INTRODUCTION

Pradeep P “Role of micro enterprises in rural development” Thesis. Department of Economics, Dr.John Mathai Centre Thrissur, University of Calicut, 2012
CHAPTER I
INTRODUCTION

It is well recognised that small enterprises play a vital role in the economic growth and equitable development of all nations, both developed and developing. However, this is particularly true for developing nations like India. Governments of developing countries, in general, showed lesser concern for small scale enterprises (SSEs) until at least the 1970s (Little et al., 1987). It is a well established fact that small-scale businesses and establishments survive in large numbers and employ many people in the industrial countries. This fact is often quoted as a major reason for SSE development in the developing counties, including India. In respect of India, the peculiar capability of small enterprises in bringing about faster economic development was acknowledged relatively well even during the early years of the Plan era, despite the fact that The Industrial Policy Resolution 1956 favoured priority to heavy industry. For instance, the Karve Committee Report (1956) has stated that under-development by its very nature implies the existence of a large volume of unemployment and this problem can be addresses through promotion of small enterprises. The cottage and village industries in the 1950s were the second largest employers of labour after agriculture. The small enterprises used to play a cardinal role in the rural development of the adjoining regions, because of their employment generation capacity, local sourcing of inputs etc.
SSEs are often referred to within the broader framework of Small- and Medium-scale Enterprises (or, SMEs in short). SMEs play a vital and strategic role in socio-economic growth of any nation, as well as balanced and equitable distribution of the national resources. It is estimated that SMEs ‘constitute as high as 90 percent of enterprises in most countries worldwide and are the driving force behind a large number of innovations and contribute to the growth of the national economy through employment creation, investments and exports’ (Government of India Report, 2007). The contribution of SMEs toward poverty reduction and wider distribution of wealth in the developing economies need not be overemphasised.

The present research study seeks to identify the problems faced by small enterprises along with their future prospects, with a view to design strategies for making them instrumental in bringing about regional economic development; given the vast potential of such enterprises for income creation, employment generation and inclusive economic development. Among these small enterprises, the micro enterprises which form the lowest strata deserves more attention, because of their better potential to bring development to the grass-root level. Thus, small enterprises particularly the micro enterprises, if nurtured properly, could lead to employment generation and livelihood development of the poor. More importantly, they ensure that the development is equitable, sustainable and regionally balanced (without urban-rural other kinds of divides). Detailed discussion on micro enterprises in the backdrop of
Micro Small and Medium Enterprises Development Act (MSMED Act 2006) is included under the paragraph on MSMED Act.

Before going further into the study, a brief overview of the role that small enterprises can play in bringing about rural development through balanced, equitable and sustainable growth is attempted in the following paragraphs:

SSEs can play a very crucial role even in industrially advanced and developed nations like the U.S.A., the U.K., Canada, and West Germany and more particularly in Japan (Baruah, 2000). In respect of developing nations like India, SSEs are especially important because of their capability to create employment opportunities, equitable distribution of national income, balanced regional growth and development of rural and semi urban areas. SSEs can provide immediate large-scale employment, offer a method of ensuring a more equitable distribution of the national income and facilitate effective mobilization of resources of capital and skill which might otherwise remain unutilized.

SSEs typically represent industries whose capital is supplied by the proprietor or through means like partnership or corporate entities setup for that specific business etc. SSEs often depend on power driven machines, employ modern methods of production, engage labour on wage, and produce goods or render services for expanded market. Their functioning is on a
permanent basis. Their peculiarity is that ‘they can be managed with little resources and in terms of returns provide much better results’ (Funda, 2003).

SSEs, including traditional cottage and village industries and also modern small enterprises have been given a very prominent place in India’s economic planning on both ideological and economic grounds. Prime Minister of India, late Mrs. Indira Gandhi has once observed, “Small scale industries offer many opportunities; besides adding to production, they broaden the industrial base. They enable the process of modernization as well as entrepreneurship to spread to more regions and layers of society” (Ali, 2004). Moreover, Mahatma Gandhi – the Father of the Nation – too had strongly advocated for the development of villages in India – where the heart of India lives - by making them financially viable through small and village industrial units (Vinod, 2003). SSEs in India, including the village and cottage industries, have been accorded a vital position along with a clear economic rationale in the Mahalanobis model of economic development, which formed the basis for the II Five Year Plan and also the subsequent Plans.

Another vital role that is played by the SSEs in India is the removal of regional disparities across various regions in the nation, and also across different regions in the same state. For removal of such disparities, SSEs play the catalytic role of facilitating industrial development of backward areas, like, industrially backward districts in a state, or backward states in a country. In fact, development and promotion of SSEs can be observed to be quite essential for
Apart from the economic aspects of SSEs, the social role of SSEs also deserve due mention, for SSEs help to meet the goals like removal of poverty, attainment of self-reliance, reduction of disparities in wealth, standard of living, regional level growth, etc.

The New Economic Policy of 1991 (NEP 1991) has been the basis of the ongoing economic reforms initiated in India since July 1991. Accordingly, ever since NEP 1991, many radical changes have been brought about in almost all sectors of the Indian economy, the industries sector being no exception. The New Industrial Policy of 1991 (NIP 1991) has sought to bring about sweeping and far-reaching changes in the industrial sector. Being designed based on the underlying philosophy of economic liberalization as per NEP 1991, NIP 1991 has sought to promote small scale industries in a big way and announced a number of measures in that direction.

