CHAPTER - 6
CONCLUSION AND POLICY IMPLICATIONS

Micro Enterprises occupy an important place in the economy of Haryana. The State is counted among the fastest growing economies of the country due to the remarkable role of micro enterprises. It would be no exaggeration to say that the development of industries lying within the ambit of micro enterprises especially those based on agriculture can go a long way in ensuring the overall economic well being of the people and thereby raising the quality of their life substantially. Micro Enterprises have been helping in the development of Haryana economy by generating additional employment opportunities, reducing poverty and regional inequalities, which are substantiated by the figures quoted here. In 2011-12, investment level was at Rs. 840198 and employment was at the level of 709584 No. of persons and production was at the level of Rs. 3117095. At a glance in India, micro, small and medium enterprises (MSMEs) contribute nearly 8 percent of the gross domestic product (GDP), employing over 8 crore people in nearly four crore enterprises and account for 45 percent of the manufactured output and 40 percent of exports from India. Thus, the focus of the government on MSMEs at this juncture of economic slump is justified because these units have a potential for providing growth and employment.

According to Micro, Small and Medium Enterprises MSME Act 2006, a micro enterprise is an enterprise where investment in plant and machinery (original cost excluding land and building) does not exceed Rs. 25 lakh if engaged in the manufacture or production, processing or preservation of goods. It does not exceed Rs. 10 lakh if it is engaged in providing or rendering of services. Small enterprise is an enterprise where investment in
plant and machinery (original cost excluding land and building) is more than Rs. 25 lakh but does not exceed five crore rupees (manufacturing sector) and is more than Rs. 10 lakh rupees but does not exceed two crore rupees (service sector). Medium enterprise is an enterprise where investment in plant and machinery (original cost excluding land and building) is more than Rs. 05 crore but does not exceed Rs. 10 crore (manufacturing sector) and is more than Rs. 02 crore but does not exceed Rs. 05 crore (service sector).

This chapter has been organized into three sections. The first section describes the main findings of the study. The second section of this chapter focuses on explaining problems of micro enterprises. The third section deals with the recommendations and policy implications for enhancing the productivity and efficiency of micro enterprises in the State of Haryana.

SECTION-I
MAJOR FINDINGS

The major findings of our study are:

We have observed that the share of the primary sector in the gross state domestic product (GSDP) has been decreasing during 1966-67 to 2011-12. It shows the relatively less importance of agriculture in a growing economy. It presents a paradoxical situation with the agricultural production increasing on the one hand and the contribution of this sector declining on the other. The shares of secondary sector and tertiary sector have shown an increasing trend in the economy of Haryana.

It is also clear from the analysis that the growth rate of the number of units, employment, investment and total production has increased in the period prior to reforms. After 1991, there has been a sharp decline in the number of units, the number of persons employed, investment and total production. An analysis of pre and post reform period, reveals that the
economic reforms have adversely affected the micro enterprises (SSIs) in Haryana.

On the basis of the analysis it can be said that the total number of micro enterprises increased in all the districts, (except Panipat and Rewari) of Haryana during 1966-67 to 2011-12. However, the district Faridabad and Gurgaon enjoyed first and second places respectively with respect to the number of micro enterprises in 2011-12, whereas Palwal and Mewat were at the lowest places respectively in the case of total micro enterprises. After, 1996-97 a sudden decline in the number of micro enterprises was experienced by all districts excluding Yamuna Nagar, Kaithal and Panchkula. On the whole, in comparison to the year 1966-67, in 2011-12 the number of micro enterprises is still quite high. Besides, the state has been facing regional imbalances in this respect since 1966-67. As the value of coefficients of variation (CV) has declined from 117.599 in 1966-67 to 82.994 in 2011-12, it can be said that regional disparities in the number of micro enterprises are reduced to some extent, still it is a cause for concern. During 1989-90, the value of CV was lowest i.e. 41.752 percent, which shows the low level of inequality. Since 2001-02, the value of CV has continuously been rising which indicates the regular increase in regional disparity regarding the number of micro enterprises. For the time period 1966-67 to 2011-12, some districts including Yamuna Nagar, Panipat, Kaithal and Rewari have experienced negative ACGR in the total number of micro enterprises. At the same time among the districts, having positive ACGR, Ambala is at the lowest place with 2.8 percent growth rate. All the districts having significant ACGR in number of micro enterprises during 1966-67 to 1989-90 are caught in the trap of negative growth rate in the period 1990-91 to 2011-12. Thus, in pre-reform period, the growth in the number of micro enterprises is
tremendous in comparison to the post-reform period.

