

**GLOBALISATION AND PROSPECTS OF MICRO,
SMALL AND MEDIUM ENTERPRISES (MSMEs): A
STUDY OF MSMEs IN COOCH BEHAR AND
HOWRAH DISTRICTS IN WEST BENGAL**

**A Thesis submitted to the University of North Bengal
For the Award of**

**Doctor of Philosophy
in
Economics**

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**Dedicated to the memory of my father late Dwijadas Lahiri and my mother
late Ramashree Lahiri**

DECLARATION

I declare that the thesis entitled “ Globalisation and Prospects of Micro, Small and Medium Enterprises (MSMEs): A Study of MSMEs in Cooch Behar and Howrah Districts in West Bengal” has been prepared under the guidance of Anil Bhumali, Professor, Department of Economics, University of North Bengal. No part of this thesis has formed the basis for the award of any degree or fellowship previously.

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ABSTRACT

Micro, Small and Medium Enterprises (MSMEs) are one of the most vibrant and sensitive sectors in Indian economy due to its capacity of employment generation, low capital and technology requirement, use of traditional or inherited skill, mobilization of local resource, exportability of products and commendable adaptability and innovativeness to sustain in highly competitive market to achieve the national objective of growth with equity and inclusion. As per the Annual Report of the Ministry of MSMEs, 2011-12 this sector accounts for about 45 percent of manufacturing output, 40 percent of total exports, employs more than 59 million people and produces more than 6000 variety of products ranging from traditional to sophisticated items.

Objectives of the Study

This sector was a highly protected area during the pre liberalisation period to safeguard the Small Scale Industries (SSIs) from market competition by imposing several Quantitative and Qualitative Restrictions (QRs). From 1990 onwards, the MSMEs started facing stiff competition in the market due to liberalisation of investment regime favouring Foreign Direct Investment (FDI), implementation of World Trade Organisation (WTO) directives to scale down the Quantitative and Qualitative Restrictions (QRs) and domestic economic reforms. Under this background, the major objectives of the study are as follows:

- 1) To examine the impact of globalisation on the number of units, production, employment and export of MSMEs in India
- 2) To analyse the problem of poor financial support to the MSMEs, specifically the Micro and Small firms, by the banks and other financial institutions and the role of unorthodox / unconventional methods of financing MSMEs
- 3) To analyse the problem of growing sickness among the MSMEs and how far the Govt. restructuring policies have been helpful for the MSMEs
- 4) To interpret the performance of the MSMEs in West Bengal during post liberalisation period and to identify the major problems and opportunities of the sector
- 5) To carry out a case study among the MSMEs in Cooch Behar and Howrah district in West Bengal to examine their performance, problems and prospects.

Research Questions

During the research process, we have tried to answer the following questions:

- 1) What is the effect of liberalisation on the number of units, employment, production and export in MSMEs in India?
- 2) Why are the MSMEs (especially the micro and small firms) suffering from the lack of institutional credit and how can the problem be addressed?
- 3) Why is the incidence of sickness in MSMEs continuously increasing during post liberalisation period?
- 4) How far have the MSMEs been affected by the De-Reservation Policy?
- 5) How have the MSMEs in West Bengal performed during post reforms period?
- 6) What are the problems and prospects of MSMEs in Cooch Behar and Howrah district?
- 7) How are the Women Entrepreneurs performing in the MSME sector (especially in Cooch Behar and Howrah district)?

Research Hypotheses

Based on the objectives of study and the research questions we have tried to test the following hypotheses:

- 1) The growth rate of number of units, employment, production and export of the MSMEs in India has increased during the post liberalisation period.
- 2) Institutional credit support to the MSMEs has not been adequate to meet their credit needs during the post liberalization period (with reference to the MSMEs in Cooch Behar and Howrah districts).
- 3) The incidence of industrial sickness in MSMEs has increased during the post reform period.
- 4) There is no significant effect of withdrawal of Reservation Policy on the MSMEs.
- 5) The performance of MSMEs in West Bengal has not been satisfactory during post liberalisation period.

Research Methodology and Data Source

An empirical study on the MSMEs in Cooch Behar and Howrah districts in West Bengal has been carried out considering Cooch Behar as the rural and Howrah as the urban industrial district. Cooch Behar is one of the most industrially backward districts in West Bengal with limited number of MSMEs engaged in food processing, plastic & rubber industries, jute based general engineering, cold storage, herbal products, fertilizer, handicrafts industries etc. On the

other hand, Howrah is one of the most prominent industrial bases in West Bengal showing good concentration of MSMEs over the years and the majority of MSMEs are engaged in basic metal products, metal products, machinery & spares (other than electrical), electrical, transport equipment & spares, hosiery & garments, rubber & plastic etc.

We have selected 20 micro units, 12 small scale units and 18 handicraft industries in Cooch Behar and 30 micro units, 14 small units and 6 medium scale units in Howrah using simple random sampling method from the list of industries provided by the District Industries Centre (DIC). The period of study is from 2005-06 to 2011-12 and major areas analysed in the study are average investment, average employment, financing scenario and major problems faced by the MSMEs. The major statistical techniques used are calculation of percentage growth rate over the previous year, Altman Model, Average Annual Growth Rate (AAGR), Henry Garrett's Ranking Techniques. Primary data has been collected from the sample MSMEs in Cooch Behar and Howrah District through structured questionnaire, interview with the MSME owners and workers, Govt. officials of District Industries Centres (DICs), banks etc. The vital sources of secondary data are Annual reports published by the Ministry of MSMEs, published reports of four censuses conducted by the Ministry of MSMEs during 1973-74, 1987-88, 2001-02 and 2006-07, Annual Survey of Industries (ASI) and National Sample Survey Office (NSSO), Directorate of Micro and Small Scale Enterprises, Govt. of West Bengal, District Industries Centre (DICs) of Cooch Behar and Howrah etc.

Findings of the Study

In spite of several directives from the RBI, institutional credit supply to the MSMEs has been discouraging due to low growth rate, informal business practices, inability of the entrepreneurs to maintain collateral securities, lack of creditworthiness of the MSME sector. The Fourth Census of MSMEs (Base year 2006-07) shows that out of the registered MSMEs, more than 87% of firms do not have any access of institutional financing. Data collected from 1994-95 to 2011-12 show that the annual growth rate of percentage of Net Bank Credit offered as credit to MSMEs has not shown sufficient increase even after re-classification of MSEs as per MSMED Act, 2006. The situation has taken a shape of 'Vicious Circle' where the banks avoid investing in MSMEs due to their lack of credit worthiness and the MSMEs have to suffer due to lack of financial capacity which adversely affects their loan eligibility. The field survey among the MSMEs in Cooch Behar and Howrah districts shows that in both the districts the banks have favoured the

financially strong small and medium firms while the credit needs of the micro and handicrafts industries are not met satisfactorily. The unconventional modes of financing (venture capital funds, micro financing, factoring etc) though currently at their infancy in India can be an effective tool to bridge the gap of institutional financing.

The performance analysis of MSMEs in India on the basis of number of units, production, employment and export from 1973-74 to 2011-12 using Average Annual Growth Rate (AAGR) shows poor performance of the MSMEs during post reforms period. The growth rate in production and export of MSMEs during post-reforms period is less than that of pre-reforms period while the growth rate in employment and number of MSMEs in post-reforms period is marginally high. The MSMEs in Cooch Behar show that there is no significant impact of globalization on the number of MSMEs and employment as the trend of number of units and employment (both year wise) in pre and post reforms period remain almost the same. However, number of MSMEs and employment show a declining trend in Howrah during post reforms period. This might be due to inability of MSMEs to adept the challenges of globalisation, technological obsolescence, infrastructural bottlenecks, marketing and managerial inefficiency.

The field surveys in Cooch Behar and Howrah reveal that the majority of the entrepreneurs are not aware of Reservation Policy and do not even know that they are producing reserved items. The performance of the MSMEs not producing reserved items is superior to that of MSMEs producing reserved items. Thus, the study does not identify any adverse impact on the MSMEs due to gradual withdrawal of reservation policy and suggests that the Govt. should continue De-Reservation Policy to increase competitiveness of the sector.

The study of sickness in MSMEs during post reforms period reveals that the percentage of sick units in total MSMEs has a reducing trend but the percentage of viable units out of the sick MSMEs and the percentage of the viable MSMEs put into the rehabilitation scheme is extremely low. The Altman Model used in the study shows that the MSMEs in Cooch Behar have more possibility of financial distress than that of MSMEs in Howrah.

