

SMALL SCALE ENTERPRISES AND THEIR CONTRIBUTION TO ECONOMIC GROWTH

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ABSTRACT

Small enterprises play a big role in the growth and development of the economy of all countries. These businesses provide jobs for many, promote equitable distribution of wealth, foster inclusion, help to introduce innovative business ideas, and aid decentralization. Small businesses are especially workable for the economy of developing countries with unemployment problems because they can be started with limited capital and cheaply available raw material. They aid the larger economy of the country by retaining much of the money derived from the business in the same locality, bolstering big businesses by producing components and accessories for them, and increasing people's purchasing power. To encourage SSEs, microcredit is offered to interested parties in many countries. Unskilled or semi-skilled people of developing countries, especially women, have benefitted immensely because of this arrangement. Significant poverty alleviation has resulted in many countries, though not in all, as a result of the growth of small scale industries. The objective of this paper is to analyse the role played by SSEs in a country's economy and the find out to what extent they have been successful in reducing poverty.

Keywords: Small scale enterprises, Decentralization, Business, Economy

Introduction

A small scale enterprise is a business run with a comparatively small amount of capital and a limited number of employees. Small scale enterprises help the growth of a country substantially, especially in developing nations, by generating employment among the underprivileged sections of the society and thereby alleviating poverty. In rural areas there are often untapped raw material, and human resources material in the form of unemployed youths and housewives. All these can be effectively used to run lucrative small businesses, thereby improving the infrastructure of the area as well. Small industries prevent waste and decay by utilization of natural resources to the maximum.

Small scale enterprises generally use labour-intensive methods for production and rely less on machinery to ensure that more people get employment. And the rules governing SSEs are mostly such that they can be established easily. In some economies, it is felt that such industries “may become a countervailing force against the economic power of Larger Scale Enterprises (LSE)” (Abdullahi et al., 2015). Because they are not too-technology dependent, small industries turn out to be more adaptable to cultural changes and changing demands because they can remodel and renew the business without too much difficulty. In short, both from social and financial points of view, these enterprises are a necessity for a country.

However, no single criterion can define a small scale business. Every small scale enterprise cannot satisfy every parameter that describes it. As such, sometimes government and other agencies rely on differing criteria to decide which one is a small scale industry and which is not. In a labour-intensive sector, a business employing 300 people may fall under the category of small scale enterprises whereas in another type of business, say a textile outlet, it may be considered a medium-scale operation.

Small enterprises are a fertile ground for innovative ideas and they aid decentralization. The most attractive feature of these enterprises is their small initial investment, which is often within the reach of middle-class people. Further, many micro-finance institutions which exist as commercial banks or NGOs offer credit at low interest rates to those who want to start their own small enterprises.

Micro-credit lenders are doing yeoman service in supporting small scale businesses. While no collateral is demanded by many of them, some of them try to enforce a form of social collateral by fostering the establishment of small groups to which they lend the money so that if one member of the group fails to repay the loan, it would reflect badly on the rest as well. The group could even be refused permission to take more loans. Such rules make group members mutually supportive and work wholeheartedly for the success of the business.

Women of most third world countries, who belong to the untaxed, unregulated part of the economy known as grey economy, have benefitted immensely from these businesses. About 70% of the underprivileged people of the world are women and small businesses have lifted many of them out of their dire circumstances. A typical example of such an entrepreneurship is *kudumbashree*, a community collective in the state of Kerala in India, launched by the Government of Kerala with the help of the Government of India and National Bank for Agricultural and Rural Development (NABARD). By 2016, the *Kudumbashree* network had “13,829 micro enterprises in production, 5316 in services, 422 in trading, and 3922 in sales and marketing” (<http://thekudumbashreestory.info>).

The research objectives of this study are:

1. To analyse the importance of SSEs in economy
2. To identify the role of SSEs in alleviating poverty

1. The Importance of SSEs in Economy

Small businesses are miniature-versions of big businesses with all the characteristics of the latter though on a reduced scale. But because of their small size and the fact that they are not known outside the local area, people sometimes fail to understand the crucial role they play in a state's economy. Available statistics, however, provide a clear picture of their importance. For example, it is seen that in the case of Australian economy, about 96% of the income is from small businesses (Fewtrell, n.d).