The analysis reveals that during 1966/67 - 1989/90, ACGR of the number of micro enterprises is highest in Sirsa. i.e. 77 percent followed by Hisar 61.8 percent. It is lowest in Ambala district i.e. only 24.2 percent. However, all the districts have enjoyed positive ACGR during the same period. Here, the value of $R^2$ is considerable in all cases. During 1990/91 - 2011/12, all districts excluding Panchkula, Fatehabad, Jhajjar, Mewat and Palwal have witnessed negative ACGR which means the number of micro enterprises has declined in these districts during that period. In this case, Fatehabad and Jhajjar districts have attained first and second rank with ACGR 29.58 and 28.64 percent respectively.

This can be seen from the analysis of Productivity that all three; partial productivity of labor and capital and Total factor productivity have the same trend for the study period 1966-67 to 2010-11. There is upward trend in all three from 1966-67 to 1996-97 but after that up to 2000-01 this is falling continuously and then becomes stagnant. During the period after 2000-01 they are upward again. The falling output of small scale industries being due to inefficiency in the government policy of Haryana, Haryana might experience such kind of stagnant and falling period in productivity again.

In the analysis of Solow residual of Productivity, some values of Solow TFP index are negative due to presence of Positive auto correlation which has been ignored and Solow TFP Index has been compared with direct TFP index.

It can be seen from the comparison of both methods that direct method is considerably different from Solow method. The Solow method can be regarded as efficient method to capture the effects of other factors than inputs. The overall trend of TFP of both methods can be observed as same for the
study period.

It is observed from the analysis that the trends of all kinds of productivities are same in both in Haryana and in India. The falling trend both in Haryana and in India is the evidence of inefficiency of govt. policies of Haryana as well as those of India. Due to such kind of govt. policies a large number of micro enterprises have been closed.

The analysis also reveals that there has been a phenomenal increase in the number of micro enterprises units and the amount of loan sanctioned to their micro enterprises by SFC during the period under study except the two time periods for 1978-79 to 1981-82 and from 1990-91 to 1993-94. There is no denying the fact that SFC has played a significant role in the development of micro enterprises in particular and industrialization in general in Haryana. It is evident from the analysis that both the share of the number of micro enterprises units and the share of loan disbursement in Haryana has been increasing except for the years 1978-79 to 1982-83. Therefore, it can be said that SFC has been playing an increasingly dominant role in Haryana state since its inception.

The results of the analysis reveal the estimates of working capital gap in micro enterprises of Haryana during 1981-82 to 2006-07. After comparing their working capital with the minimum working capital requirement of micro enterprises as prescribed by the Nayak Committee, that is 1648.11 crore (20 percent of micro enterprises production) in year 2006-07. The actual working capital credit given in the year 2006-07 is Rs. 36120.96 crore (78 percent of bank credit to micro enterprises) and there is sufficient availability of working capital to the tune of Rs. 1964.85 crore in 2006-07. Also it can be observed that except for the period from 1989-90 to 2001-02 the working capital gap in both India and Haryana has increased. The stagnant and limited working
capital gap from the period 1989-90 to 2001-02 bears witness to the significant availability of credit for micro enterprises in Haryana and India.

The analysis also deals with the issue of sickness in micro enterprises of Haryana during 1986-87 to 2006-07. The results show that out of the total sick units the numbers of non-viable units is more than 95 percent in most of the years under study. It also shows that number of sick units in Haryana is 650 in 2006-07, out of these 10 and 630 units are potentially viable and non-viable units respectively, while 10 units are those whose viability has not yet been decided. Furthermore, it is also observed that the annual growth rate of sick units of Haryana turned out to be (-) 6.21 per annum, while for potentially viable units, potentially non-viable units and units whose viability not yet decided is – (1.21) percent, (-) 6.10 percent and (-) 4.25 percent respectively but the negative growth rate of the potentially viable units is a matter of concern for policy makers and planners in Haryana. Moreover, the growing rate of amount outstanding of sick micro industries in Haryana worked out to be 0.85 percent while for the potentially viable and non-viable units this is –(7.91) percent and (-) 2.07 percent respectively, therefore, high indebtedness of micro enterprises in Haryana hampers the extension capacity, ability to generate employment, and also increases the non-performing assets of financial Institutions.