The employment generation by the MSMEs in both Cooch Behar and Howrah shows except a handful of small and medium enterprises, most of the workers in the micro and handicraft industries are the family members of the entrepreneurs. The number of permanent workers is insignificant as most of the outside workers are hired on contract basis. The possibility of disguised unemployment is high in both the districts. The contribution of female entrepreneurs

and workers is significantly less as their participation is limited in handicraft industries and food processing industries in both the districts. The number of female workers is extremely less in major plywood industries in Cooch Behar and in major clusters like metal spare parts, optical lens, re-rolling, engineering industries in Howrah. The level of technology, marketing and managerial efficiency especially among the MSMEs in Cooch Behar is not adequate to compete with the large domestic firms and the multinationals. However, the West Bengal Govt. has given due importance to the MSMEs in its Industrial Policy, 2013 and the sector has been identified as the strategic or key area for industrial development. Adequate infrastructural facilities like power, water, transport and communication services, research and technological facilities, political and economic stability, pro-business attitude of the Govt. and proper execution promotional policies will ensure long term growth for MSMEs in West Bengal.

PREFACE

Impact of globalisation on MSMEs is an extremely important and relevant issue in recent times. In the research process, we have carried out empirical studies on the MSMEs in Cooch Behar and Howrah districts in West Bengal. The study is a modest attempt to analyse the scenario of MSMEs in India especially in Cooch Behar and Howrah districts in West Bengal, identify the problems of the sector and offer effective solutions.

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CHAPTER -1

INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) are one of the most vibrant and sensitive sectors in Indian economy. The MSMEs are considered engine of growth all over the world. The significance of the sector is attributed to its capacity of employment generation, low capital and technology requirement, use of traditional or inherited skill, mobilisation of local resources and exportability of products. This sector has shown commendable adaptability and innovativeness to sustain in highly competitive market and plays a vital role to achieve the national objective of growth with equity and inclusion. The MSMEs can be a great tool to generate alternative modes of living, reduce regional imbalances by establishing a network of MSMEs especially in the backward areas and reduce excessive dependence on agriculture. As per the **Annual Report of the Ministry of MSMEs, 2011-12**²² this sector accounts for about 45 percent of manufacturing output, 40 percent of total exports, employs more than 59 million people and produces more than 6000 variety of products ranging from traditional to sophisticated items.

This sector was a highly protected area during the pre liberalisation period to safeguard the Small Scale Industries (SSIs) from market competition by imposing several Quantitative and Qualitative Restrictions (QRs). However, with the introduction of New Economic Policy (NEP) in 1991, the situation changed dramatically. Indian market was gradually opened by scaling down the restrictive measures as per the World Trade Organisation (WTO) directives to promote free trade throughout the world. This has resulted in intense competition in the market where the ‘dwarf’ MSMEs has to compete with the ‘giant’ multinationals to maintain their existence. The sector needs urgent attention as India’s economic growth is highly dependent on promotion and development of MSMEs.

1.1 MSMEs IN INDIA

1.1.1 PRE-INDEPENDENCE PERIOD

Indian economy, one of the oldest economies in the world occupied a prominent position for being its rich and resourceful nature. As History depicts, it attracted several foreign traders and invaders over the year. Most of them entered as traders and eventually captured the ruling power like the Mughals, East India Company etc. Small scale industries were an integral part of ancient

Indian economy as the sector was the principal source of income and employment and products produced by the cottage and small industries were famous for quality and artistic skill. Development in cottage and small scale sector may be analysed dividing the pre independence period into two phases - Pre-colonial period (Up to 1756) and Colonial period (1757 to 1947).

Industrial Development during Pre-Colonial Stage (Up to 1756)

The known economic history of India begins with the Indus Valley civilization (approximately from 3250 and 2750 BC) which is also identified as Harappa civilization. The major economic activities of Harappa civilisation were agriculture, industry and crafts and trade and goldsmith, brick makers, terracotta manufacturers were the main artisans (**Muthumari and Ahmed, 2007**)³¹. Bronze, copper vassals, gold and silver ornaments, beads with different types of semi-precious stones, red and black painted pottery etc were the examples of outstanding crafts of this civilization. They carried out extensive internal trade with different parts of India and foreign trade with Mesopotemia, Afghanistan and Iran (**Raychoudhury & Habib, 2004**)¹¹. Agricultural products, cotton products, pottery, beads, terracotta figures etc. were the main export items (**Parpola, 1994**)⁹. They had well planned streets, excellent drainage and water supply system and a well set up municipal governance system. The traders even formed associations, which were duly supported by the state (<http://www.harappa.com>)³⁰.

The main economic activities of Aryan civilization (approximately between 1500 B.C and 600 B.C) were cattle rearing, carpentry, cotton and woollen fabrics, different types of pottery works, ornaments etc (**Muthumari and Ahmed, 2007**)³¹. Barter system was prevalent but the later stage, gold coins called 'Nishka' was introduced as the medium of exchange (**Majumdar, 1977**)⁷.

Significant improvement in trade and commerce took place during Maurya Empire (322 to 185 BCE) due to economic and political stability during the period. Silver punch mark coin with the symbol of wheel and elephant was introduced. Farmers were liberated of tax and crop collection burdens from regional kings and a nationally-administered, strict but fair system of taxation was introduced (**Majumdar, 1977**)⁷. Chandragupta Maurya established a single currency across India, and a network of regional governors, administrators and a civil service provided justice and security for merchants, farmers and traders. The Maurya king Ashoka sponsored the construction of thousands of roads, waterways, canals, hospitals, rest houses and eased several

rigorous administrative practices, taxation and crop collection policies to encourage economic activity across the Empire **(Smith, 1994)¹⁶**. Another important development was ‘Arthashastra’, one of the most well written theses on economic policies by Kautilya **(http://en.wikipedia.org/wiki/Maurya_Empire#Economy)²⁹**.

The Gupta Dynasty (320- 550 AD) is often referred to as the ‘Golden Age of India’ (during the ruling time of Bikramaditya Second) because of economic superiority, development in trade and commerce, development in cultural and knowledge field.

Significant progress in ocean trade took place as interest payable for ocean trade was much lower in Gupta period compared to Maurya period **(Chottopadhyay, 1997)³**. Foreign trade relations were prominent with China and West Asia. The major export items were spices, sandal wood, precious stone, indigo, cotton etc and the products imported were silk from China, horses from Arab and Iran and tusk from Ethiopia. Buddha Sanghas were economically powerful and highly influential in trading activities **(Raychaudhury, 1972)¹⁰**.

During the period of Harshabardhana (606-647 AD), a declining trend in both agriculture and industry was observed due to decline in trade centres, lack of demand in the market and lack of initiatives from the trade associations **(Muthumari and Ahmed, 2007)³¹**. Agricultural activities were carried on subsistence basis and agriculture based industries and handicrafts witnessed a downfall.

The major reasons for industrial development in Sultani age (1206-1526) were rapid urbanization, improvement in road transport facilities and communication **(Srivastava, 1988)¹⁷**. Major cities like Delhi, Lahore, and Multan became the centres for trade and commercial activities. Cotton textile, paper industries, leather making, carpet weaving etc were the major small industries. India had strong foreign trade relations with West and South East Asian countries during this period **(Chopra, Puri, Das, 2003)²**.

Marked development in both agriculture and industry was achieved during Vijaynagar Empire (1336 to 1646). Agriculture, metal cutting, weaving, diamond cutting etc. were the major economic activities. Vijaynagar maintained business relations with Arabia, Persia, South Africa, and Burma etc. The major export items were cotton and silk clothes, spices, rice, iron, sugar while the imported items were horses, pearls, copper, coral, mercury, China silk and velvet clothes **(Muthumari and Ahmed, 2007)³¹**.

Well defined revenue collection policy, political stability and encouragement to business were the reasons for industrial development during the Mughal period (1526-1803) (Richards, 1996)¹². The economy was based on elaborate system of coined currency, land revenue and trade (Raychoudhury & Habib, 2004)¹¹. Production of sugar, muslin, silk, carpet, shawl etc. was the major economic activities.

Colonial Period (1757-1947)

After winning the battle of Plassey in 1757, the East India Company firmly established itself in India and ruled India till 1857 when the Sepoy Mutiny took place. The Company rule ended and India came into the direct control of Queen Victoria through 'Queen's Proclamation' in 1858 and this continued till 1947. The entire period (1757-1947) has been divided into two vital phases: from 1757 to 1857 (from the battle of Plassey to Sepoy Mutiny) and from 1858 to 1947 (from Queen's Proclamation to independence).

Industrial Development during 1757 to 1857

Resource Enriched and Industrially Developed India

As per the written documents of the European travelers, India was economically superior than most of the European nations in seventeenth century and in early part of eighteenth century due to flourishing industrial centres, high quality products famous for low price and craftsmanship (Bansal & Bansal, 1984)²⁷. The major rural small industries were textiles, pottery, metal works, sugar, iron etc and the urban industries included finer textiles, carpet and shawls, wood and ivory curving etc. No authentic information regarding the presence and power of guilds of industry was available. A few urban artisans were economically powerful but definitely not as influential as the European industry guilds (Roy, Thirthankar, 2011)¹⁴. Before eighteenth century, the skilled urban crafts were limited to some major cities like Lahore, Delhi, Agra, Multan etc but due to political decentralization several new places like Jhansi, Bijapur, and Warangal etc emerged as the centres of skilled crafts. This shift was a significant development in the long run for regional industrialisation.

