# CHAPTER THREE

## MICRO ENTERPRISES

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CHAPTER THREE
MICRO ENTERPRISES

3.1 Introduction
Micro enterprises play an important role in promotion of self-employment & entrepreneurship. It is also raising the level of income & standard of living of the people. Rural area & weaker sections are developing because of micro enterprises. Micro enterprises have an important role to play in the generation registered units. So apart from the initial expenses of some fee and furnishing of documents, it does not impose subsequent recurring costs at the registering unit.

3.2 Enterprise - Definition
An enterprise is defined as an undertaking engaged in some gainful activity of production of some goods and for services by the members of a household with or without hired labour.

The definition of enterprise shows that an enterprise is bunch of lot of activities. It includes production of some goods, marketing, advertising, storage, selling, & all other entrepreneurial activities.

The globalization has widened the scope of all business activities. Simultaneously the challenges & opportunities are also increasing with the increase in literacy, business activities, technological advancement & production efficiency.

Keeping in mind the above fact research is necessary about micro enterprises, which should be specially started by women. Because in the era of liberalization, globalization & privatization micro enterprises are neglected. Now day’s micro enterprises also need attention.

Dr. Muhammad Yunus a professor of Economics in the Chittagong university of Bangladesh who conceived and put in to practice the novel idea of Grameen Bank
to help the poorest of the poor. This was the unique idea of micro enterprises with micro capital enterprises can be start and grow.

3.3 Definitions of Micro Enterprise:

A) The United States, the micro enterprise development field and its trade association, The Association of Enterprise Opportunity (AEO) - have defined a "Micro enterprise as a business with five or fewer employees".

B) National Sample Survey Organisation*1:

"An undertaking engaged in the production and/or distribution of some goods and/or services meant mainly for the purpose of sale, whether fully or partly, is termed as an enterprise".

C) Indian institute of Entrepreneurship:

“The investment in plant and Machineries is up to Rs 2 lakhs should be termed as a micro enterprise”.

D) Mr. P. K. Raut’s views about micro enterprises:

“Since the word micro represents small” He also agree with the observation of Indian Institute of Entrepreneurships that ‘The enterprise where the investment in plant or Machinery is up to 2 lakhs should be termed as a micro enterprise’. Mr. P. K. Raut says that definition of investment limit for micro enterprises should be dynamic one and should undergo change as and when the investment limits for tiny and small-scale Industry Sector change. Further any credit facility up to Rs. 2 Lakhs to Micro enterprises may be disbursed either in one lump sum or installment depending upon the nature of Business.

E) As per *2 D.D. Mali view.

The different agencies that have been operating micro credit or micro finance have not defined micro enterprise in explicit terms. It may be that none of the

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agencies felt it necessary to define micro enterprise for providing assistance under micro credit or micro finance scheme. It is however, necessary to define micro enterprises to remove any ambiguity in the implementation of the concept.

Two sets of definition

i) Under poverty alleviation programmes, micro enterprise maybe extremely small unit in industry, service and business organized, owned and managed by a person for survival, growth and profit such an enterprise sometimes works in group for survival and growth. The credit requirements will be need based.

ii) Under self employment programmes, micro enterprise may be defined as an enterprise in industry, service, agro-related and business sectors where the total investment (both working capital and term loan) is not more than Rs 2 lakhs in case of an individual units, and not more than Rs. 10 lakhs in case of partnership units (Upper limit Fixed under PMRY)

The criteria for identifying a micro enterprise may thus be investment in case of units set up for self employment and the type of ownership, working system and the objective of settling up of enterprises, under poverty alleviation programmes. Micro enterprise is an extremely small unit in manufacturing or service sector usually managed by one person but sometimes contributing to group efforts for growth and survival and has profit orientation.

This definition however, does not define a micro enterprise, but it has tried to describe a micro enterprise without referring to investment. It is however, clear that micro enterprises will have extremely low investment.