It has been observed from the analysis in India, out of the total sick micro enterprises units, the number of non-viable units is more than 90 percent, in most of the years under study. Non-viable units are those units which have no chance of revival and rehabilitation. Further, the data shows that in the micro enterprises, the figures of sickness are quite alarming at 114132 units at all India level in 2006-07. Out of these sick units 4287 units were potentially viable and 109011 units were potentially non-viable while
834 units are those, whose viability has not yet been decided. Moreover, the analysis shows a negative annual growth rate of sick micro enterprises units to the tune of (-) 2.41 percent during the span of 1986-87 to 2006-07, yet the magnitude of sickness in micro enterprises of India is quite high and non-ignorable by all standards. Growth rates of potentially viable, non-viable and viability not decided units are (-) 8.15 percent, (-) 2.17 percent and (-) 1.30 percent respectively. Therefore, negative and highly significant growth rate of the potentially viable units is a matter of serious concern in the reform-era. Further, the growth rates of the amount outstanding of sick micro enterprises units is 5-50 percent per annum while for potentially viable and non-viable units are (-) 1.37 percent and 6.65 percent, respectively. High Indebtedness in micro enterprises units and non-viable units hampers the expansion capacity and ability to generate employment in India. Thus the high percentage of sick units in India and Haryana reaffirms the necessity to reformulate the existing policies dealing with this sector in the reformed era.

It is evident from the primary data that the category-wise values of output-capital ration (OCR) is almost the same in rural and urban areas of Haryana. Except textile hosiery garments (T.H.G) and repair / services the output, capital ratio is low in both rural and urban areas. It can also be concluded that micro enterprises in Haryana both in rural areas and in urban areas utilize the capital efficiently but OCR is relationally high in urban areas.

It is also evident from the primary data results that output-labor ratio in urban areas is more than rural areas but category wise status of output-labor ration (OLR) is the same in both rural and urban areas. Except repair and services category OLR is almost same in all other categories. Therefore, it can be concluded that output labor ratio in rural areas need policy attention, and labor training is required to improve the efficiency in labor, and efficient use of other factors.
The primary data results reveal that labor-capital ratio (LCR) in T.H.G. and repair services is lowest which means in these two categories less units of labor are required for one unit of capital and it can also be concluded that except these two categories all other categories of micro enterprises in Haryana were found with the same LCR. Therefore, we can say that they are more labor intensive and there is greater provision for employment in these categories of micro enterprises in Haryana.

On the basis of primary data results, it can be said that working - fixed capital ratio is higher in repair and service in Haryana but lowest in electronic & transport equipments based and unclassified product (ETEUP). Therefore, it can be said that the repair and services Industry requires more working capital than fixed capital to produce per unit of output and this industry category is more intensive in working capital. The overall status for all categories in both rural and urban areas is the same, but the requirement of working capital is higher in urban areas than in rural areas.

In brief, the results of the study give a holistic picture of the performance and problems of the micro enterprises in Haryana and India and a vast ground for the policy implications.

SECTION-II
PROBLEMS OF MICRO ENTERPRISES IN HARYANA

The development of micro enterprises is hampered due to diversity of problems. Micro enterprises suffer from many severe problems. Though, there are unlimited problems connected with micro enterprises, some of which are given below. They are:

Formidable Challenge from the large scale industries: Micro Enterprises have to contend with large scale industries which outstrip the former in terms of competent entrepreneurs, abundant and superior raw
material modern and sophisticated equipment, and development of latest modern technology, immense financial sinews and latest marketing strategies. With their primitive methods of production and limited financial resources and illiterate incompetent and ignorant entrepreneurs and non-standardized nature of their product, micro enterprises are outperformed by large scale industries in a big way. They find it almost impossible to compete with them in terms of price and quality of goods. Unless micro enterprises are incentivized and subsidized by the government their survival is under threat and it would be disastrous for Indian economy if these labor intensive and employment generating units are forced to close down due to their nonviability in the face of mounting competition from large scale industries.

**Lack of Raw material:** Raw material is the basic pre-requisite of an industrial enterprise and industrial sector of an economy, without adequate and timely supply of required raw material, it is not likely to make much progress. Different types of micro enterprises require different types of raw material. For some industries local raw material is used, and the same is abundantly available. But in other industries raw material is required from other states and for some even from other countries too which creates the problem of non-availability of good quality raw material at low prices.

**Lack of Labor:** Labor is an essential and active factor of production besides raw material, power and capital. It is manifestly different from other factors of production. Empirical study of Eresi (2001) concludes that labor related problems constitute one of the important reasons for the failure of micro enterprises. Labor is a living thing that makes all the difference. So well planned recruitment and training facilities are basic requirement for an industry. Proper manpower planning is the basic requirement for the recruitment of an effective working force in any enterprise.
Lack of Power Shortage: In modern times, power is the most important ingredient of production. The entire movement of the machinery depends upon power. If there is a short supply of power or electricity, there is an interruption in production. The entire movement of the machinery depends upon power. If there is a short supply of power or electricity, there is an interruption in production stream and the entrepreneur has to suffer heavy losses. The state should therefore, pay special attention to the problem of power shortage/crisis in micro enterprises.