Extreme Exploitation by the East India Company and Decline in Industrial Base

The East India Company emerged as the main controller of economic activities in India after winning the battles of Palasi and Bauxa in 1757 and 1764 respectively. They changed the prevalent taxation policy and forced the farmers to pay tax in cash instead of crops and

eventually destroyed agriculture based rural economy. From 1793, Indian market was made open for British traders and the market was flooded with foreign products. Due to Industrial Revolution and introduction of railways in eighteenth century, foreign products were available in remote areas and small industries like cotton, pottery, tannery, iron, glass etc suffered due to intense competition in the market.

Many historians of Indian Industrialisation like Amiya Bagchi, Michael Twomey, Amalendu Guha etc believed that the rich artisan tradition of India suffered a catastrophic shock and could not withstand due to easy availability of European products in Indian market. This process known as 'De-Industrialisation' had a profound effect on the cottage and small industries of India as a large number of artisans lost their jobs due to 'De-Industrialisation' (**Bagchi, 1979 and Roy, Thirthankar, 2011**)^{19,14}. India was reduced to a raw material supplying country to England and emerged as a poor agriculture dependent country (**Bansal & Bansal, 1984**)²⁷. India inherited an economy that was one of the poorest in the developing world, with industrial development stalled, agriculture unable to feed a rapidly growing population, one of the world's lowest life expectancies, and low rates of literacy (**Roy, Thirthankar, 2011**)¹⁴.

Industrial Development from 1858 to 1947

European Enterprises

After 1858, British industrialists started taking interest in India due to low rate of wages, easy availability of workers and raw materials, unexplored market, huge demand, supply of credit from banks on easy terms. They enjoyed monopoly in plantation industries like tea, coffee, indigo, sugarcane etc.

Indigo produced in Bengal was best in quality. However, towards the end of nineteenth century, due to invention of synthetic dye, demand for natural indigo fell drastically resulting in reduction in production and export of natural indigo. By the end of nineteenth century, indigo production almost lost its relevance.

British traders established 'Assam Tea Board' in 1839 and production of tea on commercial basis was initiated in 1850 with British capital. In 1900, 137 million pound and 24 million pound tea was exported to England and China respectively. Similarly, coffee production on commercial basis was initiated in Mysore and surrounding hilly areas (**Roy, Thirthankar, 2011**)¹⁴.

Bengal was famous for jute production and many jute mills were set up in both sides of river Ganga. In 1888, 'Indian Jute Mills association' was established. These associations were 'Indian' only in name; they were under full British control. In 1912-13, jute for about 2 crore 5 lac pound was exported **(Roy, Thirthankar, 2011)¹⁴**.

British investors readily understood the importance of coal in industrial development as it became more relevant with the establishment of Railways. In 1857, 3 lac ton coal was obtained from 56 mines in Bengal which was increased to about 10 lac ton in 1887 **(Mukhopadhyay, 2006)⁸**. Some other industries like paper, match box, glass, mica, wood etc also flourished by British capital. These industries did not operate on commercial basis rather aimed at fulfilling the local and British needs.

Indian enterprises

Due to extreme unfavourable Govt. policy, lack of credit support from banks, imposition of high tax Indian industrialists faced a tough time. The major industry under Indian investment was cotton textile industries flourished centering Bombay, Nagpur, Solapur, Surat, Kanpur etc. In 1914, 85 mills in Bombay and 49 mills in Ahmadabad were set up by the Indian entrepreneurs **(Morris D. Morris, 1963)²⁰**.

Indians invested in tea, ship chemical and sugar industries on limited basis. Prince Dwaraka Nath Thakur, Motilal Sheel, Mirza Ispahani invested in tea industry. In 1892, famous scientist Prafulla Chandra Roy set up 'Bengal Chemical and Pharmaceutical Works' in Calcutta.

In spite of unquestionable dominance of British capital in coal industry, a few Indians tried their hands in coal industry. In 1913, "Indian Mining Association" was established by the coal mines operated with Indian capital. During the first half of nineteenth century, Prince Dwaraka Nath Thakur invested in "Car, Tagore and Company" coal mine. Still, the contribution of Indian entrepreneurs in coal industry was not much significant **(Roy, Thirthankar, 2011)¹⁴**.

Iron and steel industry was first set up by Kishorilal Mukhopadhyay in 1867 but this industry got the real momentum in 1907 with the establishment of 'Tata Iron and Steel Company' (TISCO) by Jamsheedji Tata in Jamshedpur. The company produced 1 lakh 80 thousand ton of iron during 1917-18 **(Mukhopadhyay, 2006)⁸**.

Industrial Development during Swadeshi Movement (1905-11)

During Swadeshi Movement (1905-11), industries like medicine, oil, matchbox, sugar, soap, paper, glass, cement etc were established under Indian ownership to encourage people to use Indian product instead of high quality British product. Mahatma Gandhi's appeal to revive village based industries and his identifying 'Khadi' as the symbol of Indian nationalism gave a new dimension to small and rural industries.

Industrial Development after First World War

The First World War started in 1914 and British industries had to be busy in producing arms and war related products. Japan and America tried to capture Indian market in the meanwhile and the British Govt. was under pressure to offer favorable policies to Indians entrepreneurs. The Govt. reduced import duty on iron, steel, sugar, salt, matchbox etc and those industries flourished.

Prior to first world war, the contribution of indigenous entrepreneurs in navigation industries was only about 5 percent of the total investment. In 1919, "Scindia Steam Navigation Company" was set up in Indian ownership and famous industrialist Walchand Heerchand played a vital role in navigation industry. Some indigenous banks and insurance companies were established. New industries like chemical industries, metal fabricating industries etc were set up and Indian National Congress played a significant role in determination of industrial policy of India.

1.1.2 INDUSTRIAL POLICY AND INCENTIVE SCHEMES FOR MSMEs AFTER INDEPENDENCE

After independence in 1947, the Govt. took up the policy of accelerating industrialisation since Second Five Year Plan. The Policy Resolution, 1948 emphasised that cottage and small-scale industries can ensure best utilisation of local resources, achieve 'local-self-sufficiency' in production, employment generation through rehabilitation of displaced persons and balanced economic growth.

Industrial Policy Resolution, 1956 highlighted on improving competitiveness in small-scale industries and stressed on integration of the sector with large industries. It also emphasized on availability of modern technology and promotion policy support, industrial estates and rural community workshop etc.

Industrial Policy Statement, 1977 introduced the concept of District Industries Centers (DICs) to ensure supply of raw materials and machinery, market survey of the district, generating new

business ideas suitable for SSIs, arrangement of credit facility, and maintenance of quality of products.

Industrial Policy Resolution, 1980 was a step towards liberalization. After 1980, the signs of liberalization started becoming prominent and almost all the countries were more or less affected. The main idea was to do away with all the stringent measures and restrictive policies and create an environment of free trade among the countries. This policy took some path breaking measures like increase in investment limit for tiny, small, and ancillary units, withdrawal of industrial location restriction, elimination of provisions regarding expansion, increase in private participation, continuation of Reservation Policy and developing a proper system for early detection of symptoms of sickness in SSIs **(Viyayarani, 2010)¹⁸**.

Industrial Policy Resolution, 1990 recommended increasing the level of investment in Plant and Machinery, granting special assistance to women entrepreneurs in rural and backward areas, strengthening the Reservation Policy by increasing the number of reserved items and establishment of Small Industries Development Bank of India (SIDBI) as a specialized bank to address the credit needs for SSIs.

The New Industrial Policy, 1991 raised the investment ceiling of a small unit to 6 million (Rs 7.5 million if the unit concerned undertakes to export 30 percent of its output or if it is an ancillary unit i.e. a firm supplying at least 50 percent of its output to large scale industries, allowed other investors (including large-scale enterprises and foreign investors) 24 percent equity participation in a small-scale unit, introduced the Act on delayed payment to small and ancillary enterprises, encouraged banks to open specialized SSI branches and gave priority to the MSMEs in their annual credit budgets **(Charantimath, 2013)¹**.

Comprehensive Policy Package for SSIs and Tiny Sector 2000 increased the exemption on excise duty limit to increase competitiveness, conducted the third census of small-scale industries and motivated the SSI associations to develop and operate testing laboratories.

Industrial Policy Package for SSIs 2001-02 increased the investment limit in Plant & Machinery from Rs 1 crore to Rs 5 crore for units in hosiery and hand tool sub sectors and introduced Market Development Assistant (MDA) Scheme exclusively for SSI sector.

