



Rural MSME Scene in India: Towards Structural Changes

1.0 Introduction

The broad based “bottom of the pyramid”, the millions of micro enterprises, is characteristic of most developing and emerging economies. Together, these enterprises, often rurally concentrated, contribute to enhancing employment opportunities, as also to nourish the entrepreneurial base of the country. Public policy in India, from time to time, has given significant attention on the spatial aspects of industrialisation. This spatial focus has been based on the understanding of enhanced migration of rural population into the urban areas, which poses a serious threat to the growth strategy of the country. Therefore, for fine-tuning of the economic and social objectives of India’s growth strategy, there need to be an understanding of the “bottom of the enterprise Pyramid”, in relation to their structural and spatial aspects. The following pages report on the transitional experience of micro small and medium enterprises, as we see it in 2015. This discussion has two purposes: First, it looks into the state of the micro enterprise experience in the rural setting of India, in relation to the institutional and policy framework. Secondly, it examines their challenges and opportunities. The Indian experience, however, is not stand-alone. It needs to be examined against the larger global experience, having some bearing on shaping the local experience and policies.

2.0. Rural Enterprises: Stages of Growth

There has been overwhelming evidence which shows that, in rural economies, the non-farm sector is becoming increasingly important for jobs and incomes (ODI, 2005). At first sight, these enterprises offer an alternative to agricultural development, a rival for policy-makers’ attention and development.

The role of rural non-farm sector in the development process has been widely debated. Its pattern of expansion has been so diverse across regions, that it is difficult to be explained in terms of a single uncontested framework. Apparently, each region has a different story to tell. It is important to identify the broad strands from such a diverse experience. It is important to broadly categorise the international experience in relation to a ‘Stages approach’. Three important stages of the rural non-farm sector transformation have been identified in literature. Africa and South Asia are possibly in the first stage that have a production or expenditure linkage with agriculture, and not much of a rural-urban link. A tendency towards a greater mix of situations is seen in Latin America where non-farm sector includes activities based on linkages with agriculture as well as separate ones, such as tourism, mining and service sector activities. Also, East Asia is in the third stage where urban-rural links are stronger as manifested in terms of more advanced forms of business linkages, such as sub-contracting arrangements and labour commuting.

There is no realistic data base that explains the role and relevance of micro enterprises in most countries. In Europe, the European Union provides some estimates on the size of micro enterprises. According to a more recent Study by the World Bank(1998), nonagricultural rural sector represents a potentially important route out of poverty in Ecuador. Poverty declines as the share of income from nonagricultural sources rises. Nonagricultural employment and earnings are positively associated with better education and infrastructure access. Poverty could be expected to fall substantially with expansion in nonfarm sectors such as construction, transport, commerce, and services. Lanjouw(1998) analyzes a recent household survey for Ecuador to assess

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