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Small and Micro Enterprises: A tool in the fight against poverty

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Synopsis

The present paper makes an attempt to analyze the role and contribution that Small and Micro Enterprises (SMEs) could play in eradicating poverty and attaining Millennium Development Goals. International approach to poverty eradication is largely based upon poverty eradication through economic empowerment, besides social programmes. It is well-accepted fact that poverty removal and employment generation largely depends upon economic empowerment.

Eradication of poverty is a complex issue as the development of SME itself and requires multi-pronged strategy and actions involving both macro and micro policy initiatives. MSMEs have been identified as a high potential sector for employment generation and provision of livelihood to millions of people in several countries. This is echoed by specific programmes instituted by agencies such as International Labour Organisation (ILO) and United States Agency for International Development (USAID), UNCTAD etc.

The paper attempts to analyze the experiences of some countries in addressing the issue of poverty and suggest measures that can be taken by India to enhance contribution of SMEs to poverty

Understanding poverty

The term 'poverty' today does not mean mere 'income-poverty'(which continues to be an important one), but encompasses several social dimensions which include lack of access to education, health services, hygienic conditions, skills, interest in work, and dependency. Therefore, the Office of United Nations High Commissioner for Human Rights defined poverty as "a human condition characterized by the sustained or chronic deprivation of the resources, capabilities, choices, security and power

necessary for the enjoyment of an adequate standard of living and other civil, cultural, economic, political and social rights."¹

Viewed from this angle, a vast majority of least developing countries (LDCs)² and as some developing countries in Asia too can be bracketed in to the category poverty afflicted nations.

Why poverty?

Several factors are responsible for this situation, while some are internal and external to a nation. The former consist of lower economic growth rate, population growth, lack of finances to fund various development programmes, inadequate opportunities and facilities, poor infrastructure and so on.

The liberalization and globalisation of economies that is taking place around the world has only acerbated the problem in most LDCs and developing countries. The curtailment of budgetary provisions for social sector projects – a fall out of the new economic order - has restricted the government from reaching different programmes to masses. The World Trade Organisation (WTO) induced new trade and investment regime had its own adverse impact on general employment opportunities and wage levels as well. Unable to withstand the competition thrown open by the new economic system, several enterprises in developing countries pulled down their shutters. In addition, with a view to improving the competitiveness of their products and services, entrepreneurs are replacing manpower by capital intensive technology and automations of production process. Such developments are only increase in the pockets of unemployed persons with a very little purchasing power.

No doubt, the new economic environment also has opened up opportunities for new business such as business process outsourcing and forging linkages with larger enterprises. But the problem is that most LDCs neither have requisite trained manpower nor facilities to impart the required skills among its people. Besides they lack a proper business environment to attract foreign investment and promote private sector investment in the country.

¹ More on UNHCHR definition of poverty can be accessed at <http://www.unhchr.ch/development/poverty-02.html>

² United Nations Conference on Trade and Development identified that on the basis of "GDP per capita, their weak human assets and their high degree of economic vulnerability.

There exist a plenty of research studies, material, definitions and approaches to poverty. There are very comprehensive discussions and studies on what constitutes poverty and different approaches to poverty reduction. Poverty, we understand, in this context relates to lack of opportunities for livelihood.

Can poverty be fought by aid and assistance?

Can poverty be fought out by aid, assistance and charitable interventions alone? Aid and assistance have proved to create dependency rather than welfare or development. Aid and Development and theory of dependency have already debated at length the implications of Aid for nations at large. Aid, rehabilitation assistance and such assistance through charitable agencies, seems like making people more dependable to donors and make them liable for the nation.

Then what could address the issue? It is only those who face poverty can address the issue. *Solution to poverty lies in empowering and enabling the poor to take on the situation.* Core to the approach here, rely on, creating opportunities for people to be part of market. When a poor hardworking family, face with a survival challenge due to lack of livelihood and some consistent opportunity to earn their living would often turn as an entrepreneur in different ways.

An enterprise emerges out of necessity. Those enterprises at the bottom, micro and tiny establishments, which are rural based, millions and millions of them emerge out of necessity. Given a chance and resources, he/she might engage in animal husbandry, cow farming or chicken rearing and sell eggs, vegetables and other items. This is just an example.

