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Research Paper

Problems of Micro Enterprises in Kerala: Findings of An Empirical Study in Palghat

Economics

KEYWORDS : Micro Enterprises, MSMED Act 2006, Economic Reforms, Competition, Competitive strategies

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ABSTRACT

Micro Enterprises play a vital role in balanced and equitable economic development of any nation, and India is no exception. In the context of growing apprehensions regarding widening disparities in development in on-going era of economic liberalization in India, this paper looks into the major problems faced by micro enterprises located in Palghat district in Kerala (India) and makes a few policy suggestions.

INTRODUCTION

It is well recognised that small scale enterprises (SSEs) play a vital role in the economic growth and equitable development of all nations, both developed and developing. In fact, SSEs exist in large numbers and employ many people in the industrialised countries. This fact is often quoted as a major reason for SSE development in the developing counties, including India.

In the case of India, the peculiar capability of SSEs in bringing about faster development was acknowledged even during the early years of the Plan era, despite the fact that The Industrial Policy Resolution 1956 favoured priority to heavy industry. SSEs are often referred to within the broader framework of Small- and Medium-scale Enterprises (or, SMEs in short). It is estimated that SMEs 'constitute as high as 90 per cent 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 SMEs contribute heavily toward poverty reduction and wider distribution of wealth in the developing economies. Since the enactment of Micro, Small and Medium Enterprises Development Act 2006 (MSMED Act 2006) in India, SSEs, SMEs etc. are often referred to under the common term Micro, Small and Medium Enterprises (or, MSMEs in short).

The MSMED Act 2006 came into effect on October 2, 2006. MSMED Act 2006 classifies MSMEs into three types as given in Table I. Of these three types of MSMEs, micro enterprises require the lowest level of investment and hence the most affordable for the new entrepreneurs, women etc. They have huge potential for equitable and balanced development for a nation like India. The focus of this paper is only on micro enterprises.

Objectives and Methodology

This paper seeks to identify the major problems faced by a sample of 270 micro enterprises falling under a number of industry types, located in Palghat district in Kerala state. The sources of data are both primary and secondary. Primary data are collected from field study, as noted above. Secondary data are collected from authentic publications and reports of Government India, Government of Kerala, Reserve Bank of India, etc.

PROBLEMS OF MICRO ENTERPRISES

In the on-going LPG (Liberalization, Privatisation and Globalisation) regime in India, micro enterprises need international competitiveness for their survival and growth. An empirical study of 270 sample micro enterprises has revealed that their major problems include capacity utilization, raw material availability, finance (working capital) availability, availability of latest technology, marketing problems and labour problems. It may be noted that the most chronic problem that is applicable to almost all units under study is that low capacity utilization. In fact, as high as 92.22 percent of the units are facing the problem of capacity utilization. Second worst problem is that of finance viz. non-availability of adequate capital at the right time, and as high as 91.11 percent of the sample enterprises under study have reported this problem. Third worst problem is that of labour related problems, 74.07 percent of sample micro enterprises having reported this problem. Fourthly and fifthly come raw material availability problem (70.74 percent) and marketing problem (68.89 percent) respectively. Lastly comes the technology problem which is reported by 61.85 percent of the enterprises. Figure I depicts these problems in the above order.

ANALYSIS AND DISCUSSION

It may be pointed out here that all the above problems are mutually interconnected and inter-dependent. For instance, better capacity utilization required aggressive marketing coupled with enhanced levels of production which in turn required added quantum of raw materials, working capital and deployment of labour. Problem with any one of these vital ingredients in the supply chain may affect the business growth of a typical micro enterprise. However, intensity of the problem varies from one type of micro enterprise to the other. For instance, textiles and garments industry segment has got almost all these problems to a very large extent and capacity utilization problem is there for all units in this segment. Almost similar is the case with plastic industry. Thus s generic strategy might not be sufficient for all types of enterprises. Rather, a holistic and integrative policy is required at the individual unit level to tackle their problems. Likewise, integrative and comprehensive approach is required at the Governmental level towards MSMEs in general and micro enterprises in particular.

POLICY SUGGESTIONS

Specialized training courses be organized for the benefit of micro entrepreneurs regarding effective capacity utilization, effective utilization of ICT (Information and Communication Technology) for enhancing the operational efficiency by reducing costs, TQM (Total Quality Management) for global competitiveness of the products etc. The efforts in this direction by Ministry of MSMEs be broad-based and further expanded to cover all micro-enterprises. Government should give special thrust to micro enterprises within the Priority Sector Lending norms being stipulated by it for commercial banks. Even New Generation Private sectors banks (NGPBs) be brought under priority sector norms as in the case of Public Sector Banks (PSBs), Old Private sector Banks (OPBs), Regional Rural Banks (RRBs) etc. so that more credit flow could be ensured into this sector. Government should encourage formation of 'clusters' of major types of industries wherein micro enterprises have presence. This in turn enable them to source raw materials, skilled labour etc. with ease. Specialized programmes for marketing of the products of micro enterprises should be encouraged or sponsored by the Government.

Concluding Remarks

In view of the foregoing discussions, 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

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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.

Table I: Classification of MSMEs (MSMED Act, 2006).

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

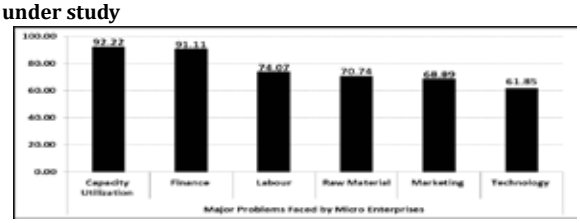
Source: The Gazette of India, No. 27 of 2006, MSMED Act 2006, Govt. of India, p.5.

Table II: Major Problems Faced by the Micro Enterprises under study

Type of Micro Enterprises	Total number of units in the Sample	Entrepreneurs of units who cited the Problems (No)					
		Capacity Utilization	Raw Material	Finance	Technology	Marketing	Labour
Food products	35	33	30	29	27	32	31
Textiles and Garments	49	49	47	45	48	22	46
Glass and Ceramics	2	2	1	2	1	0	2
Mechanical Engineering	24	20	7	23	14	18	14
IT and ITES	4	0	0	4	1	1	2
Rubber Products	2	2	2	2	1	1	1
Chemical	5	4	3	5	2	4	3
Plastic	12	12	11	12	7	10	10
Paper and Paper Products	4	4	4	4	2	2	3
Fruit and Fruit-based Products	2	1	1	2	1	1	2
Service Activities	41	39	19	39	24	21	27
Miscellaneous	90	83	66	79	39	74	59
Total	270	249	191	246	167	186	200
Percentage Share	100	92.22	70.74	91.11	61.85	68.89	74.07

Source: Field Survey data

Figure I : Major Problems Faced by the Micro Enterprises under study



Source: Based on Table II above.

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