As of 1991, a total of 836 items were reserved for the exclusive manufacture by the small scale sector. Besides, a new scheme viz. Central Investment Subsidy was launched exclusively for the benefit of small scale sector in rural and backward areas that are capable of generating higher employment in those areas, at a lower capital cost. Furthermore, programmes for modernization and upgradation of technology in the small scale sector with a view to enhance their competitive strength were also implemented. Moreover, a new apex bank at the national level called Small Industries Development Bank of India (or, SIDBI, in short) was also established during the early days of economic liberalization in India. SIDBI has been
instrumental in channelizing the need-based higher flow of credit to the small scale sector particularly the tiny and rural industries, both by way of term loans and working capital.

It has been pointed out that the small scale sector has emerged as a vibrant and dynamic sector of Indian economy, contributing about 40 percent of the total industrial production and more than 34 percent of the national exports and giving employment to more than 250 lakh persons (Government of India, 2004). Small scale sector, in fact, enjoys the covered position as the second largest employer in India, offering a wide variety of products.

In spite of the vast potential of small enterprises to bring about radical changes in the economy and socio-economic well-being of the population, the same is often not getting the deserving significance in policy decisions. The reasons for this paradox are many and include, inter alia, problems commonly related to size, isolation, market opportunities, standards/ quality, supply chains, logistics and technology innovation. So as to meet their short-run objectives of maintaining their relatively small profit margins and sales, small entrepreneurs in developing countries do not often opt for innovation of their products and processes, but rather resort to tactics that may deter their sustained growth in the long run. The general observation is that many SMEs face difficulties, particularly those resulting from adjustments relating to economic liberalization measures (Government of India Report, 2007). To make the SMEs capable enough to tide-over the problems of technological backwardness and accordingly enhance their access to innovative
technologies and production processes, they should be offered conducive environment, suitable technical know-how etc. As such, ‘there is a need to understand and assess the real needs of the SMEs and accordingly devise approaches that ensure their sustainable growth’ (Government of India Report, 2007).

1.1 Types and Features of Small Enterprises; Criteria Set by MSMED Act 2006.

In India, the newly enacted Micro, Small and Medium Enterprises Development Act 2006 (MSMED Act 2006, in short) came into effect on October 2, 2006. As per the MSMED Act 2006, the micro, small and medium enterprises (MSMEs, in short) are classified into two major classes as given below:

(a) Manufacturing Enterprises – The enterprise engaged in the manufacture or production of goods pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951. These enterprises are defined in terms of investment in plant and machinery; and

(b) Service Sector- The enterprises engaged in producing or rendering of services and are defined in terms of investment in plant and machinery.

MSMED Act 2006 classifies MSMEs as per the criteria given in Table 1.1 below:
Table 1.1: Classification of Small Enterprises (MSMED Act, 2006).

<table>
<thead>
<tr>
<th>Type of enterprise</th>
<th>Engaged in manufacture or production of goods</th>
<th>Engaged in providing or rendering of services</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Investment in plant and machinery</td>
<td>Investment in equipment</td>
</tr>
<tr>
<td>Micro enterprise</td>
<td>Does not exceed 25 lakh rupees</td>
<td>Does not exceed 10 lakh rupees</td>
</tr>
<tr>
<td>Small enterprise</td>
<td>More than 25 lakh rupees, but does not exceed 5 crore rupees</td>
<td>More than 10 lakh rupees, but does not exceed 2 Crore rupees</td>
</tr>
<tr>
<td>Medium enterprise</td>
<td>More than 5 Crore Rs, but does not exceed 10 Crore rupees</td>
<td>More than 2 Crore rupees but does not exceed 5 Crore rupees</td>
</tr>
</tbody>
</table>

Source: *The Gazette of India, No. 27 of 2006, MSMED Act 2006, Government of India, p.5*

[For the purpose of empirical analysis of this research study, as the very title of the work suggests, only the first category viz. micro enterprises (viz. investment in plant and machinery not exceeding 25 lakhs for manufacturing units and not exceeding 10 lakhs for units engaged in services) alone are considered. As such, the other two categories (viz. small enterprises and medium enterprises) are beyond the purview of the present study for collection of primary data and its analysis. However, in the general discussions as well as literature review, small enterprises is used in the broader sense to include all the above three types of enterprises. It may be pointed out here that over 95 per cent of the total MSMEs in the study area]
belong to the first category (viz. micro enterprises) which is the category under detailed study for this work as noted above.]

An analysis of the profile of small scale industries in India would reveal that their traditional activities are in sectors such as Khadi and Handloom, Handicrafts, Village industries, Bamboo based industries, Sericulture, Coir etc. However, in modern days many SSEs are engaged in very wide array of goods and services ranging from relatively simple items (like rubber-based household items, toys, kitchen utensils etc.) to sophisticated products such as electronic security devices, television sets, electronic control system, mixer grinder, electro-mechanical equipments and various engineering products etc. Many such small scale enterprises are functioning as ancillaries to the large industrial units. It may be pointed out here that while the traditional small industries are very highly labour intensive, the modern small scale units are less labour-intensive because often they replace the labour with highly sophisticated machinery and equipments.