These enterprises are in the informal sector. They might be called as Poverty Alleviating Enterprises (PAEs) rather than addressing them as micro enterprises. Their status is below those enterprises that can be called informal, micro or any other. Those PAEs cater to their immediate neighborhood market. They have no access to bank loans and no financial institutions come forward to help them. They are almost like “untouchables” to be dealt at institutional level. They do not keep accounts, and if at all they, it would be combined of both the family’s day to day expenditure accounts and their little enterprises. Most of them are non-literates and have only minimum required numeric skills. They have very little or no savings. Any ill health or an emergency situation would endanger or put their livelihood into danger.

Long term development strategy for an equitable and poverty-less, welfare state is promoting SMEs. In the long run, rural enterprises have to grow as small and then as medium. Those PAEs have to face several challenges. Authorities are still not friendly. For them economic reforms or no reforms mean nothing. They were there in the pre and post reform era. They pay bribes, pay high interest rates, gets no subsidy and left to the mercy of street smartness.

The big challenge before the reforms is to address the difference between those in formal sector and these informal.

The following sections attempt to address the issue of poverty through enhancing poor people's participation in the market as entrepreneurs and include aspects such as :

- advantages of economic participation or private sector approach vis-à-vis, the social agenda approach;
- What are the international experience in this context;
- some of the best international practices
- Indian experience and
- a road map for future interventions.

Economic participation or private sector approach vis-à-vis the social agenda approach

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 for work' or community feeding 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. This however, does not mean that social aspects of poverty should not be addressed. The advantages of economic participation approach over that of social approach is as under:

- **Job creation:** It has tremendous job creation potential. In a country like India where majority of people living in villages, promotion and facilitating setting up of enterprises with mass employment potential would create job opportunities, even self employment. It is a common knowledge that 'informal sector enterprises' employs over

90 percent of the world population. In India, 90 percent of workforce is employed in the informal sector, with bulk in the unorganized non-agricultural sector and other enterprises at the bottom of the pyramid especially PAEs.³

- **Labor intensive:** Informal sector is labour intensive. They exist and survive in each of our neighborhood, catering to local market needs using labour intensive technologies.
- **Reliability:** Since enterprises cater to local markets and entrepreneur live in the neighborhood, they can be reached out unlike large enterprise located elsewhere operating through their representative. In the case of PAEs, one could directly be in link with the entrepreneur. PAEs emerge out of personal necessities and hardships and have to perform to earn a living.
- **Economic independence:** It promotes economic independence. The entrepreneur (s) and the family (ies) would be out of poverty and meet their daily necessities. Their children can be sent to school, spend money for good food and health and other necessitates. This would make them economically independent.
- **Utilisation of local resources and employment of local skills:** Developing countries, especially India, have huge untapped resources in several areas. The challenge of macro economic management is to employ all the resources and allocate them in the fairest manner possible. As Gandhi said there are enough resources for all people's needs but not for greed. If this Gandhian dream has to become a reality, that is, tapping of untapped resources in a sustainable manner to cater to everyone's needs, SMEs and micro enterprises is the only solution. The SME start-ups like PAEs should have the environment to grow to micro, small and to medium.
- **Income generation:** Economic participation helps generate income and help millions of families live without hunger and malnutrition.
- **Becoming part of market process:** Income generating activities enable beneficiaries to become part of the economic system, though through unorganized sector. They also help in raising the confidence level and improve the overall attitude of the people. With wider

³ This is based on NSSO data.

ownership spread of small and Micro enterprises (SMEs) the rural poor – including the most marginalized and vulnerable strata such as rural women, youth, and the landless – get an opportunity to diversify their incomes, create new sources of economic growth and generate additional employment in rural areas.

- **Empowerment:** Increased purchasing power would enable entrepreneurs to attain new skills, provide education to their children. It empowers them to bargain for market access, more participation enable them to acquire property. Property-less class would get transformed as propertied through acquiring land and capital.
- **Equity and Social Justice:** Mass ownership structure would transform the economy towards an egalitarian economic system with social justice. More people would share total income. As this happens, chances for people, people's purchasing power goes up and this would result in equitable re-distribution of nation's wealth and reduced poverty.
- **Strengthen democracy:** Learning to run enterprises would give confidence to the poor to take part in the political process as well and to the economic policy making beginning from the local government level at village Panchayat to the national level. Increased participation of grass-roots entrepreneurs would result in the reflection of concerns of poor in the national economic and social policy and targeting poverty with a focus on human development of the poor.
- **Less Social tensions:** Poverty and lack of engagement make people vulnerable to crime, terrorism and lead to social tensions. SMEs would enable people to engage themselves in an economic activity and dissuade people to be party to criminality and criminal enterprises.

