach and principles which may be adopted to overcome these challenges and to ensure that micro enterprises lead to their expected outcome of poverty reduction.



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Introduction

Since independence unemployment and poverty have been two major challenges before India. Several efforts in the form of self employment programmes have been made to fight these two challenges. All self employment programmes do not lead to microenterprise development. But, one of the important variant of self employment programme is microenterprise development.

The term 'Micro-enterprises' refers to small businesses owned by poor individual or group of poor people for which they have received the support of sponsoring organizations (Midgley 2008). Micro-Enterprise refers to any economic unit engaged in the production and distribution of goods and services at household level. It is primarily of self-employed nature, employing him/her in the enterprise and sometimes some family members. The enterprise runs on little amount of capital investment at a fixed market centre or mobile business locations.

Micro enterprise development is a strategy to provide employment to the poor and provide an opportunity to the poor to overcome poverty. Micro-enterprise development to address poverty has been an important strategy in India. Further, in recent years, with the growth and importance of microfinance as a strategy to address poverty, micro enterprise development has assumed added significance. In India, where almost 92 percent of the total workforce is in the informal sector, micro enterprise is the main source of livelihood for many. A report on the condition of work and promotion of livelihood in the unorganized sector (Sengupta, 2007) reveals that close to 57 % of the Indian labour force works as self employed. Though, self employed includes a wide range of occupations including occupations such as doctors, lawyers and other professionals, the large section of the self employed in India are engaged in menial jobs in very low scale enterprises (Sengupta, 2007).

Micro economic enterprises play a vital role in poverty reduction in both rural and urban areas, and reinforce urban-rural linkages for economic and social development. The linkages are essential not only for utilization of local resources but also in acting as agents for the flow of goods and services between urban and rural areas. Their roles are important since they possess the features like self employment generation, employment to poor and women, use of local resources, meeting basic needs of the poor, traditional enterprise/skill and craftsmanship, self satisfaction on the job, entrepreneurship and innovative (skill learned through apprenticeship method), and fair income distribution among the poor.

Micro enterprises (MEs) are thus considered to be an important vehicle for the economic development of our country. If the pace of economic development is to accelerate, India has to promote and develop technically and economically viable micro enterprises. Government agencies, NGOs and INGOs should be substantially involved in promoting micro-enterprises with a view to developing human resources whose contribution can play a vital role in the national economy. They can help modernize the economy and bring regional balance in development scenario in the country. Further, they are essential not only for the utilization of

local resources, but also for acting as agents for the flows of goods and services. The less developed the economy the more significant is the MEs contribution.

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Challenges for success of Micro Enterprises for growth in rural economy

Poverty is one of the major problems in India, especially the rural India is trapped in vicious circle of poverty. The country has adopted different approaches to alleviate poverty. Rural development efforts until the early 1980s were mainly based on applying a "trickle down" approach to development, meaning focusing efforts on certain polarisation centres hoping that these would then be adopted and replicated to the rest of the country. Poverty in the country is due to low opportunity for employment, insufficient education, low skill and lack of appropriate technology for utilizing resources. The main goal of development efforts should be to create employment at a wider scale and for every individual. Micro-enterprises are one of the crucial sources of employment.

Micro-enterprises are often owned or controlled by a single entrepreneur or by family member. The most important challenge is how to promote indigenous enterprises, which are in many cases not productive and cost effective, though they are environment friendly. They lack skills, capitals, credit and others to adapt to new enterprising concept. Further, access to market for most of the products of traditional micro enterprises is a problem.

Despite a large scale promotion of micro enterprises as an important tool in poverty alleviation programmes, there have been some shortcomings:

- **Lack of beneficiary participation:** Too little attention has been given to strengthening the negotiation capacities of the rural populations. Programmes were often designed in a top down approach within which beneficiaries were not given any authority for decision making or program execution.
- **Little attention has been given to local level institution and capacity building.** Programme co-ordinating units were usually staffed by expatriates and relied almost exclusively on central or regional government line agency's support. The development of

local and district level institutional capacities was neglected or even undermined, locally available and location specific knowledge was mostly neglected.