Industrial policy, 2003-04 took some vital steps like increasing the ceiling of Composite Loan for SSIs from Rs.25 lakhs to Rs.50 lakhs, instructing banks to provide credit to SSIs within an interest rate band of 2 percent above and below their Prime Lending Rates (PLR), promoting the

dereservation policy by withdrawing reservation on 73 items, conducting Third all India census for SSIs and liberalising Laghu Udyami Credit Card Scheme by increasing the limit from Rs.2 lakh to Rs.10 lakhs for borrowers with satisfactory loan repayment record.

Industrial Policy initiatives, 2004-05 continued the dereservation policy by dereserving 85 more items, increased investment limit in plant & Machinery for production of sports goods and increased the ceiling of Composite Loan limit from Rs.50 lakh to Rs. One crore.

As per the Policy Package for SME 2005-06, Small and Medium Enterprises were included in the services sector and treated at par with SSIs in the manufacturing sector and the cluster development model was given due importance.

The policy package, 2007 promises to enforce a new law regarding Limited Liability Partnership (LLP) to facilitate infusion of equity and venture capital financing in MSME sectors and build a strong database for MSMEs.

Micro, Small and Medium Enterprises Policy, 2008 was introduced to increase competitiveness, generate employment of about ten lakh people and to maintain the growth rate of this sector over ten percent. The policy also considers infrastructural development, incentive schemes, technology and marketing support, simplification of rules and procedures regarding restructuring of sick industries etc.

MSME Policy for 2009 and 2010 highlighted the importance of providing margin money subsidy to the first generation MSME entrepreneurs to set up new micro enterprises through bank credit under Prime Minister's Employment Generation Programme (PMEGP), ensuring easy availability of bank credit through Credit Guarantee Fund Scheme, promotion of MSMEs through cluster based approach and adequate skill development.

1.2 CONCEPT OF MICRO, SMALL AND MEDIUM ENTERPRISE (MSMEs)

Small industries have undergone many changes regarding their definition. At the initial stage, they were identified as Small Scale Industries (SSI) with limited purview in investment level. The main criteria for definition was the investment level and number of employees. A major change took place in 2006 when the Micro, Small and Medium Enterprises were brought under the same umbrella by virtue of Micro, Small and Medium Enterprises Development Act, 2006.

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises, as notified are as under:

Table 1.1: Investment Limits in MSMEs (As per MSMED Act, 2006)

Manufacturing Sector	
Enterprises	Investment in Plant & Machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
Service Sector	
Enterprises	Investment in Equipments
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

Source: Ministry of Micro, Small and Medium Enterprises (MSMEs), Government of India, Annual Report 2011-12²² (assessed from www.msme.gov.in)

1.3 MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN DIFFERENT FIVE YEAR PLANS

The first Five Year Plan (1951-56) highlighted the capacity of Small Scale industries of generating employment with low capital requirement. Two promoting agencies namely Small Industries Development Organisation (SIDO) and National Small Industries Corporation (NSIC) were set up in 1954 and 1955 respectively.

During the Second Five Year Plan (1956-61), Karve committee (1955) was set up to examine the problems of small industries. The Committee recommended some protection measures for village and small industry sectors like reservation of certain items for exclusive manufacturing right of the SSI sectors, restriction on the capacity expansion of the large scale industries etc (Vijayarani, 2010)¹⁸. The Govt. accepted the recommendations and formulated the common production policy for balanced development of large and small and village enterprises.

The third plan (1961-66) stressed on the production of more variety of products by the SSIs. The small industries should act as ancillary industries and supply necessary items to large industries to ensure proper integration and mutual dependence between the small and large firms.

During the Fourth Plan (1969-74), the policy for decentralised growth was accepted. In a major economic development, 14 new commercial banks were established in 1969 which significantly increased flow of credit to the SSIs. It also advocated opening of a separate cell for guidance, counseling, supply of raw materials and financial assistance to the SSIs.

The Fifth Plan (1974-79) stressed on eradication of poverty and disparity of income through generation of employment and creating a network of small industries especially in rural areas. District Industries Centres (DICs) were set up to act as the Single Window Cell for supply of raw material, machinery, and training and to take care of regional development.

The Sixth Plan (1980-85) five year plan formulated programmes for development of small industries in village areas for generation of additional employment, growth of manufacturing sector and improvement in infrastructure of SSIs in rural areas to reduce dependence on subsidy.

The major highlights of Seventh Five Year Plan (1985-90) for the SSI sector were the allotment of Rs. 1120 crore and initiating Small Industries Development Fund project in 1986 with Rs. 2500 crore. The scheme was operational under the guidance and leadership of IDBI bank and helped the SSIs in expansion, diversification and rehabilitation **(Subramanyam and Reddy, 2012)³⁴**.

The Eighth plan (1992-97) highlighted the beneficial consequences of the SSIs achieved through the Seventh plan and reaffirmed that the participation of the weaker section of the society in SSI activities should be increased **(Subramanyam and Reddy, 2012)³⁴**.

The Ninth plan (1997-2002) emphasized technology development, improvement in quality of products and more exposure for SSI sector. Various initiatives like setting up of Testing Centres, Sub-Contracting Exchange for better seller-buyer interaction, Technology Development and Modernisation Scheme under the aegis of SIDBI, reimbursement scheme for ISO 9000 Quality Certification; IT based initiatives for information sourcing etc were taken.

The Tenth plan (2002-07) focused on infrastructural development, supply of credit, development of entrepreneurial skill through EDPs, technology upgradation etc. Rs 3499 crore was allotted for SSI sector.

The Eleventh plan (2007-12) highlighted MSME cluster concept. Labour-intensive manufacturing sectors like food processing, textile industries and service industries like travel and tourism etc have been identified as the core area for employment generation.

1.4 OBJECTIVE OF THE STUDY

From 1990 onwards, the MSMEs started facing stiff competition in the market due to liberalisation of investment regime favouring Foreign Direct Investment (FDI), implementation of World Trade Organisation (WTO) directives to scale down the Quantitative and Qualitative Restrictions (QRs) and domestic economic reforms (Sonia and Rajeev,2009)³³. The govt. shifted its attitude from protection to promotion of the MSMEs. Therefore, the major objectives of the study are as follows:

- 1) To examine the impact of globalisation on the number of units, production, employment and export of the Micro, Small and Medium Enterprises (MSMEs) in India
- 2) To analyse the problem of poor financial support to the MSMEs, specifically the Micro and Small firms, by the banks and other financial institutions and the role of unorthodox / unconventional methods of financing MSMEs
- 3) To analyse the problem of growing sickness among the MSMEs and how far the Govt. restructuring policies have been helpful for the MSMEs
- 4) To interpret the performance of the MSMEs in West Bengal during post liberalisation period and to identify the major problems and opportunities of the sector
- 5) To carry out a case study among the MSMEs in Cooch Behar and Howrah district in West Bengal to examine their performance, problems and prospects.

1.5 RESEARCH QUESTIONS

During the research process, we would try to answer the following questions:

Principal Research Questions:

- 1) What is the effect of liberalisation on the number of units, employment, productivity and export in MSMEs in India?
- 2) Why are the MSMEs (specifically the micro and small firms) suffering from the lack of institutional credit and how can the problem be addressed?
- 3) Why is the incidence of sickness in MSMEs continuously increasing during post liberalisation period?
- 4) How have the MSMEs in West Bengal performed during post reforms period?
- 5) What are the problems and prospects of MSMEs in Cooch Behar and Howrah district?

Other Research Questions:

- 1) How far have the MSMEs been affected by the De-Reservation Policy?
- 2) How does the rural-urban and sectoral distribution of MSMEs affect the Indian economy?
- 3) How are the Women Entrepreneurs performing in the MSME sector (with special reference to Cooch Behar and Howrah district)?

1.6 RESEARCH HYPOTHESES

Based on the objectives of study and the research questions we have tried to test the following hypotheses:

- 1) The growth rate of number of units, employment, production and export of the MSME sector has increased during the post liberalisation period.
- 2) Institutional credit support to the MSMEs has not been adequate to meet their credit needs during the post liberalization period.
- 3) The incidence of industrial sickness in MSMEs has increased during the post reform period.
- 4) There is no significant effect of withdrawal of Reservation Policy on the MSMEs.
- 5) There are no significant inequalities of MSMEs in rural and urban areas in terms of number of units, production, employment generation and investment.
- 6) The performance of MSMEs in West Bengal has not been satisfactory during post liberalisation period.
- 7) Sufficient institutional credit support has been offered to the MSMEs in Howrah and Cooch Behar.
- 8) There is no significant impact of globalisation on the number of MSMEs and employment in Cooch Behar and Howrah.