International perceptions and experiences

Though eradication of poverty - a complex issue - requires multi-pronged strategy and actions involving both macro and micro policy initiatives on different fronts, it has been recognised the world over that one of the approaches to reduce poverty is the development of SMEs, which generate income for the self and employment opportunities. It is well known fact that micro enterprises generally account for bulk of the total

enterprise population, irrespective of the level of development of a country. For example, in most OECD countries SMEs account for almost 95 per cent of the total enterprise population.⁴

“In many countries, especially those in Africa and Asia, the micro enterprise sector constitutes the majority of the working population. A few statistics illustrate the key role that micro and small firms play in generating overall employment:

- Firms of five or fewer employees account for half of the non-farm workforce in Latin America and two-thirds of the non-farm workforce in Africa.
- Informal sector firms generate three out of every four new, non-farm jobs in Thailand and half of all new jobs in Indonesia.
- In Indonesia, firms with five or fewer employees account for almost half of total manufacturing employment while small firms account for an additional 18 percent.”⁵

SMEs as a long term solution

SMEs have been identified as a high potential sector for employment generation and provision of livelihood to millions of people in African countries like Swaziland, Malawi, Kenya, Tanzania and Ethiopia; in South East Asian nations like Bangladesh, Sri Lanka; Caribbean and in Latin American countries.

Even international organisations such as International Labour Organisation (ILO) UNCTAD and United States Agency for International Development (USAID) have recognised the positive role SMEs can play in addressing the issue of poverty. ILO declared “fight against poverty” has its “central element of its agenda.” Its Small Enterprise Development Programme (SEED) initiatives help countries combat poverty.⁶

UNCTAD also talks about the positive link between entrepreneurial development and poverty reduction when it calls for developing ‘productive

⁴ Lukas E, The Economic Role Of Smes In World Economy, Especially In Europe, <http://www.uni-miskolc.hu/uni/res/kozlemanyek/2005/pdf/lukacs.doc>

⁵The Role of Micro Enterprise Assistance in U.S. Development Policy, By Emmy Simmons, Assistant Administrator, Bureau for Economic Growth, Agriculture and Trade, U.S. Agency for International Development

⁶ The International Labor Conference validated this idea in 1998 by adopting Recommendation No. 189 on "Job Creation in Small and Medium-sized Enterprises". This offers a vision of a vibrant, job-creating, poverty-fighting small enterprise sector. <http://www.ilo.org/ilolex/cgi-lex/convde.pl?R189>

capacities'.⁷ U.S. Government is of the conviction that the growth and development of micro enterprises could help reduce poverty “the micro enterprise innovation project” (MIP) of USAID is “to provide” micro entrepreneur particularly women and the very poor with greater and more reliable access to financial and non financial services needed to improve enterprise performance and household income.”⁸

Current international thinking is in tune with SMEs as a tool to fight poverty in the long run and in the short run PAEs or the enterprises at the bottom of the enterprise pyramid. UNIDO approach to this is worth mentioning here:

“poverty reduction is simply not going to happen by government fiat but only through private sector dynamism”. The evidence directly linking SMEs and poverty reduction is considerably less robust than that linking them to economic vitality, even in the most developed economies. There are suggestions of greater employment opportunities for poor, low skilled workers, increased skills development, and broader social impacts. The movement to support SME development internationally reflects a return to promoting poverty reduction by investing in private sector-driven strategies by all of the major multilateral agencies. Poverty Reduction Strategies (PRSs) currently being formulated in many developing countries places a more pronounced emphasis on the contribution that the private sector will have to make – compared to the over-reliance on the social agenda that characterized earlier PRSs⁹

Apart from international organisations and agencies in the UN system, several international NGOs like World Vision, Oxfam, IFAD, Heifer International have some of the meaningful and effective programs on micro enterprise development. For example Heifer international as well as World Vision focuses much of their attention to reach the poorest of the poor and addressing poverty through women run livestock enterprises in several African, Latin American and Asian countries.¹⁰ World Vision has Micro

⁷ The Least Developed Countries Report 2006, Overview by the Secretary General of UNCTAD.