1.2 Recent Developments: Competitiveness of Small Enterprises is Vital.

As already noted, small enterprises are facing a number of problems in the ongoing reforms era, of which one of the most significant ones is that of ever growing competition from large enterprises, including those from other countries. A recent study on the competitiveness of small enterprises has observed that most of the SMEs are not competitive and they need to improve to catch up with the market requirements (Bhavani, 2009). All these
developments point to the need for small enterprises to enhance their competitiveness on a constant basis for their survival and growth in the ongoing regime. Besides, the Ministry of Micro, Small and Medium Enterprises (MSMEs), Government of India in its latest report (2012) has reiterated this fact when it observed, ‘To maintain its niche in the international and global market, MSMEs are required to remain globally competitive. They have to continuously update themselves to meet the challenges emerging out of changes in technology, changes in demands, emergence of new markets, etc. (Ministry of MSMEs, Govt. of India, 2012). It has further been noted by the Government of India that, (i) in recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector, (ii) with its agility and dynamism, the MSME sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession, and (iii) in spite of the commendable growth and innovativeness, MSMEs, however, have been facing several challenges in the era of globalization and liberalization. (Ministry of MSMEs, Govt. of India, 2012).

1.3 Industrialization and Economic Development: A Theoretical Perspective

In the development literature, quite a large number studies are available that states that industrialization could effectively promote economic development of nations. Accordingly, almost all nations pursue the industrialization route for faster economic development. Moreover, quite
often industrialization is even treated as the *sine quanon* of the economic development of a nation and a panacea for the vicious problem of its economic backwardness. But the fact remains that the indiscriminate struggle for industrialization in many countries has resulted into a regionally unbalanced and lopsided economic growth, which manifests through a ‘few islands of prosperity amidst the sea of pauperized regions’. The above kind of unevenness might result in different kinds of backwardness and poverty.

Traditionally the pattern of industrial development as observed from the historical experience of various nations has suggested that development gets concentrated in some urban centers leading to economic development of surrounding regions. For instance, Myrdal (1957) and Hirschman (1958) have given powerful concepts like "backwash vs. spread effects" or "polarization vs. trickling-down effects" to illustrate regional disparities. Based on the cumulative causation hypothesis, Myrdal (1957) has argued that the play of market forces normally tends to increase rather than decrease inequalities between competing regions. Variations in geographical size and population that exist among different regions and such variations may also influence the relative economic growth of those regions. Accordingly, relatively larger regions, for instance, may benefit from economies of agglomeration. However, as the density of population increases and economic activity intensifies, congestion may arise and the cost of land may go up. As a result, the disparities across different regions of the same country may mount up. Accordingly, while some regions become quite prosperous and developed;
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others would remain as either backward or depressed. Hirschman (1958) has underscored the tendency of 'polarization' of free market forces resulting in increase in inter-regional inequalities; and accordingly has argued in favor of government intervention.

Two other prominent theories are based on the empirical works done by Kuznets (1955) and Williamson (1965). These theories argue that economic growth is associated with a sharp increase in inequality initially to be followed by a decrease later on. The notion of Kuznets (1955) and Williamson (1965) has been that the relationship between economic growth and inter-regional inequality may pave the way for convergence in per capita income. Thus, the convergence as noted above occurs when poor regions grow faster than rich regions, implying that a negative relationship exists between the growth in per capita income over a period of several years, and the level of per capita income at the start of the period.

It may be pointed out here that while the studies in the context of developed countries suggest a broad consensus on the 'convergence' thesis, the studies done in the Indian context (that is, in the context of a typical developing nation) point towards the tendency of 'divergence'. Thus, in the absence of any systematic policy of location and regional planning, industrial development has become concentrated in certain regions. Hence, backward regions in India continued to lag behind deprived of industrial investment and skilled manpower.
1.4 **Role of Small Scale Enterprises in Balanced and Equitable Development**

Even in advanced countries of the world which are classic lands of big business and industrial set-ups, the utmost significance of small enterprises has long been fully recognised. Such small and micro enterprises have been quite common in developed economies like Japan, U.S.A., Switzerland, Sweden and many others. As such, the significance of small and micro enterprises for an over populated and developing nation like India which is starving for adequate level of resources for development need not be over emphasised.

Small enterprises play a vital role in India’s economy. In spite of all efforts initiated by the successive Governments in India to protect these industries and also to improve their performance, it has been observed that about 30 to 40 percent of the registered small enterprises are not operational. Moreover, though the Government is supporting them externally, an internal analysis on their performance has not been given adequate significance over the years. (Namita *et al.* 2004).

As already noted, small scale enterprises (SSEs) have been exhibiting their profound impact on regional as well as national economies worldwide. Accordingly, SSEs are increasingly being recognised the world over, both in the developed and developing world, as an effective instrument for creating...
employment opportunities with relatively very less amount of capital investment.

As in the case of many other developing nations, small enterprises in India have been playing a vital role in bringing about an inclusive, balanced and sustainable economic growth by way of employment generation, development of entrepreneurial skills, and income generation and its equitable distribution. Besides, SSEs have been contributing significantly to India’s export earnings too over the years. In India, the successive Governments at the Centre have been according top priority to the small scale sector. Accordingly, clear announcements used to be made by the Governments from time to time regarding the priority to be given to the SSEs in various governmental programmes and plan-outlays while utilizing the resources in both the rural and the urban areas.