1.7 RESEARCH METHODOLOGY AND DATA SOURCE

An empirical study on the MSMEs in Cooch Behar and Howrah districts in West Bengal has been carried out. Cooch Behar has been chosen as the rural and Howrah as the urban industrial district after careful consideration of economic, social and feasibility aspects of conducting research in these areas. Cooch Behar is one of the most industrially backward districts in West Bengal. Since 2004, some major industrial initiatives have been undertaken with the establishment of Chackchaka Growth Centre, an industrial park. Cooch Behar has rich history of handicraft cottage and micro industries and the district has immense potential of becoming a vital industrial spot in future. On the other hand, Howrah is one of the most prominent industrial bases

in West Bengal showing good concentration of MSMEs over the years. The major industry groups in Howrah are basic metal products, metal products, machinery & spares (other than electrical), electrical, transport equipment & spares, hosiery & garments, rubber & plastic, paper & paper Products, and miscellaneous manufacturing industries, food oriented units and repairing & servicing industries. Similarly, the major industries in Cooch Behar are food processing, plastic & rubber industries; jute based general engineering, others (cold storage, herbal products, fertilizer etc).

We have used simple random sampling method to select fifty MSMEs in both Cooch Behar and Howrah from the list of industries provided by the District Industries Centre (DIC). 20 micro units, 12 small scale units and 18 handicraft industries have been selected in Cooch Behar. There is no medium scale industry in Cooch Behar (**Brief Industrial Profile of Cooch Behar, 2012**)²³. Similarly, 30 micro units, 14 small units and 6 medium scale units are selected from Howrah. The period of study is from 2005-06 to 2011-12 and major areas analysed in the study are average investment, average employment, financing scenario and major problems faced by the MSMEs. Only registered MSMEs have been considered for the study. The study tries to unveil the performance, problems and prospects of MSMEs in both the districts.

The major statistical techniques used are calculation of percentage growth rate over the previous year, trend analysis, Average Annual Growth Rate (AAGR) and Henry Garrett's Ranking Techniques.

- 1) Growth rate over the last year has been calculated using the following formula

$$\text{Growth Rate} = \frac{Q_t - Q_{t-1}}{Q_{t-1}} * 100$$

Where Q_t = Quantity for the current period Q_{t-1} = Quantity for the previous period

- 2) Trend line and trend values have been calculated using the formula

$$y = a + bx$$

Where Y = Dependent Variable

a = Intercept and b = Slope/ Gradient

x = Independent Variable

The following equations are used to find the values of a and b

$$\sum y = na + b \sum x \text{ and } \sum xy = a \sum x + b \sum x^2 \text{ (Das, 2010)}^4$$

Trend Analysis has been used to analyse the growth in number of units and employment of MSMEs.

- 3) Garrett's ranking method is used to rank the different problems faced by the MSMEs in Cooch Behar and Howrah districts. It is calculated as percentage score and the scale value is obtained by employing Scale Conversion Table given by Henry Garrett.

$$\text{Percent Score} = \frac{100 (R_{ij} - 0.5)}{N_j}$$

Where, R_{ij} is rank given for i^{th} item by j^{th} individual and N_j is Number of items ranked by j^{th} individual (**Vishnuvarthani and Selvaraj, 2012 and Ahmad, Fayaz 2012**)^{21,25}.

- 4) Average Annual Growth Rate (AAGR) for some years is not just the average of the individual growth rates for those years. One of the accepted ways of calculating AAGR is to take the geometric average of the growth ratios because growth compounds and does not add. The growth ratio refers to the ratio between the ending observation and beginning observation. The average growth ratio approach assumes that the growth rate varies randomly from year to year.

Another approach of calculating average growth is to fit a growth trend line to the data. It assumes that the growth rate is constant and the errors in the observation are random. To fit a growth trend line, we have to take logarithms of the data and regress the logarithms against the years (**Rumelt, P. Richard, 2000**)³².

However, use of software can be extremely helpful to ease out the calculation process. We have used Excel spreadsheet and LOGEST worksheet function [= LOGEST(CELL:CELL)] for this purpose. LOGEST is the best way to calculate the average year-to-year growth rates. This function does not take the averages of the year-to-year growth rates rather averages the logarithms of the year-to-year growth ratios (**Rumelt, P. Richard, 2000**)³².

- 5) Altman's Multiple Discriminate Model/ Z Score Model has been used to analyse sickness position of sample MSMEs in Howrah and Cooch Behar district. In his model, Prof Altman combined five variables into an equation to calculate Z score and predict propensity of distress after surveying 33 bankrupt and 33 non-bankrupt firms from the same industry group with same asset size.

X_1 = Working Capital/Total Assets, X_2 = Retained earnings/Total Assets, X_3 = EBIT/Total Assets, X_4 = Book value of Equity and Preference Shares/book value of total Liability, X_5 = Sales/Total Assets

$Z=0.012X_1+0.014X_2+0.033X_3+0.006X_4+0.999X_5$ where z =Overall Index of Multiple Discriminant Function (Altman, 1968)²⁶

If the Z score of a firm is 3 or more, the firm has a healthy financial position with no future threat of bankruptcy. If the Z score is between 1.81 and 2.99, the firm belongs to the Grey Area i.e. it has the possibility of bankruptcy in future and needs further analysis to be sure of its financial position. If the Z score is less than 1.81, the firm is in bankruptcy situation.

Primary Data

Primary data has been collected from the sample MSMEs in Cooch Behar and Howrah District through structured questionnaire, interview with the MSME owners and workers, Govt. officials of District Industries Centres (DICs), banks etc.

Secondary data

The vital sources of secondary data are Annual reports published by the Ministry of MSMEs which provide the widest coverage of data, published reports of four censuses conducted by the Ministry of MSMEs during 1973-74, 1987-88, 2001-02 and 2006-07, Annual Survey of Industries (ASI) and National Sample Survey Office (NSSO), West Bengal Industrial Development Corporation (WBIDC), Directorate of Micro and Small Scale Enterprises, Govt. of West Bengal, Department of Planning, Govt. of West Bengal, MSME Development Institute, Kolkata (formerly Small Industries Service Institute), Bureau of applied Economics and Statistics, West Bengal, District Industries Centre (DICs) of Cooch Behar and Howrah. We have consulted several websites and collected information from RBI, SIDBI publications and books and articles published by the eminent researchers.

1.8 OVERVIEW OF CHAPTERS

Chapter 1: Introduction

The first chapter is introductory in nature and contains brief history of the small and cottage industries in India in pre and post independence period, objectives of the study, research questions, research hypotheses and the research methodologies.

Chapter 2: Review of Literature

This chapter consists of the review of major literary works done by the eminent researchers by dividing the topic into some relevant areas like institutional credit support to the MSMEs, performance of the MSMEs during pre and post liberalisation period, impact of economic reforms on MSMEs, marketability and Reservation Policy issues associated with the MSMEs, development of MSMEs in West Bengal and finally MSMEs in foreign countries.

Chapter 3: Growth and Performance of Micro, Small and Medium Enterprises (MSMEs) during Pre and Post Liberalisation period

This chapter carries out a detailed performance analysis of the MSMEs during pre and post reforms period, review of the effects of different policy frameworks adopted by the Govt, performance of women MSME entrepreneurs and the influence of regional and sectoral distribution of MSMEs on Indian economy.

Chapter 4: Financing to Micro, Small and Medium Enterprises (MSMEs)

This chapter analyses the reasons for lack of financial supports to the MSMEs, Govt. policies and explores the effectiveness of unconventional methods of financing in addressing the problem.

Chapter 5: Sickness in Micro, Small and Medium Enterprises (MSMEs)

This chapter identifies the reasons for high rate of sickness in MSMEs during post reforms period and evaluates the Govt. policies for restructuring the sick units.

Chapter 6: Micro, Small and Medium Enterprises (MSMEs) in West Bengal

This chapter is based on performance analysis of MSMEs in West Bengal, evaluating the major problems and Govt. initiatives in solving those problems.

Chapter 7: Empirical Study of the MSMEs in Cooch Behar District

This chapter consists of an empirical study of fifty sample MSMEs in Cooch Behar from 2005-06 to 2011-12 to conceptualise the performance, problems and prospects of the MSMEs in Cooch Behar.

Chapter 8: Empirical Study of the MSMEs in Howrah District

The chapter tries to find out the problems and prospects of MSMEs in Howrah by carrying out a survey of fifty MSMEs from 2005-06 to 2011-12.

Chapter 9: Comparative Analysis of MSMEs in Cooch Behar and Howrah Districts

This chapter attempts to compare the secondary information and the results obtained through field survey among the MSMEs in Cooch Behar and Howrah Districts to appraise their performance, identify problems and explore future opportunities.

Chapter 10: Summary, Conclusions and Suggestive Measures

This chapter draws conclusion and suggests some measures for the betterment of MSMEs depending on the findings of the previous chapters and the case study.