⁸ <http://www.usaid.gov>

⁹ Wilfried Luetkenhorst, Chief of Cabinet and Director of the Bureau for Organizational Strategy and Learning, UNIDO, Statement at ECOSOC High-level Segment Roundtable on “Poverty eradication – making it happen” 4 July 2007, Geneva .<
<http://www.un.org/ecosoc/docs/stats/UNIDO.pdf>>

¹⁰ Heifer strategy lies in fighting poverty and hunger through livestock enterprises. They gift a cow/goat or chickens etc to poor people and the recipients have to multiply the receipts over a period of time. Two goats into four or from two cows to three or four and share additions to another poor family and to extend the chain. Heifer calls it making the recipient a donor. More on this from <http://www.heifer.org>

Enterprise Development program to fight poverty. World Vision says 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.¹¹ Similarly Oxfam, Action Aid, CASA also have micro enterprise development programs.

Best practices and policies in other countries

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. Listed below are some such examples.

- **Egypt:** instituted a socially oriented 'The Productive Families Project' (PFP) way back in 1964 to "develop economic resources for the Egyptian family through mobilising the potentialities of its members by engaging them in profitable environmental home industries to ameliorate their living standards and help them face socio-economic hardships."

Social Fund for Development (SFD) finances small enterprises which are believed to have been helping mitigate poverty and reduce unemployment by providing new job opportunities. Other similar programmes include the Mubarak Social Solidarity Programme of the Ministry of Insurance and Social Affairs which "aims at higher rates of human development by mobilising productive potentials through income generating projects"; and banks providing loans to poor handicapped persons to operate their own income generating projects.¹²

- **China:** Recognising the positive role of small business in reducing poverty by generating sustainable employment opportunities for the poor, China accords priority for the development of private sector, including small businesses in its plans. It has also introduced subsidized credit for micro enterprises.

¹¹ World Vision is involved in micro credit, micro enterprise development and thereby poverty reduction in several Afro-Asian Countries. For more see www.worldvision.org/worldvision/appeals.nsf/stable/med_home

¹² Egypt: A Poverty Profile - Presentation made by Professor Mahassen Mostafa Hassanin, National NGO Commission for Population and Development at the ICSW Civil Society Forum on Poverty February 11, 1999, New York.

- **Congo** has a unique program linking poverty, livelihood and natural resource management, Central African Forests and Poverty Alleviation Programme (CAFPAP). Its prime objective is to improve local livelihoods through sustainable management and use of natural resources in Congo in the Central Africa and aims at poverty alleviation¹³. Here the approach of linking livelihood and natural resources management is worth mentioning and a case that is relevant in the Indian context.
- **Nigeria:** Among the structures put in place for poverty alleviation are the National Directorate of Employment (NDE) with responsibility for fighting unemployment through provision of opportunity for self employment for school leavers; Peoples Bank, National Economic Reconstruction Funds (NERFUND) and Community Banks with provision of capital for funding small businesses without stringent collateral requirements.
- **Ethiopia's'** Grass Roots Initiative Fund (GIF) is a good example of promoting women groups in fighting poverty through micro enterprises. GIF is a demand-driven financing window and provide support to women's groups, in organizing themselves in productive activities.
- **Malawi's** DEMAT Development of Malawian Enterprises Trust (DEMAT) is a Government of Malawi Organisation working under the Ministry of Trade, Industry and Private Sector Development and it work for the promotion of growth of micro, small and medium enterprises (MSMEs). DEMAT provides enterprise level support such as finance, market development assistance and training to entrepreneurs.
- **Uganda** The Government recognizes that development of micro and Small Enterprises (MSE) offers one of the most potent means of eradicating poverty. MSE are spread countrywide in both rural and urban areas.