- **Rice-Poor Divide:** The belief in the superiority of large farmers in economic terms and the assumption, at the same time, that smallholders were technologically backward and inefficient producers, which led to disproportionate distribution of support, leaving the real needy persons behind and untouched. There has been a lack of attention to the importance of customary rights and the participation of local communities in regulating access to land and the management of natural resource use.
- **Excessive emphasis was given to sectoral approaches** which tended to neglect the important linkage between the rural farm sector and the non-farm sector, which is particularly important with regard to income diversification strategies.
- **Not enough attention has been given to women farmers and workers.** Despite the fact that women play an equally important role in agriculture and household income earning strategies as men do the design of agricultural and rural development strategies and the design of support services and credit programmes focused for decades on men exclusively.

Approach to rural development and poverty alleviation through micro enterprises

While there are no generic blue prints for poverty alleviation and rural development, some broad principles that can be looked into for future work:

- **Enabling Policy:** The strategy for success of micro enterprises for rural development and poverty alleviation requires an enabling policy environment. Without a policy and legal environment that encourages the participation of all segments of rural people there is little chance for success. Policies must become more responsive to the needs of the poor.
- **Assets Management:** Rural development programmes for successful micro enterprises need to focus on mechanisms that increase households' access to and control over assets of physical, economic and social nature. There exists a wide array of assets which serve this purpose: the primary assets land and water; other productive assets such as tools, animals and machinery; human capital, including health education skills; social capital such as membership to kinship or other groups where social collateral can be used to access loans, membership to co-operatives and credit unions which improves economies of scale.
- **Developing Social Capital:** Much emphasis has been paid in development literature to the importance of capital: natural, man-made, and human capital. Little attention has been

given to its 4th dimension: social capital. Social capital refers to the social cohesion, common identification with the forms of governance, cultural expression and social behaviour that makes society more cohesive and more than a sum of individuals - in short, to the social order that promotes a conducive environment for development of enterprises and collective working. It is seen as a sine qua non for promoting community participation and self-reliant development. Social capital manifests itself in a location-specific set of institutions and organisations, with both horizontal as well vertical mechanisms of interaction, collaboration and networking.

- **Improved performance of Participatory Institutions like SHGs:** In its broadest sense is a process which mobilises locally co-ordinated collaborative action of small groups of rural (poor) populations and establishes collaborative linkages between these groups and other local and higher level institutions. Since the poor generally lack economic and physical capital, focusing on strengthening their social capital makes sense as it is a prerequisite for achieving sustainable collective action and useful in acquiring all other forms of capital. This focus implies the strengthening local populations to better plan, manage and monitor their access to assets.
- **Providing access to micro-finance:** This is considered a precondition for poverty alleviation. In order to function, self-help groups require a basic enabling environment such as a stable social structure and a functioning basic welfare system offering a minimum standard of quality. The presence of these two factors is a prerequisite for self-help activities; they cannot be expected to develop as a consequence of self-help in socio-economic welfare. Self-help groups can help to achieve some degree of synergy between welfare providers and users when the prerequisites mentioned above are met. The micro-enterprise concept should be coordinated with the SHG lending system so those people who have been deprived of credit, could have their fair share of credit. SHGs can play an important role for solving social problems, in promoting education, in generating employment, in meeting credit requirements, in bringing about people's involvement in solving their problems and in bringing about knowledge revolution in every country as well as in Iran.

Applying Five Principles of Work for Better Productivity

There are strong similarities between decent work and poverty reduction. Both emphasize that people's well-being is based both on the income derived from productive employment and social security, and on the rights and influence they exercise through representation and

dialogue. The four pillars of decent work may be applied in the context of SHGs and rural participatory institutions working as micro enterprises.