Small scale enterprises are almost always restricted to one locality and they help the local economy by retaining much of the money spent on the business in that area itself. "Of every \$100 spent at a country-wide chain store, only 13% will stay in the local economy. In comparison, out-of every \$100 spent at any locally-owned and operated business, almost 45% stays in the local economy" (Fewtrell, n.d).

Small enterprises function as a catalyst to the larger economy of the country by reducing unemployment and increasing the purchasing power of people. They bolster the growth of bigger enterprises by producing accessories, components and semi-finished products that big industries require. SSEs also support the development and growth of locally-possible other businesses thereby spurring employment opportunities for more people and to local artisans and craftsmen. Because of the nature of small businesses, when there is economic recession in the country, they survive more easily than big businesses, as it is easier for them to adjust to new demands.

Small enterprises are given a lot of importance across all countries of the world. Small-scale projects for producing clean energy has been introduced in many Latin American, African, and Asian countries where people rely a lot on smoke-producing firewood and coal for domestic purposes, adding to environmental pollution. States like Sao Paulo, Minas Gerais and Rio de Janeiro have even introduced legislation to foster micro-distilleries by including them in development programs (Kuboto et al., 2017). Ecuador has rich biodiversity, and its government policies promote agroforestry and reforestation, making them suitable areas for small scale entrepreneurs to enter.

UNO's International Labour Organization has a global program called Sustaining Competitive and Responsible Enterprises (SCORE) for improving working environment and productivity in

small and medium enterprises (SMEs) across the world. SCORE training is being given in many countries like Indonesia, China, Bangladesh, and Ghana. In Latin America, SCORE operates in Columbia, Bolivia, and Peru (<https://www.ilo.org>).

Many countries, which had earlier believed on the importance of big industries, later woke up to the worth of small businesses. In Indonesia, in the earlier phases of industrialization, there was less emphasis on small scale industries. However, the weakened oil prices and recession of 1982 proved that nurturing large industries alone would not solve the poverty, unemployment, and other socio-economic problems of the country. As a result, from the 1980s, the country started paying more attention to promoting SSIs and introduced policies to encourage their growth (Tambunan, 1991).

Even in China, where the founding communist party has continued to be in power throughout, and where small scale enterprises may not be fully 'private' in the capitalistic sense, small businesses nevertheless play an important role in the country's economy. A report of the Organisation for Economic Co-operation and Development (OECD) says that in China "micro, small and medium enterprises (SMEs) comprise 97% of all firms, accounting for 80% of urban employment, and for 60% of total GDP in 2013. In 2013, there were about 11.7 million small and micro enterprises and about 44.4 million self-employed entrepreneurs; accounting for 94.2% of all firms"(OECDiLibrary, 2016).

In the European Union, micro, small, and medium-sized enterprises form 99% of the business in its 19.3 million enterprises and provide "around 65 million jobs representing two-thirds of all employment. In OECD countries, SMEs represent over 95% of enterprises in most countries and generate over half of private sector employment" (Kraftova et al; 2007).

Even in a rich country like the USA, there are more than 27 million small businesses (<https://2012books.lardbucket.org>). These enterprises offer opportunities for women and minorities and become a pathway through which they can reach the economic mainstream.

2. SSEs and Alleviation of Poverty

The definition of poverty could be quite complex because it is difficult to have a common yardstick with which poverty can be measured across the nations of the world. Even though poverty is generally understood as material deprivation, the indices of such deprivation are not uniform since what are considered minimum requirements for a family to live at a socially acceptable level vary from country to country and society to society. However, material deprivation is quite starkly visible in developing countries and it is here that small scale enterprises can be used quite effectively to lift the deprived from the morass of poverty.

Small enterprises in both rural and urban areas are primarily designed to provide employment to semi-skilled or unskilled people and make the local economy self-sustainable. So, we can, in the normal course of events, expect a reasonable amount of poverty alleviation as a result of these enterprises.

A study conducted on 91 workers in Bangladesh Small and Cottage Industries Corporation (BSCIC) showed that the corporation had a major role in “industrial expansion and poverty reduction in Bangladesh” so that the authors suggested further expansion of BSCIC for poverty alleviation (Haider et al., 2015).