It has established The Microfinance Support Center Ltd (MSC Ltd) as a limited liability company owned by government among others to manage the Rural Microfinance support project (RMSP). RMSP is a

¹³ CAFAP, Improving livelihoods through Sustainable Management and Use of Natural Resources, <http://www.iucn.org/themes/fcp/publications/files/cafpap-flyer-members.pdf>

country wide 5 year project funded by ADB and Government geared at the realization of Poverty Eradication Action Plan (PEAP) through the promotion of a countrywide access to affordable micro finance services.¹⁴

- **Kenya**, as a part of its programme is emphasizing on the local governance to improve the overall climate for private sector particularly small ones¹⁵.
- It is also interesting to note that several other African countries like Zimbabwe, Uganda etc has already included Entrepreneurship development in their school curriculum to encourage self-employment which could ultimately help in containing poverty.
- Initiatives in **South Asia** especially Bangladesh is now well known. Grameen Bank's initiatives in fighting poverty by helping build micro enterprises through micro finance route are well known. Another interesting initiative in Bangladesh is Women's Entrepreneurship Development Programme (WEDP). The objective of this program is to develop women as entrepreneurs by providing them training and credit facilities to establish small scale manufacturing and service units. The project has so far assisted thousands of women entrepreneurs to set up independent business enterprises.

There is, thus, an international consensus on the efficacy of SMEs as tool to fight poverty. However SMEs are not much of the focus of discussion here. Micro enterprises as we call them Poverty Alleviating Enterprises plays a major role in alleviating poverty. Had India did not attempt promoting small Industries even at the slow pace since the post independence years, poverty scenario as well as employment opportunities would have been much dismal today.

Indian Experience

The incidence of poverty, as per the data available from government sources, declined from 55% in 1973-74 to 26.10% in 1999 – 2000 (see table) though rates of drop vary from State to State. Although several factors are responsible for this, the establishment of enterprises, particularly PAEs is an important one.

¹⁴ www.finance.go.ug/peap/index.php

¹⁵ Kenya - coordinating UN collaborative programmes in poverty alleviation

Incidence of Poverty across States

States	Total (Rural & Urban)		
	1973-4	1993-4	1999-2000
Andhra Pradesh	48.86	22.19	15.77
Assam	51.21	40.86	36.09
Bihar	61.91	54.96	42.60
Gujarat	48.15	24.21	14.07
Haryana	35.36	25.05	8.74
Karnataka	54.47	33.16	20.04
Kerala	59.79	25.43	12.72
Madhya Pradesh	61.78	42.52	37.43
Maharashtra	53.24	36.86	25.02
Orissa	66.18	48.56	47.15
Punjab	28.15	11.77	6.16
Rajasthan	46.14	27.41	15.28
Tamil Nadu	54.94	35.03	21.12
Uttar Pradesh	57.07	40.85	31.15
West Bengal	63.43	35.66	27.02
India	54.88	35.97	26.10

Source: Government of India. Economic Survey 2001-02

These PAEs have come up due to several programmes that have been instituted from time to time. These programmes include:

- Prime Minister's Rojgar Yojna
- Swarna Jayanti Sahri Rojgar Yojna
- National Programme for Rural Industrialization,
- Rural Employment Generation Programme,
- Swarnajayanti Gram Swarozgar Yojana,
- Swayamsidha

These programmes have facilitated establishment of micro enterprises by the beneficiaries. Consequently, today India has 44.35 million enterprises (according to NSSO data) employing almost 80 million workers. However,

over 60% of these enterprises are Own Account Enterprises (OAEs) conducting business without any hired workers. This means that these are basically family owned and operated enterprises as a source of income generation and employment. In other words, they could be considered as poverty alleviating enterprises. Another interesting feature of this category of enterprises is that the bulk of them (over 62%) are self financed and poverty alleviation programmes funded only insignificant number of enterprises (0.5%).¹⁶

The other major characteristics of PAEs are:

- (i) Majority of them being seasonally operated.
- (ii) Majority lacking fixed premises
- (iii) They often do not figure in the statistics on enterprises or in surveys, nor is not registered and nor had a chance to be registered.
- (iv) Through the sheer hardworking and enterprising nature, he is currently successful in just meeting the ends and earns money for family's food. That's all.
- (v) They have no access to credit other than from money lenders.
- (vi) They are unaware of different government schemes and programs
- (vii) Moreover, most of the entrepreneurs are illiterates and do not have much awareness about government programs and poverty alleviation plans.