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CHAPTER 2

REVIEW OF LITERATURE

2.1 INTRODUCTION

There has been substantial literature on various aspects of Micro, Small and Medium Enterprises (MSMEs) in India and abroad which may form the primary base for the research work. Review of earlier studies directly or indirectly related with the present study is very helpful in determining proper research methodology, research design and through grasp over the topic. It is not possible to review all the literary works on MSMEs. The present chapter is a modest attempt to focus on the major issues on MSMEs through review of books, articles published in reputed journals (both print and online), committee reports, unpublished literary works etc. The review has been carried out by dividing the topic into some relevant areas namely institutional credit support to Micro, Small and Medium Enterprises (MSMEs), performance of the MSMEs during pre and post globalisation period, sickness in MSMEs, impact of economic reforms on MSMEs, marketability and reservation policy issues associated with the MSMEs, development of MSMEs in West Bengal and finally MSMEs in foreign countries.

SECTION I

2.2 FINANCIAL ASPECTS ASSOCIATED WITH MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs)

Jeans, Hyman, and O'Donnell (1990)⁸⁷ observe that increasing productivity is a serious concern for the small enterprises and improved technology can be of great help in this regard. There has been a significant increase in number of micro enterprise development programmes which offer credit to the enterprises to facilitate technology upgradation but credit alone cannot increase productivity of the small firms. There is always a possibility, especially for the low-income group people, to utilise the credit for unproductive purposes rather than using it for technological upgradation. The MSME promoting agencies can play vital role in following up and monitoring the use of credit by the MSME units.

Haider, E. (2000)⁸⁶ observes that the credit bureaus play a vital role in supplying reliable information about the potential MSME borrowers. The author emphasizes that poor availability of information regarding history, true financial position; loan repayment capacity of the MSMEs

is the major impediments for steady flow of credit. Lack of information forces the lending organisations to demand for collateral securities, high rate of interest, high processing fees and high price lending. Credit bureaus can be effectively used to supply authentic information to lending organisations to enable them to evaluate the ability and willingness of the MSME borrowers to repay loans and offer credit accordingly.

Carpenter and Peterson (2002)⁷⁹ have studied the dependence of small firms on internal finance. They have surveyed 1600 small firms and used regression analysis as the major statistical technique. The study result shows a positive relation between internal finance and growth rate of small firms. Thus, internal finance has significant bearing on growth rate with small leverage effect.

Sundar, Gandhi and Gangatharan (2002)³⁰ have analysed the performance of Small Industries Development Bank of India (SIDBI) for eight years by using scheme sanctioned and the volume of loan disbursed to the SSIs as the major parameters. The study results show that SIDBI has registered a satisfactory performance in supplying credit to the SSIs. However, its role as a premier institute in providing promotional, developmental activities and project related equity financing has been below par. The researchers advocate that SIDBI should increase its purview of activities and concentrate more on promotional activities rather than just being a loan sanctioning authority.

Working Group on Credit to Small Industries (2003)⁷⁰ under the chairmanship of A.S. Ganguli was formed by the RBI. The group submitted its report in 2004 and recommended identification of new clusters, use of cluster based approach of financing, preferential treatment for the SMEs in North-Eastern region in terms of higher working capital limit etc. The interest rates on the deposits maintained by the foreign banks with SIDBI in lieu of shortfall in their priority sector lending obligation should be restructured and the tenure of such deposits should be increased from one to three years (Vijayarani, p.61). The Govt. has accepted majority of such recommendations either partially or fully.

Singh, Naresh (2003)⁹⁶ observes that the operation of the formal sector of micro-credit (banks, co-operatives, NGOs etc.) are highly structured and strictly controlled by the banking regulations. Institutional credit system requires collateral securities, complex legal procedure and much documentation. A large portion of rural credit system is still dominated by the informal sector due to the ineffectiveness and cumbersome procedure of formal credit system. Micro-

finance can bridge the gap between the formal and informal credit system. There is a popular debate whether microfinance should be considered an industry or social sector. It must be economically viable and should satisfy the qualitative aspects like helping poor to earn a living, improvement in standard of living. Their operation is based on the premise that out of the total profit earned, a major portion should be invested in the enterprise for further growth and the remaining portion should be used for capital building. In a holistic perspective, micro-finance is a process of social intermediation and building social capital. Process of social intermediation is an investment that is made for development of both human resources and institutional capital to make marginalised groups self-reliant in preparing them to engage in formal financial intermediation.

Pakeck, H.S. (2004)¹⁸ reviews the role and performance of financial institutions and state agencies in providing credit support to the SSIs. He observes that the financial institutions along with the state agencies have failed miserably in satisfying financial needs of SSIs. He suggests that the financial distribution policy should be determined after careful consideration of the needs of the SSIs and more specifically the needs of the smaller units in SSI group.

Srinibas, Y (2005)⁹⁸ analyses the reasons for lack of supply of finance to the MSME sector and the govt. initiatives to ensure steady access to finance. He argues that the banks hesitate to offer loans to the SSIs because of their lack of creditworthiness, information asymmetry and risky nature of operation and fail to distinguish between good risk and bad risk and end up tightening the credit flow to SMEs to reduce NPAs. The SME loan market in India is still a sellers' market. The banks dominate the SME loan market and the SMEs have to accept the terms and conditions determined by the banks. The researcher suggests that the banks need to establish a good relation with the SMEs to know their financial position, customer base, future prospects and degree of competition in the finance market must be increased to ensure effective financing for SMEs.

Chakraborty, Debasish (2005)⁶ critically appraises the issue of credit availability to SSIs from 1990-91 to 2000-01 and argues that in spite of the existence of several SSI promoting agencies and special policies, lack of institutional credit remains the most vital problem for the SSI sector. In spite of running several schemes, performance of Small Industries Development Bank of India (SIDBI) is not satisfactory. Data from 1990-91 to 2000-01 shows a steady increase in the amount of credit sanctioned to SSIs but disbursement as a percentage of loan sanctioned revolves around

70-80 percent. For Private Banks, the percentage of credit to SSIs increased till 1997 but started declining since then (up to 2001). The contribution of Foreign Banks in SSI lending is not significant.

Sarkar, Kalyan (2005)⁶⁴ observes that banks and other financial institutions do not consider the SMEs as preferred customers because of poor financial capacity, poor loan repayment record, high-risk involvement, lack of credit rating etc. RBI issues guidelines from time to time but RBI does not have any authority to force the banks to implement those guidelines. Banks go by their usual method of credit sanction with the focus to ensure that such loans to SMEs do not become Non-Performing Assets (NPAs). The entire process forms a 'vicious circle' and percentage of net bank credit to SMEs experiences a stiff decline. The unorthodox approaches of financing like factoring services, venture capital financing, capital markets etc can effectively address the issue. Capital market may be the source of fund for SMEs though it is believed that capital markets are meant for big players. The Government should design suitable policy packages, including legal enactments for encouraging SSIs to convert themselves into limited companies to tap debt market finance. Moreover, the SMEs must co-operate with one another and build SME's own credit society cluster-wise, district-wise to take care of credit needs. This approach would help SMEs to receive timely finance, reduce the possibility of NPA, reduce procedural complication and ensure more integrity and mutual dependence.

Chainnaiyan and Nandagopal (2005)⁵ observe that the nature of ownership of the MSMEs, period of operation and the socio-economic status of the concern have a significant bearing on the credit sanctioning process of the banks. The banks put more weightage on quantitative aspects ignoring qualitative aspects. The researcher believes that the loan sanction process to the MSMEs must involve both quantitative and qualitative information. This process will help the first generation entrepreneurs in obtaining institutional financing who do not have much financial support to maintain collateral securities.

Reddy, Mahesh (2006)⁹² observes that the proportion of bank credit to SMEs with respect to Net Bank Credit (NBC) from 1998 to 2006 shows a declining trend and there exists considerable gap between the amount allotted and amount actually disbursed to SMEs. The credit needs are different for different type of SSIs. While the modern SSIs and Medium Enterprises with a significant amount of capital require credit mainly for diversification, technology upgradation, research and development activities, the Tiny and Cottage industries need credit to satisfy

working capital needs and have very limited access of credit from banks. The author contradicts the popular notion of blaming the banks and financial institutions and observes that the bank officials have to operate under extreme pressure of reducing NPAs and increasing profitability of the banks. Thus, a proper blend of traditional intuitional financing and the unconventional financing schemes like venture capital financing, angel financing, factoring etc may be helpful for the SSIs.

Rathakrishnan and Sriraman (2009)²³ observe that in spite of high contribution to the household and national economy, supply of institutional credit to the women MSME entrepreneurs, especially the rural women, is significantly low. Several studies have shown that the women entrepreneurs have maintained a better loan repayment record than the male entrepreneurs. The researcher observes that micro finance and Self Help Groups (SHGs) can play a vital role in supplying credit. The institutional approach of micro finance ensures serving the parties who are unnerved or underserved by the formal banking institutions and the welfare approach highlights reducing poverty through providing credit along with value added services like skill training, health, nutrition, family planning etc. A proper mixture between the two approaches can ensure steady supply of credit to the women entrepreneurs.