The small scale industrial (SSI) has registered a high growth rate since independence in spite of stiff competition from the large sector and not so encouraging support from the government. This is evidenced by the number of registered units which went up from mere 16,000 units in 1950 to 36,000 units in 1961 and to 33.7 lakh units in 2000-2001. (Datt and Sundaram, 2007). The SSI sector is a vital constituent of India’s industrial sector. It has been playing a crucial role in overall economic development of India and contributing significantly to the country’s Gross Domestic Product (GDP) and export earnings. Further, this sector has been contributing substantially towards meeting the social objectives including that of providing employment
opportunities to millions of people across the country, ensuring income equality and balanced regional development, and above all creation of a strong entrepreneurial base. The small scale sector covers a wide variety of industrial activities and these could be categorized as hereunder:

(i) Village and cottage industries (VCI),
(ii) Small scale industries (SSI),
(iii) Ancillary industries (ANC),
(iv) Export oriented units (EOUs),
(v) Small-scale service enterprises (SSSEs),
(vi) Small-scale business (industry related) enterprises (SSBEs)
(vii) Women enterprises.

The small-scale sector has to play a crucial role in India’s industrial and economic development. As far as the output of the SSI unit is concerned, it was Rs.1,22,154 crore in 1994-95 and this has considerably risen to Rs.4,18,263 crore in 2004-2005 (at current prices). Production in SSI sector during the last ten years has recorded an annual average growth rate of 8.6 percent. The share of small-scale industries in the country’s industrial output is around 39 percent (Misra and Puri, 2007).

A small scale industry is highly labour-oriented and labour-intensive with relatively high labour-investment ratio. A given amount of capital invested in this sector of industries is likely to provide more employment, at least in short run, than the same amount invested in a large industry. It is estimated that an investment of Rs.1.00 lakh, in fixed assets, in a large
industry may create, on an average, employment to 2-4 persons whereas the same amount of investment made in a small-scale industry, for the same purpose, might do so for 10-12 persons (Government of Meghalaya, 1993).

As per the MSME Act 2006, the size and scale of India's small scale sector ranges from 7.8 million to 13 million in number and the share in GDP of these enterprises is estimated to be over 80 percent. Besides, it is estimated that more than 90 percent of the total number of enterprises are coming under the category of small enterprises) in the wider sense (Government of India Report, 2007). This sector is quite dynamic and vibrant in its functioning, acting as a nursery for promoting entrepreneurial talent and as a catalyst for industrial growth.

In the face of fierce competition in the ongoing era of globalization, in order to survive and prosper the small enterprises require clearly articulated, well thought out, meticulously designed operational strategies. Such strategies, in turn, could be designed only after considering the exact problems that they face, the magnitude and relative significance of such problems. A thorough analysis of the various strengths, weaknesses, opportunities and threats of these enterprises based on an empirical study alone can reveal the true nature of their problems so that appropriate remedial strategies could be framed meaningfully.

An analysis of the common problems faced by the small enterprises would reveal that majority of the problems relate to their challenges in
adapted to the ever-changing business environment by the adoption of appropriate technological advances, skilled human resources, effective leaderships, and after all the need for innovation and improvement on a continuous basis.

1.5 Role of Small Scale Enterprises in Development of Backward Regions

The term ‘Backward region’ or Backward area’ is quite often used to denote the backwardness of a particular geographical region as compared to the other parts of the country or state some within the same country. Thus, there could be ‘Backward states’ in a country, ‘Backward districts’ in a state and so on.

There are several dimensions to the problem of backwardness of a region such as economic, geographical, political, social, cultural and so on. Among the different reasons of backwardness, economic reason is the most important one. It is widely recognised in the development literature that industrialization plays a vital role in economic development of a region. As such industrialisation has got a more important role in faster economic development of a backward region, in order to make that region catch with the relatively better of regions of the country or state, as the case may be. It is the above context that ‘Industrial development’ assumes priority status in the policies on regional development of the governments the world over.
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It is in the above conceptual context that Dhar (1991) has observed as follows: “The concept of regional development was originated from the ideas of Stalin. The Burlow Commission in 1937 and the Political and Economic Planning Group in 1939 had mentioned about the need of regional development and thereby stressed the need for dispersal of some relevant industries in backward areas. By the term regional development we mean the attainment of economic development of a particular region of the country. Thus it also includes the process and the strategy to be adopted for the economic development of particular region along with other regions of the country.”

It is widely recognised that backward area development is an essential pre-requisite for overall development of a nation. Absence of a focused approach to regional development of backward areas would result in the industrial activities confining to a few selected areas of the country which in turn would lead to unequal distribution of income and industrial development. Another rationale for equitable regional development is that it would ensure securing of maximum efficiency in the utilization and exploitation of available resources.

Regional development contributes and helps in the involvement and empowerment of common people by demolishing the geographical boundaries. It leads to an equitable distribution of employment opportunities and helps in reducing per capita income among different regions. It also helps to check rural-urban migration and the concentration of population and
industry in a few big industrial centres of developed region and also reduces the growth of agglomeration. An empirical study in a backward region viz. Mizoram in India has revealed that “Industrialization is the crying need of the hour and rapid development of industries in backward areas can be achieved only through promotion of small-scale industries” Chowdhury (2001).