Though PAEs address the problem of poverty, their long-term survival remains the challenge. Rural industries and enterprises such as PAEs often come up out of sheer necessity catering to the neighborhood market. Any kind of ill health or any other hindrance that prevent them from performing their work make these entrepreneurs fall in to deep poverty. Various poverty alleviating programs do not have inbuilt provisions to ensure their long term survival and growth.

One earlier studies relating to Small Scale Service Enterprises observed, “*..entrepreneurs were attracted to the economic activities more of a compulsion rather than as a positive economic activity, with a sound business proposition*”¹⁷.

¹⁶ Institute of Manpower Research, India Year Book 2002, Manpower Profile

¹⁷ Draft report on Study on Role, Contributions and Challenges of Small Scale Service and Business Enterprises in India, World Association for Small and Medium Enterprises, WASME, 2006

In the long run, rural enterprises have to grow as small and then as medium as said by Josef Stiglitz's.¹⁸ According to him *“the woman who is able to supplement her income by raising chickens or vegetable gardens can have her income increase two-three fold very quickly, say from \$300 to \$800. It's very little, but it's a massive change in quality of life. They'll harness the human capital and her children would then be able to make the transition into the full-fledged market economy. Raising chickens in villages isn't the basis for long-term strategy for development, but it's a step in the transition. One has to see them not as the end point but a stage. You can't ignore the other stages-with all this focus on micro credit, you have to also focus on the small and medium enterprises.”*

5. Road map for sustained growth of PAEs

The challenge is to use this talent pool to further consolidate the achievement in poverty alleviation. PAEs numbering more than 25 million could be supported, promoted to ensure their long-term survival and ultimately bring them into the mainstream of the economy. Hence the challenge, we would say, is extending various kinds of assistance as listed below:

- ❖ **Vocational Training:** Combining vocational training with financial support can help achieve the objective of poverty reduction. Adequate skills, with periodic up-gradation would not only help enterprises sustain a long-term basis but also become competitive in the present free economic environment. In this, cluster development approach would be of great help.
- ❖ **One-Village, One-Product Concept:** There is a need to exploit traditional skills and to boost sales of ethnic products, the authorities could consider adopting Japanese concept of 'One-Village One-Product'
- ❖ **Promoting Women entrepreneurs:** Empowering women should be the main objective of poverty reduction strategy because when a woman is better off, the entire family will be so.

India has already achieved a measure of success in this regard by supporting rural women SHGs not only in accessing finance but also in other areas such as acquiring skills.

¹⁸ The Economic Times, New Delhi, dated 23-3-2007, Page-8.

- ❖ **Promoting Non-Farm Sector Enterprises:** Promoting such enterprises will not only help exploit local resources, but also help establish a viable rural non-farm sector providing employment opportunities for the locals. The Khadi and Village Industries Commission, needs to develop and support more village based industries.
- ❖ **Finance related:** The amount of capital micro finance provides is too small, the terms too short and the costs too high to support significant growth in such businesses.¹⁹ But their approach especially the support and handholding many of them give to recipients through the system of Self Help Groups is model that cannot be ignored. Accessible financial resources are to the core of the strategy in the fight against poverty. There is also a message to banks and other financial institutions catering to SMEs and other segments of enterprises that are relevant for poverty removal are very clear and that they have to support and assist their borrowers not just by giving money but also must ensure that the money given is bearing fruit and the enterprise set up with their money is growing and will sustain.
- ❖ **Subsidized loans for PAEs:** Heavily subsidized loans should be considered for PAEs at the half the market rate in line with several African experiments. For instance Bank of Mauritius has a highly subsidized loan scheme for SMEs.

Marketing Support: For long term viability an enterprise needs to be supported in the marketing of its product, which could be achieved by facilitating (a) participation in trade fairs and exhibitions; (b) organising buyer-seller meet; (c) giving publicity; (d) tying- up with larger enterprises; and (e) developing common brand.

- ❖ **Instituting growth enabling business environment:** Establishing enterprise-friendly regulations could go a long way in easing pressure on entrepreneurs and also in controlling high handedness by local authorities.
- ❖ **Transition of PAEs to formal enterprises:** Transition of PAEs to MSMEs is also transition to formal enterprises. They are hidden

¹⁹ Alan Patricof and Julie Sunderland, Financial Times, August 9, 2004 (FT.com)

enterprises and have no link with formal system of banking, taxation, government schemes and the government system.