Financial Sources: Every problem of small producer concerning production, raw material quality or marketing is in the ultimate analysis, a financial one. The producers in the small scale industries have small means and require short, medium and long-term loans to meet their obligations. The internal sources of micro enterprises mainly consist of ploughed-back profits. Since the absolute size of profit is small for the finance facility, they have to depend upon central and state governments, commercial banks, SFCs and other private financiers.

Marketing Problems: Micro Enterprises in the region are plagued by certain problems on marketing front. In the present competitive world, the sale of a product can be improved with a suitable marketing strategy. The concept of marketing signifies much more than the traditional act of selling rather it is an integrated effort. Since most of the units in the region are very small in size and financially not very strong, so individual units have limited production capacity, limited sustaining power and competitive strength. Micro enterprises suffer from marketing difficulties.

SECTION-III
RECOMMENDATIONS AND POLICY IMPLICATIONS

The following recommendations and policy implications are being
made for the survival, existence & progress of the micro enterprises in Haryana:

The shift from agriculture to industry and services is the nominal transformation accompanying India’s unfolding economic-development. However, this economic transformation has come at the cost of loss in agricultural productive capacity and rural living standards. Therefore, for the upliftment of rural standard of living and absorbing agricultural production, we need to understand the importance of micro enterprises.

The sharp decline in number of units, employment, investment and total production of micro enterprises in the post reform era, due to economic reforms gives us a clue that large industries development gives unhealthy competition to the micro enterprises in Haryana. Therefore, to enhance the opportunities again in micro enterprises of Haryana, government should take effective initiatives, special financial incentives & other facilities.

On the basis of the results, we can say that all the districts in Haryana excluding some districts are victims of economic reforms and are faced with the negative growth in terms of the number of units. Therefore, in the districts logging behind, local governments in particular and Haryana government in general should go for rural industrialization with some technical and financial support.

The analysis of Partial and total factor productivities in Haryana and India gives us an idea about the efficiency of micro enterprises in Haryana and India. Both in Haryana and India again in the post- reform era efficiency has declined. To enhance the efficiency again in micro enterprises both state and central governments should explore the new demand areas to generate scale efficiency in these enterprises.
As we have observed that micro enterprises in Haryana and India have experienced low growth in terms of units and low efficiencies in terms of productivity growth. However, the financial support by the state finance corporation in terms of loans to micro enterprises has given relief and scope for enhancement of everything such as employment, scale efficiency and production, yet there is a need for some more financial resources for smooth development of the micro enterprises in Haryana. Also, there is a need for transparent loans-disbursement system to ensure the adequate rural and urban development in respect of micro enterprises.

The problem of increasing working capital gap presents again the need for more financial resources for the development of micro enterprises in Haryana as well as in India. The analysis of working capital gap gives us a concrete picture of the finance problem in Haryana and India.

Therefore, it can be argued that government should streamline the financial system of the working financial institutions according to the requirements of micro enterprises in Haryana and India. There is a strong case for reducing if not removing subsidies which needs to be replaced by zero rate of interest.

The high indebtedness, low productivity, inefficiency and technical backwardness have been observed in large proportions of micro enterprises in Haryana as well as in India. All this has led to large number of sick units. On the basis of this analysis, it can be argued that government should review its policy, for the transformation and optimum use of resources in micro enterprises everywhere.

The problems of the entrepreneurs need to be addressed by the government by devising suitable policies and strategies to surmount them. The survival of the micro enterprises is under grave threat in the face of stiff
competition triggered by the commencement of the globalised era. Upgradation of technology (juggad technology), innovations, liberal credit facilities, marketing devices and proper and intensive advertising to capture national and international markets—all these steps need to be taken on priority basis to save our overpopulated economy from being swallowed by the monster of unemployment and poverty. These micro enterprises must be enabled to withstand the ever-growing pressure of global competition by introducing competitiveness in terms of quality and prices of their products, otherwise not only will the progress of the economy be decelerated but it will fall into a shambles. There is a strong case for coexistence and cooperation among various categories of enterprises. Let large enterprises behave as big brothers with their younger brothers and sisters for coexistence.

Micro enterprises will help in the development of Haryana economy by generating additional employment opportunities, reducing poverty and regional inequalities. It is the need of the hour that government adopts certain policies and strategies which will boost micro enterprises to increase the number of units, employment opportunities, investment and production. To ensure implementation of the policies and programmes for micro enterprises, we need good governance which means SMART (SIMPLE, Moral, Action Oriented, Responsive and Transparent) administration. These above-given recommendations flowing from the study need to be implemented seriously and sincerely with honesty of purpose. Only then will the micro enterprises in the state of Haryana survive, exist and thrive.