- **Rights at work:** Along with physical aspects, poverty also stems from powerlessness and vulnerability. These aspects can be overcome, in part, through respect for rights at work. These include a range of labour standards that are now accepted internationally. They include the right to associate and bargain, the right to be free from gender, racial and other forms of discrimination, the right to a safe and healthy work environment, etc. For micro and small enterprises, additional rights are needed to safeguard legitimate business activity. These include basic property rights, the right to conduct business in an environment that is free from harassment, administrative barriers, corrupt practices and the illegal seizure of property by public officials. To secure rights, entrepreneurs and workers need access to a sound judicial system.
- **Productive, remunerative engagement:** Poverty can be reduced through the development of productive enterprises that provide an adequate income for entrepreneurs and workers. Low productivity, a characteristic of many micro and small enterprises, limits wages and income and reduces the overall viability of an enterprise. Success in raising productivity and competitiveness can sustain livelihoods, help to raise wages and lead to job creation for the unemployed.
- **Social Equity:** Women constitute another group that can be particularly affected by poverty. They constitute the majority of the 1.3 billion people living on \$1 per day. Empirical evidence suggests that poverty especially affects female-headed households where women find it difficult both to raise children and generate an income. Generally, lower school attainment and cultural barriers limit women's ability to obtain well-paid employment or to generate income from enterprises in the formal or informal economy. Accessing credit and securing premises for rental or freehold business space may pose particular problems for female entrepreneurs. Women often earn less in the informal economy than men and they may be forced to balance income-generating activities with child-care and housework.
- **Social protection:** Systems of social protection address the vulnerability aspects of poverty and tend to do so by supporting incomes. A key aspect in this regard is the provision of social security, which can take public, private or semi-private forms. These include state security and insurance programmes for the protection both of workers and owner/operators. It can also involve supporting the establishment and expansion of

private and association-based schemes for insurance against health, injury, unemployment, death and old age. The associations involved can represent either workers or enterprise owners in organizing social security.

- **Social dialogue:** As poverty is partly based on the lack of an effective voice, social dialogue can help to improve the situation of the poor. The micro and small enterprise economy often lacks representation in two ways: enterprises have a weak or no voice in business associations dominated by larger enterprises; and, labour (including dependent workers) are usually un-represented. Social dialogue, based on effective and democratic member-based associations, can allow micro and small enterprises to dialogue with the government on policy and programmes that are needed to support their development.

Conclusion:

Any development initiative needs to be people friendly, area relevant and supplementing to the main stream livelihood activity. Micro enterprises make a positive contribution to poverty reduction as they provide employment and low-cost goods and services used by the poor.

The poor often lack adequate employment. Those who start small enterprises create employment and generate income for themselves and those they hire. The informal and formal small enterprise economy is the main non-agricultural employer in most countries.

The poor may work but the income, benefits, rights and social security related to their employment is often not adequate to lift them from poverty. They are the working poor and many of them work in the informal economy. Improvements in job quality are needed so that that their work can reach an acceptable level of decency.

The poor benefit when enterprises, operating in competitive markets, produce basic goods (food, clothing, etc.) at low cost, thereby keeping down the cost of living. The same principle applies to services. In many cases, small enterprises provide basic services such as water, sanitation and education that are not provided by the public sector. Given the public good nature of many of these services, the small enterprise sector can often work in collaboration with the public sector through franchising, sub-contracting, out-sourcing and other forms of private-public partnerships.

Entrepreneurship is the creative act of spotting a market demand and marshalling the factors of production in an efficient manner to meet that demand. It leads to investment and job creation. For the poor, their entrepreneurial skill is often one of the few resources they have with which to earn a living. Entrepreneurship will flourish when government removes barriers to business start-up, investment and exchange and when they provide an incentive-based structure of taxation and regulation that rewards initiative and calculated risk-taking.

To compete, enterprises must be efficient. Increases in productivity will not only allow a firm to thrive but can translate into higher wages and benefits for workers through a process of gain-sharing. Productivity is increased through better working conditions, constructive labour relations and increased market access, as well as through mechanisation and technological advance.

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