- ❖ **Business Development Services (BDS) for PAEs:** Business Development services for PAEs would in fact contribute to poverty eradication. Identifying new products, new services that they could offer and new ways of delivering their services are all part of BDS. For these kinds of services to reach them, grassroots NGOs and government collaboration with them should be promoted. Through these kinds of efforts, as they build business and grow, facilitate their transition to MSMEs.
- ❖ **Business and Market Intelligence for PAEs:** Information about new markets, government schemes, finance potential and policy changes any thing relevant for these little enterprises need to be provided. This would enable them to take benefit from those schemes and programs and help in the growth of PAEs to MSMEs.
- ❖ **Public Private Partnerships at SME level:** PAEs, Micro enterprises and SMEs also can be partners to PPP models. PPP often exclude those enterprises at bottom of the pyramid. It would easy for the local government machinery to reach out to SMEs rather than big players especially in IT related areas. Number of small enterprises like commonly known cyber cafes have come up in villages across the country. These cyber enterprises can be made use of for strengthening e-governance at local level. This would not only generate employment in rural areas but also help the governments to have modern administration.²⁰ Later on these enterprises can become part of outsourcing business, once they gain confidence. Thus, with the support of local governments, small cyber enterprises can initiate Rural BPOs and herald knowledge economy in Rural India. Public-Private-Partnerships can play a crucial role in helping LDCs achieving their objectives in economic growth and poverty reduction.
- ❖ **ICT applications employment generation:** Rural enterprises to grow further and to grow as SMEs should get connected with the rest of the world. Information and communications technology can

²⁰ Gupta DN, 'Outsourcing potentials from local governments and PPP at local government level at WASME Seminar on Small Cyber Enterprises: Business & Market Development for Sustainability, 20 July, 2007 . Also, See, **PPP Called for E-governance at Village Level**, <http://www.cio.in/news/viewArticle/ARTICLEID=3643>

help rural enterprises in attaining this connectivity. Small cyber enterprises based in rural areas and rural enterprises such as handicraft units can work together.²¹

- ❖ **Technological application, PAEs, SMEs and Empowerment:** Application and promotion of appropriate technologies at the enterprises level can reduce poverty and empower people. For the PAEs situated at remote villages can be provided with energy by harnessing Alternative sources of energy. More over Self Employed Entrepreneurs in the informal sector like migrant rural poor in the urban areas providing public transport services by pulling Cycle Rickshaws and Rickshaws can be empowered by using modern cycles with gears as well as providing Solar Powered Cycle Rickshaws at subsidized rates. Similarly, handloom enterprises, handicraftsmen, artisans also will be benefited from technology application at appropriate levels.

- ❖ **Adult Education Programs to be linked with Micro Enterprise Development:** Though Literacy Mission has skill enhancing training programs in the post literacy stage, there is no evidence for its implementation. Post literacy stage of total literacy campaigns should be linked and be implemented in association with NGOs working in the field of micro enterprises.

- ❖ **Soliciting NGOs support:** NGOs, including industry associations, can extend support to SMEs in areas such as design development, tool rooms, testing, communications & documentation (faxes, photocopying, etc.) and warehousing. Besides, they can reach benefits of different programs, organizing training programs, etc.

Conclusion

There is a shift in the international approach to address the problem of poverty by promoting private sector development. The present poverty alleviation programs in most countries, still continue to focus mainly on the immediate concerns than a long-term solution. For a long-term solution to the problem, the best option is to encourage economic participation by the marginalized sections of population.

²¹ See Koshy P. ICT application, Rural Cyber Enterprises and Gram Swaraj, <http://www.boloji.com/society/117.htm>

There is an overwhelming focus on micro credit and very less on helping an enterprise sustain. Micro credit as such does not help much in fighting poverty in the long run, though credit availability is crucial, helping and strengthening PAEs and hand hold them through out its evolution is the challenge.

Though several programs have been instituted by the Government of India to encourage establishment of PAEs, they lack a comprehensive support program which would not only enable them survive on a long term basis but also facilitate their graduation to next levels i.e. small and then to medium enterprises. PAE segment enterprises has a greater role than other type of enterprises in alleviating poverty, because most of them are individual/ family-operated entities and emerged out of survival needs and severe economic hardships. PAEs stand between their life and livelihood.