Small-scale industries can have profound influence by raising income level of the rural people, creating employment in our economy by diversification of production through ancillarisation, diffusion of ownership through the promotion of local entrepreneurship and geographical dispersal of industrial activities by setting up industries based on local resources. The main aim of Small Scale Industries Development Programmes in various Five Year Plans is through equitable dispersal of industries for balanced regional development.

The Planning Commission, Government of India while elaborating on its strategy for promotion of rural industries in the Second Five Year Plan for equitable and balanced economic development has stated as follows:

“Industrial expansion on the periphery of large towns could scarcely be said to reduce the concentration of industry, what needed therefore was a pattern of industrial activity in which a group of villages converging on their natural industrial and urban centre form a unit or to use the Karve Committee’s expression, a pyramid of industry based on a progressive rural economy.”
Promotion of the development of Small Scale Industries (SSIs) in backward and less developed regions is often cited based on the most important logic of initiating regional industrial balance by counteracting or neutralizing to the extent possible the polarization of industrial activities within developed regions. Accordingly, the development of SSIs in backward regions could be effectively used to maximize utilization of local resources, both natural and human, and also to minimize inter-regional gaps in development.

Since independence the Government of India has provided various incentives and concessions from time to time to promote industrialization in backward areas. The programme of industrial estates, rural industries projects, provision of capital and transport subsidies to those units located in the identified backward districts or regions, fiscal concessions to industries in backward areas and District Industries Centre (DIC) programmes were formulated and designed to promote and foster dispersed and decentralized industrial growth and thereby reduce regional disparities. Moreover, the government has set up various financial institutions for relieving and alleviating backwardness.

It is in the above context that Kulkarni (2001) has observed as follows:

“Institutions like National Small Industries Corporation (NSIC), Khadi and Village Industries Commission (KVIC), National Bank for Agricultural and Rural Development (NABARD), and Small Industries Development Bank

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of India (SIDBI) were set up to promote and assist small-scale industries in backward or rural areas of the country. The Government of India has created the Rural Infrastructure Development Fund (RIDF) in NABARD to create infrastructure such as irrigation, roads, bridges, and market yards in rural areas.”

In India, the Khadi and Village Industries Commission has been helping the rural people in the village and cottage industries by providing various incentives and organizing various training programmes thereby increasing employment avenues in rural and backward areas. Besides, the setting up of Regional Rural Banks (RRBs in 1975 has led to increased scope of village and cottage industries; as the RRBs have been extending various types of loans to the artisans and entrepreneurs in rural areas at concessional terms. The SIDBI and Commercial Banks (CBs) have also been playing crucial role in development and promotion of cottage and small scale sector in backward areas. The different schemes of SIDBI seek to boost up industrial development in backward areas and these include, inter alia, Micro-credit, Mahila Vikas Nidhi, Rural Industries Programme, and Adoption of Clusters for Technology Upgradation. Despite the operation of multitude of schemes by a number of Government or Government-controlled agencies for the promotion of small scale industries in India with a view to bring about equitable regional development in India, it may be pointed out that industrial development in India is still highly uneven. Because, while some areas like Maharashtra, Andhra Pradesh, Haryana, Uttar Pradesh and Gujrat are highly
industrialized some others like the North-Eastern States, Bihar, Jammu & Kashmir, Himachal Pradesh etc are lagging far behind in industrialization. Within individual states also huge disparities exist between different geographical regions, like, different districts within the same state. For instance, the northern districts in Kerala (like, Palakkad, Malappuram etc.) are industrially and economically far less developed than most of the districts in the southern and central Kerala.

In the ongoing era of economic liberalisation and globalisation, it is imperative for the Government to play the vital role to promote the growth of the industries in a balanced and equitable manner. Besides, the infrastructure development should be initiated on a widespread manner so that the first generation entrepreneurs, particularly those of micro enterprises, would find it meaningful and profitable to invest in less developed areas.

In the above context it has been observed that “With the ‘obsession over industrial liberalization’ the crucial matter of employment creation has taken a backseat. This is not at all good for the country. If the small scale sector is to act as an agent of decentralization in rural and suburban areas, the government should come forward by strengthening the infrastructure in the rural and semi-urban areas and improving the transport facilities, raw materials facilities, providing more financial help in the form of loans by establishing more co-operative banks and also opening the branches of various other nationalized banks which could meet both the short term and
long term credit needs of the existing and also the potential industries. (ICSI Herald, 1998).

Empirical studies have clearly indicated that the encouragement of small scale sector would certainly serve to counter the seasonal unemploy ement of the agricultural labour force and thus utilize such labour which would go waste otherwise. For instance, the observation of Golder, 1993 would clearly point to the fact that while employment in the industrial sector as a whole including large scale, medium scale and small scale has increased by only 2.21 percent per annum over the period from 1972 to 1988, whereas the employment in small-scale sector alone grew at the rate of 5.45 percent per annum over the same period. In short, the vast employment generation potential of small scale sector is beyond any doubt.