According to V. Mallika (2012), small scale industries promote equitable distribution of income in India, a country in which wealth is concentrated in the more organized industrial sector. This is apparently due to the fact that small industries are more pervasive across the country and thus have larger employment potential. Geremewe (2018) in his article on ‘The Role of Micro and Small Enterprises for Poverty Alleviation’ also underscores that small businesses can “help to achieve a more equitable distribution of the benefits of economic growth and thereby help alleviate some of the problems associated with uneven income distribution”.

Small industries play a crucial role in poverty alleviation because of the way they have empowered women who were all along denied opportunities and relegated to the periphery of the society because of either poverty or gender stereotyping. Microcredit and small enterprises have awakened the latent strengths in the so-called ‘weaker sex’. Some of the women who are part of a network of SSEs called *Kudumbashree* in the state of Kerala in India now earn up to Rs.650/ per day by climbing coconut trees and felling down coconuts. It was something they could not even have imagined before the setting up of these collectives, which have brought about a sort of revolution in the lives of Kerala women. *Kudumbashree* is the “country’s, if not the world’s, most successful anti-poverty and gender equality movement” (George, 2017).

In a study conducted on small scale entrepreneurs in Alice in South Africa, it was found that many of the respondents worked in other jobs like cleaning, teaching, or clerical work, or were students. They had joined these businesses as they were finding it difficult to manage with just their salaries. Most of them claimed that their quality of life had improved after getting engaged in those businesses. Some were becoming so financially secure because of the new enterprises that they had left their original jobs to focus fully on their business (Akinwale et al., 2014).

The idea of microfinance has originated in most places to help small scale entrepreneurs and make them self-sufficient. The small Asian country Bangladesh has led a revolution in microfinance under the leadership of Nobel laureate Dr. Muhammad Yunus, the social entrepreneur who founded the country’s *grameen banks* and pioneered the idea of microcredit. In

Bangladesh, small scale entrepreneurs are mainly engaged in agriculture-related activities like selling seeds and fertilizers, running poultry farms, oil mills and dairy farms, raising livestock, and food industries (Sarker et al., 2013). Rahima Khatun Lipi (2016) found in a study done on women of rural Bangladesh that “family life coupled with financial progress was the first and foremost meaning of dignity for all the participants” and that “the results of a positive experience using microcredit increased their feelings of dignity as they had defined it”.

However, even with the easy availability of raw material and human resources, small businesses cannot always be considered a panacea or magical formula for poverty alleviation. A study conducted on SSEs in Nigeria has revealed many difficulties faced by small scale entrepreneurs like lack of credit facilities, skills, basic education, infrastructure, and political commitment to poverty eradication as some of the prime reasons for the failure of SSEs besides corruption and economic mismanagement (Nonyelum et al., n.d). The authors suggest the availability of micro-credit, improved infrastructure, and training in human resources as prime requirement for changing the socio-economic situation of people.

In another study conducted on SMEs in Nigeria, “Marketing resources and capabilities are suggested as probable missing links between SMEs and profitable exchanges that lead to wealth creation, thus alleviating and eradicating poverty” (Asikhia, 2010).

Some people are worried that globalization could sound the death knell of small industries. But everybody does not agree to this. It is true that globalization will open the gates for foreign investment in most countries and these larger companies could offer stiff competition to small scale entrepreneurs. Studies have also revealed that globalization has a negative impact on small scale sectors (Sonia et al., 2009). But small enterprises are flexible and they have to try to fit into the changing ambience by building the infrastructure for the incoming manufacturing units of multinationals or making spare parts, accessories, and the like for their businesses.

Conclusion

Small businesses play a crucial role in the lives of the underprivileged in many countries by raising their income level and thereby improving their quality of life and restoring their dignity. However, small enterprises are important not just for the poor but for the larger economy of the state also because they increase the overall production of the country and also increase the ability of the people to invest in new ventures. They pave the way to improving the infrastructure of the area and opens new avenues of growth. Even communist countries and economically advanced countries rely on small scale enterprises to a significant extent to boost the country’s economy.

Poverty alleviation is one of the most positive effects of successful small scale ventures. Women in many Asian countries have benefitted from it. Kerala’s *Kudumbashree* collectives are shining

examples of the way small scale enterprises have decreased poverty and promoted women's creativity. However, small scale entrepreneurships have not been uniformly successful. At least in some countries, better infrastructure, easy access to microcredit, skills training, better tax regulations, and marketing facilities are required for small scale businesses to flourish and be profitable.

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