Self Help Groups, a powerful approach of women empowerment bring together ten to twenty people, mostly women representing same class and religion to mobilise small savings and offer small interest bearing loans among the group members. The group increases awareness about health and hygiene, education and implementation of developmental schemes.

Chakraborty and Ravi (2011)⁸⁰ observe that microfinance development in India has been satisfactory over the years as a significant number of poor or near poor's has been benefitted by the process but it has not been a balanced activity as there exists significant difference in micro finance development in different parts of the country. The southern India outperforms the northern and central India as the Microfinance Penetration Index (a state's share of national microfinance clients divided by its share of national population) in the South is far better than the Northern Region. Similarly, the Poverty Penetration Index (a state's share of national microfinance clients divided by the state's share in nation's poor) is better in South compared to Central Region. The Govt. must adopt suitable policies so that equitable distribution of microfinance benefits across the country may be possible.

Nair, Tara (2011)¹⁶ argues that most of the Govt. schemes of providing financial assistance to MSMEs are either not known by the entrepreneurs or irrelevant to them. Such schemes are used to grant onetime credit without any follow up measures and fail to build continuing relation with the borrowers and lenders. While sanctioning loans to micro units, banks become more cautious and apply more pressure with the techniques like lending through joint liability group (wherein peer pressure acts as substitute collateral), small-sized loans, progressive lending, market rate of interest, extensive monitoring etc. The issue of credit supply to microenterprises should be considered after careful scrutiny of heterogeneity of microenterprises and the link between the human and physical capital formation. The banks must offer decentralised credit mechanism and technical, marketing and managerial support to the SSIs and ensure proper co-ordination and follow-up of the promotional schemes.

Sharma, Kumud (2011)⁶⁶ observes that the failure of many poverty eradication programme has shown that gender remains a vital factor for determining vulnerability to poverty. Women are seen to be disproportionately poor in India. Most of the women entrepreneurs suffer from lack of capital, poor technology and managerial skill. The micro-credit policy, which can be a good alternative for financing women entrepreneurs, must accompany a proper package like backward and forward linkages (input market support), appropriate technologies as also finance for fixed assets and working capital. A significant portion of credit taken by women is actually controlled by men and repayment in many cases is made through other sources and not from the income of microenterprise. There is no unique model which can address all the micro-credit issues. It requires adjustments on several factors like policy framework, institutional framework, group dynamics, leadership issues etc.

Our Observation: The above reviews suggest that poor financial support is probably the most vital problem for the MSMEs. The problem has taken the shape of a ‘Vicious Circle’. The banks consider investments in MSMEs risky and hesitate to provide loans. The MSMEs suffer from financial shortage and fail to expand their business to increase credit worthiness. The banks must follow the norms of priority sector lending and the MSMEs must also increase their creditability through credit rating, proper maintenance of accounts, maintaining financial discipline etc. Several unconventional methods of financing (venture capital, angel financing, factoring etc) can be helpful for this purpose but most of such methods are yet to get momentum in India.

SECTION II

2.3 GROWTH AND PERFORMANCE OF MSMEs

Dhar and Lydall (1961)⁹ analyse the relationship between the size of a firm and its efficiency collecting data from Census of Manufacturing Industries. The study identifies a direct relation between the size and output-capital ratio of a firm. The size of a firm has been measured in terms of employment and total productive capital (fixed plus working) has been used as measure capital input. The researchers observe that the output-capital ratio is more favourable for the large firms than the SSIs due to economies of scale and managerial efficiency enjoyed by the large firms.

Mehta (1969)⁵⁵ carries out a similar study to understand the relation between size and efficiency of a firm but his results contradict the Dhar and Lydall study (1961). The Mehta study finds that the output-capital ratio is more favourable for the small scale industries. The study measures the size of the firm in terms of value of fixed assets instead of employment as done by Dhar and Lydall study (1961). Similarly, the study uses fixed capital as a measure of capital input. As the ratio of working capital to fixed capital is high in small enterprises, the efficiency analysis based on fixed capital shows better efficiency for small units.

Golder, Biswanath (1985)⁴⁶ has studied technical efficiency of the small scale washing soap industry in India using a frontier production function of Cobb-Douglas form. The partial and total factor productivity and technical efficiency analysis show that the tiny soap industries are less efficient than that of relatively big industries in the category of small scale industries. The researcher argues that there exists a direct relationship between unit size and efficiency of the small firms. The 'big 'small firms are more efficient due to high capital intensity and updated technology.

Golder, Biswanath (1988)¹⁰ has carried out a comparative analysis of technical efficiency between small scale and large scale industries. Data on SSIs are collected from the statistical report published by RBI with 1976-77 as the base year and large scale industries from census sector results of the ASI for 1976-77. Total factor productivity index based on Cobb Douglas production function was used to compute efficiency of 37 three digit industries of the NIC 18. The study revealed that capital productivity in small units was higher in twenty two industries when gross invested capital is used and in fifteen industries when net invested capital is used as a measure of capital input. The relative efficiency index was less than one in majority of small

firms and more than one in majority of the large firms surveyed. This indicated that the SSIs were less efficient than the large scale industries. The efficiency of large scale industries was attributed to economies of scale enjoyed by the large firms due to their large scale operation, better managerial quality and advanced technology.

Little, Mazumdar and Page (1987)¹³ analyses the pattern and relationship between technical efficiency and the size of the SSI firms based on information collected from five sample SSIs. The size of the SSIs is measured in terms of the number of workers employed or the value of plant and machinery. The technical efficiency analysis reveals that there exists wide variation in total factor productivity in the five SSIs and no identifiable relationship between size and technical efficiency is noticed except in machine tools industry where technical efficiency is found to be directly correlated with the size of the firm. The researchers observe that factors like experience of labour force and the entrepreneurs, levels of capacity utilisation, age of capital stock etc. are the major reasons of variations of technical efficiency in small firms.

Ramchandran, K (1993)⁶⁰ observes that the SSIs can be an effective tool to reduce regional imbalance of economic growth as it requires less investment, little legal formality and can ensure better utilisation of local resources. Several developing countries including India have adopted the strategy of offering special benefit to the SSIs willing to start up or move to the backward areas. However, such schemes have not been successful as these are not well circulated and coordinated and many entrepreneurs believe that such schemes are not attractive enough to compensate the disadvantages of moving the enterprise to the remote areas.

Acharya and Acharya (1995)³³ observe that the major problem for the small industries in India is the dearth of skilled workforce. The technology based modern SSIs require skilled professionals but the SSIs, especially the SSIs with limited financial ability, fail to recruit or retain skilled workers due to inability to pay attractive remuneration package. The researchers argue that compensation offered to the skilled workers by the large firms is impossible for the small firms to afford. The SSIs have to operate with unskilled or semi-skilled workers which adversely affect the productivity and managerial capability of the firm.

Nath, Hiranya (1998)⁹⁰ attempts measuring relative technical efficiency of selected SSIs in fifteen major states in India using relative labour productivity and relative capital productivity as the major statistical tools. Regarding Relative Labour Productivity, Maharashtra has exhibited highest labour productivity followed by Madhya Pradesh, Haryana, Rajasthan and Gujarat. Andhra Pradesh, Bihar, Tamil Nadu and West Bengal have shown poor labour productivity. Relative capital Productivity has shown similar trend, capital being relatively more productive in Maharashtra for eight industries, closely followed by Madhya Pradesh with seven industries. Haryana, Karnataka and Kerala have put up poor show in capital productivity compared to their better performance in labour productivity. West Bengal and Orissa have performed better in capital productivity than labour productivity. Thus, technical efficiency analysis shows considerable variations in efficiency in different states. The study identifies a direct relationship between the proportion of MSMEs using power and their relative efficiency. In industrially developed states like Maharashtra, the industries with higher proportion of power using units are relatively more efficient. However, in some states, proportion of firms using power is high but the SSIs are technically inefficient due to irregular supply of power.

Balakrishnan, Pushpangadan and Babu (2000)⁵⁹ analyse change in growth of productivity in SSIs since introduction of reforms measures in India. The study is based on the information collected from the product groups within manufacturing industry which experience the most significant tariff cuts. The researchers use panel data from the samples comprising of 2300 firms and 11,009 observations of five industry groups at two digit level of the NIC 1987. The period of the study is from 1988-89 to 1997-98. The study results show that there is no significant increase in productivity since the introduction of the reforms measures. The researchers do not find any identifiable relation between increased competition or free trade and productivity growth. This might be due to two reasons. Firstly, the study has been done too early to capture significant impact of globalisation and/or secondly, the proper policy initiatives are not employed. The researchers observe that further interpretation of the result is necessary.