The huge employment generation potential of SSEs, particularly micro enterprises, is one of the main considerations for an overpopulated and developing country like India, where millions of people are either unemployed or underemployed, to utilize this potentiality for providing employment opportunity to the masses. Thus, employment can be provided both to the educated and technical manpower and to the unlimited labour force which have been constantly increasing; at a relatively low capital cost and very short gestation period. Given the acute unemployment, underemployment and disguised unemployment in India, creation of employment opportunities will depend crucially to the development of small industries.
Regarding the future prospects of small-scale industry in India is concerned, the rural non-farm sector accounting for about 22 percent of rural employment could play a vital role in the further expansion of employment opportunities in the rural areas. An important constituent of the small scale sector in the rural areas is the manufacturing activity that consists mainly of textile-based and agro-based products and units producing construction materials. However, in the urban areas the employment potential seems to be the largest in the non-household and tiny units of the manufacturing sector. (Papola, 2004)

In view of the foregoing, it may be pointed out that healthy growth of small industries, particularly the lowest strata among them viz. micro enterprises, is undoubtedly an imperative for an over-populous and developing country like India which is starving from adequate resources for investment. Apart from creating huge employment opportunities at relatively very low level of investments, small industries particularly micro enterprises can promote equitable and balanced development of the nation, devoid of regional disparities.

It is in the above context that micro enterprises that function in Palakkad district in Kerala – a typical backward district in Kerala which is predominantly of rural nature is chosen for this study with a view to analyse the problems and limitations that are faced by the micro enterprises and the nature of such problems and limitations. This in turn would enable the design of appropriate remedial strategies to ensure healthier and more efficient
functioning of such micro enterprises, and hence faster, equitable and balanced economic development. The findings of the study could be used for informed policy decisions at governmental and administrative level also, apart from policy decisions at the micro level viz. at the level of individual micro enterprises.

1.6 Statement of the Research Problem

Small enterprises are often considered as the growth engine of an economy, whether developed or developing. These enterprises have the capacity to act as prime movers of an economy. Even at times of economic recessions, they can help the economy moving ahead. They can ‘kick-start’ a recession-hit economy by triggering up more investments thus helping to scale up the industrial growth further. This, in turn, provides more employment and reduces poverty. Small enterprises provide the much desired economic sustainability to rural and semi urban locations where they are functioning. It may be pointed out here that it is the rural areas that derive maximum benefits out of small enterprises in developing nations like India where majority of the population still lives in the rural areas. The utmost significance of small industries for economic development in general and rural development in particular of developing nations like India need not be overemphasized.

Moreover, small enterprises can help reduce the regional disparities among different locations in the same state or nation. Another fact that
deserves consideration here is that among the small enterprises in the broad sense (or, MSMEs as per the MSMED Act 2006), it is the smallest or the lowest category among them (viz. micro enterprises as the latest MSMED Act 2006) that has got the maximum potential for balanced and equitable growth with the least level of investment, but having the maximum potential for employment generation and income creation. It may be pointed out here that the micro enterprises constitute nearly 95 percent of all types of small enterprises (MSMEs). Naturally, micro enterprises category is the focus of this work, which accounts for nearly 95 percent of the total of all small enterprises in India.

In view of the foregoing, the research problem for this study can be stated as follows:

_To make an empirical study of the problems faced by the micro enterprises in the state of Kerala state with a view to suggest meaningful strategies for their enhanced operational efficiency and stability so that they can effectively contribute towards the economic development of the region in general and rural development in particular._

1.7 Scope of the Study

As already pointed out, the scope of the study is limited to micro enterprises (within the broad category of MSMEs). Thus, enterprises wherein the investment in plant and machinery do not exceed 25 lakhs in respect of manufacturing units and 10 lakhs in respect of those engaged in rendering
services alone are coming under the ambit of this study. However, it may be pointed out here that typically micro enterprises constitute a vast majority of almost 95 percent of the total MSMEs in almost all districts in India. Therefore, a study of micro enterprises would represent the entire segment of MSMEs to a very large extent.

Moreover, for the purpose of empirical analysis only the micro enterprises functioning in the district of Palakkad in Kerala state alone are considered – a district in the state of Kerala which is one of the most backward districts in the state and is characterised by the existence of a large number of small enterprises? These small enterprises can play a very meaningful role in reducing the economic backwardness of the district through faster industrialisation, and generation of income and employment opportunities. The large number of micro enterprises in this district i.e., about 98.19 per cent of the total MSME in the district belong to the micro enterprises, if it is nurtured properly could play a catalytic role in the economic development of the district, particularly rural development.

1.8 **Significance and Relevance of the Study**

For the Indian sub-continent in general and an industrially very backward state in the Indian union viz. Kerala in particular, the role of small enterprises in faster economic development through industrialization need not be over emphasized. This is particularly true for a backward district in Kerala
with a large number of small enterprises many of them having problems of survival in view of the fierce competition in the ongoing era of globalization.

Small enterprises sector is taken seriously by the academics, researchers and policy makers alike. This is because of the fact that these industries can act as a vehicle for driving local employment opportunities and wealth creation, and can also play a vital role in bringing about competitiveness through innovations in both products and processes.