F) Nirpendra N. Sarma Opinion:
The micro credit summit held at Washington DC during February 1997 has defined micro credit as “Programme that provide for self employment and other financial and business services”.

Nirpendra N. Sarma says from this definition it appears that Prime Ministers Rozgar Yojana (PMRY) can be considered as a micro credit product, which
attempts to deliver small-scale financial services to a target clientele with the ultimate objective of creating micro enterprises & nurturing them over the long term, thereby generating sustained & gainful employment.

G) Definitions recommended at the workshop organized by Indian Institute of entrepreneurship on development of micro enterprises during 14-15 December 2000:

Micro enterprise is a term used frequently in developmental programs such as poverty alleviation & self-employment in particular. Terms, tiny & small enterprises refer to specific higher investment levels in the context of industry, service & business enterprises covered by the small Industries Development Organization (SIDO) at the national level.

Decentralized sector Organizations has defined the coverage of activities under their preview with Khadi & Village Industries Commission (KVIC) defining village industries as covered by it specifically.

In view of this the workshop resolved that it would be necessary to give a formal definition for the term Micro Enterprise & follow it up with a policy framework & programme content for this category of enterprise to ensure uniformity of understanding for all organizations contained with the implementation of these programmers.

The workshop suggested that Micro enterprises could be defined as follows covering three segments of the non-firm sector.

a) Enterprises promoted under poverty Alleviation programme covering Below Poverty Line (BPL) beneficiaries.

b) Enterprises promoted under self-employment programmes.

c) Enterprises not covered by the above two categories but of relatively low investment range with project outlay up to Rs. 10 lakhs.

Micro enterprises as defined above refer to enterprises in the non firm sector covering industry, Agro-related service & business in rural & urban areas promoted by individuals or in groups.

The entire decentralized industrial sector activity referring to individual beneficiaries & also in respect of individuals covered by mother units/cooperative
societies/registered institutions, where individuals carry on work in their own households or factory sheds, total investment of individual/artisan/worker/entrepreneur is to be taken in to account. Investment levels of the units not covered by Micro Enterprises as defined above will be small-scale Industrial units or Industry related small-scale service & Business Enterprises. (SSSBES) & below this will be tiny units. For these categories of enterprises definitions are already exist. Micro enterprises may also be referred to as ‘informal sector’ or ‘Unorganized’ enterprises not registered under the factories Act. Micro enterprises were defined as ‘Unregistered’ firms. So registration under ‘Indian factories Act 1948’ was treated as the cut off point between ‘formal Sector’ and ‘Informal sector’. Those unit not covered by the factories act were treated as unregistered micro enterprises.

3.4 Importance of Micro Enterprise:
Micro enterprises have an important role to play in the area of employment opportunities, and also in the promotion of self-employment and entrepreneurship among the youth. In view of this, the government has accepted the development of micro enterprise as a strategy for employment generation and promotion of income generation activities among the poor, and also for promotion of self-employment and entrepreneurship among the youth in the country. Micro enterprises are all pervasive. They are in industry sector, service sector, business sector, and agriculture and allied sectors. They can contribute in a big way in dispersed growth of enterprises, utilization of local resources of men and material, and local skills. They can work as nurseries for entrepreneurial activities and also in widening the entrepreneurial base in the country. This has been recognized both by the government and others. This can be seen from the fact that many banks and financial institutions have evolved micro credit or micro finance scheme to address the financial needs of micro entrepreneurs. Besides, there are several schemes implementable by various agencies to promote women entrepreneurs, and majority of them are micro entrepreneurs only.
The importance of micro enterprises has been increasing due to the implementation of various income generating and self employment schemes, several organizations including NGQ, are involved in training unemployed youth to be self employed or to take up entrepreneurial activities. This has also helped in the development of micro enterprises.