It may be pointed out here that this sector has been accorded top priority by the successive elected Governments in India at the Centre, and so also at the various constituent states of India, including Kerala. In addition to the challenges of creating new products as well as embracing the modern production processes and innovative techniques, the ongoing era of economic liberalization and globalization coupled with the general slowdown in the global economy have given another dimension to the problems connected with the survival and growth of small enterprises.

In India, of late, we have a broad consensus among different stakeholders in the economy to pursue policies which takes the nation forward by creating more sustainable growth opportunities across the segments be it manufacturing, services or agriculture. This is required to generate more employment opportunities, distribute economic benefits and create self sufficiency in food and non-food goods and services. To achieve the above
Introduction

objectives, the small enterprises will have to play a crucial role in driving growth.

It is in the above context that the present study gives added thrust on identifying the problems and prospects of micro enterprises from the perspectives of both entrepreneurs and employees of these enterprises, with a view to identify the key variables that could contribute effectively to their superior performance and enhanced profitability and operational efficiency. The study seeks to reveal the major problems of these units and areas that require focused attention for superior performance of these micro enterprises. Accordingly, the study seeks to suggest appropriate strategies for enhanced performance of micro enterprises, and hence faster, equitable and sustainable economic development of the rural areas wherein these micro enterprises function.

1.9 Objectives of the Study

The general objective of the study is to analyse the role of micro enterprises in the process of rural development. The specific objectives are:

(i) To study the structure and growth of small industries in India with special reference to micro enterprises, with a focus on the scenario in the state of Kerala;

(ii) To make an empirical study of the socio-economic profile of the entrepreneurs and the employees of micro enterprises in rural areas, their
problems and prospects, and their performance; with a focus on the Palakkad District in the state of Kerala;

(iii) To identify the association of key variables relating to the rural micro enterprises and entrepreneurs of such enterprises, with the performance of such enterprises;

(iv) To examine the role of micro enterprises in bringing about regional rural development measured in terms of the level of empowerment of the entrepreneurs of the rural micro enterprises and that of the employees of such enterprises.

1.10 **Hypotheses of the Study**

(i) There is a significant positive association between size of the micro enterprises and their profitability.

(ii) There is a significant positive association between the previous experience of the entrepreneurs and the profitability of micro enterprises.

(iii) The expected growth rates of micro enterprises as perceived by the entrepreneurs are significantly higher than the actual growth rates.

1.11 **Methodology of the Study**

Both primary and secondary data are used for the study. Primary data is based on a field survey. The research considers a sample of 270 micro enterprises and 810 employees employed in those units. Micro enterprises in both manufacturing sector and service sector are considered for the survey.
Introduction

The 270 micro enterprises under study are those chosen from different industrial sector like Handloom, Food, Information Technology etc. Popular methods of statistical analysis are used for data analysis.

1.11.1 Sampling Design

There are 13502 micro enterprises in Palakkad District. The present study has selected 270 units of them at random for intensive study. These units fall under 12 types of micro enterprises. (viz. 2 percent of the total units in each category) selected on a pro-rata basis to ensure representativeness of the sample vis-a-vis the total population (Table 1.2).

Table 1.2: Design of the Sample from the Total Population of Rural Micro Enterprises

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Type of Micro Enterprises</th>
<th>Total No. of MEs in Palakkad District</th>
<th>No. of MEs in rural or semi-urban areas</th>
<th>No. of units in the sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Food products</td>
<td>1812</td>
<td>1753</td>
<td>35</td>
</tr>
<tr>
<td>02</td>
<td>Textiles and Garments</td>
<td>2509</td>
<td>2448</td>
<td>49</td>
</tr>
<tr>
<td>03</td>
<td>Glass and Ceramics</td>
<td>90</td>
<td>88</td>
<td>2</td>
</tr>
<tr>
<td>04</td>
<td>Mechanical Engineering</td>
<td>1244</td>
<td>1221</td>
<td>24</td>
</tr>
<tr>
<td>05</td>
<td>IT and ITES</td>
<td>191</td>
<td>185</td>
<td>4</td>
</tr>
<tr>
<td>06</td>
<td>Rubber Products</td>
<td>98</td>
<td>97</td>
<td>2</td>
</tr>
<tr>
<td>07</td>
<td>Chemical</td>
<td>242</td>
<td>239</td>
<td>5</td>
</tr>
<tr>
<td>08</td>
<td>Plastic</td>
<td>613</td>
<td>608</td>
<td>12</td>
</tr>
<tr>
<td>09</td>
<td>Paper and Paper Products</td>
<td>216</td>
<td>212</td>
<td>4</td>
</tr>
<tr>
<td>10</td>
<td>Fruit and Fruit-based Products</td>
<td>81</td>
<td>77</td>
<td>2</td>
</tr>
<tr>
<td>11</td>
<td>Service Activities</td>
<td>2105</td>
<td>2057</td>
<td>41</td>
</tr>
<tr>
<td>12</td>
<td>Miscellaneous</td>
<td>4602</td>
<td>4517</td>
<td>90</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>13803</td>
<td>13502</td>
<td>270</td>
</tr>
</tbody>
</table>

Source: Data on number of units as of 2008 collected from District Industries Centre, Palakkad
For the selection of the individual micro enterprises to be included in the sample, random sampling method is adopted (using random number tables). From each such micro enterprise selected for the study, three employees each are also selected for the survey.