Micro enterprises have an important role to play in poverty alleviation among the weaker sections and also in promotion of self-employment and entrepreneurship among the people both in rural and urban areas. Meeting the growing needs of prospective entrepreneurs is very important. In any region promotion of forward and backward linkages of a high order are significant contributions of micro enterprises. They need, however support both in terms of policy and also in different areas of development and management. Defining a micro enterprise, adopting a policy providing support in terms of finance marketing information training and confidence building of NGO's and other agencies directly involved in credit delivery, are some of the areas of concern for micro enterprise development. In the changing socio economic environment, micro enterprises will be the way out for generation of large-scale employment and also in promoting income generation activities among the people in rural and urban areas.

3.5 Micro Enterprise in India:

According to World Bank almost 1198 million people world wide are living in poverty of this 522 million are living in south Asia alone. It is estimated that women account for approximately half the worlds population and over two third of the worlds poorest people Poverty in both developed and developing counties has a predominantly female face.

India is currently facing a critical position enjoying a remarkable period of economic growth in many sectors on the one hand and allowing 300 million of people to live below the poverty line on the other. The Government of India, since independence, has been making connected efforts to provide financial services to the poor at affordable cost in its endeavor to solve the problems of poverty and unemployment. It laid special emphasis an expanding the network of banks all over the country in order to provide credit to the poor and weaker sections of
society. Besides, the government also launched several subsidized wage and self-employment programmes for the benefit of the poor. Despite all these efforts, there still exists a massive gap between the demand for credit by poor households and the supply of credit by formal financial and social institutions. The dependence of rural poor on informal and non-institutional sources of credit still remains very high. Poverty continues to be a major concern despite reduction in the poverty ratio in the country from 55% in 1973-74 to 36% in 1993-94, viewed in the backdrop of the burgeoning population.

To address the problem of inadequate credit flow to the poor from the formal financial sector, micro enterprise lending in India as in many other countries of the world started developing an alternative track through a large number of Non-Government organizations.

The past two decades have seen the emergence of a wide range of such informal sector in India. A large number of self-help groups have been formed by the poor with the active involvement of NGO’s, which focus on providing savings and credit services to the poor. However, the outreach of these alternative institutions remains quite limited. Microfinance institutions (MFIs) face serious problems of sustainability primarily due to the absence of appropriate governance and ownership structures, legal frameworks, and regulatory frameworks and more importantly an account of lack of a dependable source of medium to long-term capital.

3.6 SIDBI’S Experience in Promoting Micro Enterprise in India:

Small Industries Development Bank of India (SIDBI), established in 1990 under an act of parliament (the Small Industries Development Bank of India Act 1989) as an apex financial institution for the promotion, financing and development of small-scale industries in India, has also been actively providing support to the microfinance sector. Realizing the potential of microfinance in stimulating economic growth, SIDBI formulated and launched a Micro Credit Scheme and a pilot basis in 1974. The scheme provided soft loan assistance to well-managed NGO’s for lending to poor women for pursuing income-generating activities. Some amounts of capacity building support in the form of grants were also provided. Although the pilot scheme had a positive impact on the economic
condition of the poor clients and built the capacity of the partner NGO's it faced certain constraints including operational and procedural hurdles like inability of the NGO's in offering adequate security, legal documentation, etc. It was also observed that a large number of small NGO's could not equip them to handle large micro credit programmes. This necessitated a shift in focus from assisting a large number of NGO's to concentrating on institution building of a select band of potential and relatively more formal Micro finance Institutions through intensive capacity building support.

Encouraged by the success and with the pilot programme attaining the take off stage, a demand emerged for up scaling SIDBI'S micro credit programme. Besides the lessons learnt during the pilot phase necessitated certain key changes in micro credit scheme.

3.7 Conclusion-
Micro enterprises are playing role as employment generating activity. It can be start by small investment. Enterprises in the non firm sector covering industry, Agro-related service & business in rural & urban areas promoted by individuals or in groups.