Secondary Data

Secondary data are collected from authentic books, periodicals, research publications of the State and Central Governments, NSSO publications, the Reserve Bank of India publications, research papers and articles, working papers of reputed research organisations, doctoral theses, research project reports and official websites of relevant organisations, Government departments etc.

1.11.2 Tools for Data Collection

Both primary and secondary data are used for the purpose of this study. Primary data are collected from the micro enterprises selected for the study, by administering two separate sets of pre-tested structured Schedules (Appendix I & II), for the two broad classes of informants namely: i) Entrepreneurs of the selected micro enterprises in Palakkad district, and ii) Employees of the selected micro enterprises (three from each enterprise).

There were, in all, 14,057 MSMEs in Palakkad district as of 31 March, 2008. Of these a vast majority of 13,803 units are micro enterprises, the rest
alone are falling under small and medium enterprises. Of the 13,803 micro enterprises, those falling in rural and semi-urban areas alone (viz. 13,502 units) are falling under the purview of this study, and from these units a sample of 270 micro enterprises (ie. 2 per cent of the population) are selected on a pro-rata basis to ensure representativeness of the sample with the population. This selection process is shown in Table 4.1 above. Besides, as already noted, three employees each are selected from each of the 270 units selected for the study, that is totally there are 810 employees selected for the study.

1.11.3 Analytical Tools and Statistical Software Packages

The study uses different statistical and mathematical tools for analysis. The major tools used are averages, percentages and ratios. In order to study association between variables Chi-square test is used depending on the nature of the data. To assess the extent of association between relevant variables Correlation analysis and t-test have been employed. To make comparison of attributes, suitable scaling and ranking techniques have been used throughout.

Popular statistical software packages (like, SPSS, STATA etc.) have been used for computer-based data analysis.

1.12 Presentation of the Report

This thesis is presented in six chapters. The details regarding the contents of these six chapters are briefly discussed below:
Introduction

The first chapter gives an introduction to the study and it includes the statement of the problem, objectives of the study, methodology of the study (in brief), relevance and significance of the study, scope of the study, presentation of the report and finally ends with limitations of the study. It also deals with the detailed research methodology which includes, data collection sources, sampling frame and data collection methods, analytical tools, etc. This chapter contains a discussion on the conceptual framework of the study also, which includes, inter alia, the theoretical basis of this study, brief discussion on the various theories of development economics that are relevant to this study and also findings of empirical studies in this area that support the present research.

The second chapter provides a review of the literature relating to the field of study. Studies, both theoretical and empirical, in the area of study are covered in this chapter. Towards the end of this chapter, the research gap is given – what the present study seeks to bridge.

The third chapter discusses the profile of the small enterprises and their role in regional and national development, from a broader perspective. Accordingly, the first part of the chapter gives an overview of small enterprises from a global perspective followed by the same from an Indian perspective. The second part of the chapter discusses the industrial scenario in Kerala and the role played by small enterprises.
Introduction

The fourth chapter gives the profile of the 270 sample entrepreneurs and 810 sample employees. The chapter also contains the analysis of the feedback from the respondents of field survey (viz. the 270 entrepreneurs of the sample enterprises and also 810 sample employees of the selected enterprises as above, ie. 3 each from each of the sample enterprise) along with its interpretation. Accordingly, various performance parameters of the enterprises under study as perceived by the sample entrepreneurs and sample employees are covered in detail.

The fifth chapter discusses the extent to which micro enterprises could bring about development by way of empowerment of the entrepreneurs and also employees of the enterprises. For the measurement of the development potential of micro enterprises, the empowerment to the entrepreneurs (from three dimensions viz. entrepreneurial, individual and social) is studied. Similarly, measurement of development through empowerment to the employees is also studied (from three different dimensions viz. individual, family and social).

The last chapter gives the summary of the major findings of the study followed by the suggestions of the researcher for further improvement in the functioning of micro enterprises for faster development of the region through empowering both the entrepreneurs of these enterprises and the employees thereof. The chapter ends with the concluding remarks.
1.13 Limitations of the Study

The major limitations of this study include, inter alia, the following:

(i) The empirical (field) study is limited to one typical district in Kerala which is one of the most backward districts in the entire state, but is having a large number of micro enterprises. Other districts in Kerala and other states in India are beyond the scope of the detailed study.

(ii) Only the problems relating to operational, financial and marketing aspects of the functioning of micro enterprises are considered in this study. Other aspects that influence the performance of micro enterprises like personality factors, leadership skills, adoption of ICT (information and communication technology) etc. are beyond the ambit of this study.

(iii) Some respondents (particularly entrepreneurs of micro enterprises) have been observed to be quite reluctant to disclose actual information, especially those relating to income and other personal matters. Thus, logical approximations based on data made available have been made for the purpose of this study.

(iv) The study is based on samples drawn from different types of micro enterprises. Though all these enterprises are falling under the same broad category (viz. micro enterprises) there may be reasonable level of differences in their mode of operations, their growth prospects and problems that they face. For the purpose of this study, they have been
treated alike while drawing broad inferences based on the rationale that almost all of them have high level of similarities in their functioning and operating environment. Besides, the common limitations as are applicable to any sample survey are applicable to this study also.
REFERENCES


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*Role of Micro Enterprises in Rural Development*