Romijn, Hennery (2001)⁹³ analyses the change in approach towards the technology support for the small scale industries in the developing countries. The early initiatives during 1970s followed the 'Supply-Push' approach based on the premise that introduction of a large number of support programmes would help reducing cost and increase competitiveness. However, this approach was highly broad-based and not suitable to satisfy specific needs of modern specialised small

enterprises. With the advent of globalisation, the approaches regarding technical support to small firms revealed three distinct trends. In advanced LDCs, the small firms were characterised by “Technical Capability and Systematic Competitiveness”. The middle income LDCs concentrated on “Small Industry Cluster” Approach and the poor LDCs tried “Technological Capacity Building” through individual producers. With the increase in competition in domestic markets, the small firms began to realise that they could not only be the “passive recipient and beneficiaries” of improved technology invented elsewhere rather they must try to nourish their internal capacity to improve products, production procedure and independently contribute to local technology and innovation process on a regular basis. The internal research and development process of small units need to be emphasised and their objective should be to contribute to national knowledge accumulation process rather than acting only as a machinery of employment generation.

Beck, T (2003)⁷⁶ tries to identify the relationship among the number of small and medium enterprises, economic growth and poverty using share of SME labour in total manufacturing workforce as the major yardstick. Evaluating samples from 76 countries the author identifies a strong relation between number of SME and growth in per capita GDP. The study does not find any evidence that SMEs can successfully reduce poverty. The author observes a direct relation between favourable business environment for SMEs and economic growth of a country.

Sardana, G.D. (2004)⁶³ analyses the weaknesses and threats of SMEs in globalised regime and tries to find out ways to convert those weaknesses into strength and opportunity. He identifies lack of financial discipline, use of outdated technology, lack of managerial skills, poor marketing strategy, and infrastructural drawback as the major causes of SME weakness. The SMEs also enjoy some major strength like low cost operation, utilisation of local resources, employment generation, operational efficiency, quick decision-making, adaptability to changes etc. The article emphasises that weaknesses may be overpowered through improvement in product quality, use of better technology, partnership with multinationals, use of pull marketing techniques, supply chain system, formulation and implementation of proper business strategy.

Narayana, M.R. (2004)⁸⁹ observes that high degree of variation in quality and availability of infrastructural facility and business environment cause differences in industrial growth in different states and even different regions of the same state. Quality of business environment means the degree of pro-business attitude of the Govt. It may be measured in terms of the time

span taken by the Govt. in permitting and clearing proposals from business enterprises. The article adopted a case study mode by collecting primary and secondary data from a sample survey of 373 SSI units in Bangalore and non-Bangalore regions in Karnataka state. The study results showed that lack of infrastructure (poor quality of transport, frequent power cuts, poor information availability etc.) had less effect on the competitiveness of the SSIs based in Bangalore whereas the other non-Bangalore based sample SSIs of Karnataka are more affected. Improvement in infrastructure in terms of both component-specific and region-specific is essential for increasing SSI competitiveness and for reducing inter-regional disparities. The performance and efficiency of the state govt. in providing quality business environment play a vital role in SSI growth in different states.

Bhateja, Tyagi, and Tyagi (2005)⁷⁸ have analysed the impact of liberalisation and corresponding national policies on SSI growth and competitiveness. The study is based on number of MSME units, production, and GDP growth from 1973 to 2005. Compound Average Growth Rate (CAGR) has been used as the main statistical tool. The study shows that the CAGR of number of SSI units in post-globalisation period is higher than that of pre-globalisation period. However, CAGR of output and productivity per employee rate are less in post-globalisation period. The export growth shows marginally higher rate in post-globalisation period. The results lead to the conclusion that barring some modest success in number of units and export, Govt. measures to promote SSIs have not been successful.

Bala, Subrahmanya (2005)³⁸ presents a comparative analysis of technological innovation of the small scale engineering firms of Bangalore in India with that of Northeast England of the UK. He argues that in spite of considerable differences in promotional policies by the two countries, the overall pattern of technological innovations by the SSIs appear to be similar. In both the areas, product innovations took place due to internal factors whereas incremental product innovations emerged due to external factors. Both the areas have similarity in terms of concentration of engineering industries and existence of research and development institutions. However, the degree or extent of innovation in Bangalore SSI industries is less than that of Northeast England because of low research and development intensity of small industry, poor technological background of Indian entrepreneurs etc. Thus, while UK is recognized as a 'Technology Leader', India may be considered a 'Dynamic Adaptor'.

Tripathy, T (2005)⁶⁸ observes that micro enterprises play a pivotal role in the economic development of rural women. The study is based on the data collected from women in Puri and Phulbari districts in Orissa in three categories such as micro-entrepreneurs, non-entrepreneurs and housewives. Comparative analysis of data regarding three categories show that the women entrepreneurs have more command on the family decision making, food consumption pattern and asset ownership compared to non-entrepreneur women and housewives. However, the entrepreneur women have to endure physical and mental pressure than the housewives. Thus, empowerment is achieved by working women at the cost of reduced opportunity of leisure and less time sharing with family. The Govt. must ensure expansion of formal and informal education facilities and encouragement of rural women in taking up entrepreneurship activities.

Ayyagari et al (2005)⁷⁶ explore the relationship between the size of Small and Medium Enterprises (SMEs) and business environment in 76 countries. Indicators of Business environment in a country are easy entry and exit, sound contract enforcement, effective property rights registration and access to external finance. The researchers attempt to set up a cross-country database in different countries regarding contribution of the SME sector to employment generation in total employment and GDP. The researchers observe that there exist considerable variations in contribution SMEs in formal and informal sector depending on the financial position of the country. As the financial health of a country improves i.e. as a country gets richer in terms of increase in GDP per capita, the contribution of formal SMEs in manufacturing increases but the importance of informal sector decreases. The regression analysis used in the study shows that as the cost of entry in business reduces and information sharing system improves, the country is likely to have more contribution of SMEs in manufacturing.

Das, Keshab (2006)⁸³ addresses three critical issues relating to the MSMEs like definitional aspect as per the MSMED Act, 2006, the truth of the tall claims made by Govt. agencies about MSMEs through different studies and web sites and the myth and reality about reservation. The author observes that the definition as per the MSMED Act, 2006 considers only historical value of Plant & machinery and the limits suggested for category determination is useless. The registered micro and small firms enjoy several preferential measures (subsidy etc). Once the firm crosses the specified limit of investment, it does not show any willingness to register itself as medium scale industry as this would result in withdrawal of preferential benefits. The reservation policy fails to make any impact and frequent addition or deletion in the list of

reserved items is mostly done for vested political interest rather than to satisfy small-scale sector needs. He also observes that the MSME database as published in Govt. booklets or posted in website is inadequate, unrealistic, and undesirably policy-sensitive in many cases.

Ananthanarayanan, C (2006)⁷⁴ analyses the challenges and opportunities of globalisation faced by the MSMEs and highlights the importance of Cluster Approach. Removal of import duty and Quantitative Restrictions (QRs) has resulted in increase in inflow of low cost import from other countries and stiff competition in the domestic market. However, this opening up of the economy has ensured easy access to improved technology, raw materials and increase in export competitiveness. The global competition has forced the MSMEs to adopt superior technology, build strategic alliance with the large firms, adopt well-formulated marketing policies. The Agreement on Technical Barriers to Trade (TBT) has set up stringent production standard for the products imported from the developing countries. Thus, the MSMEs of the importing countries have to increase investments in latest technologies, R&D, Quality Certifications to maintain their existence. One of the probable ways of satisfying the need of better infrastructure, technological and marketing support is Cluster Development Programmes. A cluster offers infrastructure, technical support to the belonging firms and helps in optimisation of business operation, increasing information flow and marketing support. As the Govt. attitude for MSMEs has shifted from 'protection' to 'promotion', more and more cluster formation can promote the MSMEs better.

Pandey and Shivesh (2007)⁹¹ compare the performance of Small Scale Industries (SSIs) during the pre and post liberalisation period with the help of number of units, production, employment generation and export from 1973-74 to 2004-05. The study results reveal that barring a healthy growth rate of MSME export; all other parameters fail to perform satisfactorily during post reforms period. The increasing trend in export may be due to reorientation of export strategies during globalised regime while the below par performance of the MSMEs in other parameters may be due to lack of adequate finance, poor infrastructure, dearth of well-formulated marketing strategy, poor research and development activities, low productivity, poor inter-firm linkages and poor innovation status. The author recommends steady supply of finance and increase in competitiveness to help the sector to sustain and successfully compete with the big players in the market.

Veermani (2007)⁶⁹ analyses export growth of SSIs during pre and post reform era from 1950-1990 in pre-liberalisation period and 1990-2005 in post-liberalisation period. Export during 1950s was not significant. It improved marginally in 1970s and 1980s though it was significantly lower than the growth rate of world trade due to negative competitiveness effect and negative commodity composition effect. During the post reforms period, India's export exhibits a rapid growth since 2002 and registers higher growth than world export growth rate. However, it includes a significant degree of growth of intra-industry trade due to higher specialisation in narrow product lines. The author argues that the SSIs have shown satisfactory growth in export during post liberalization period and the Govt. must continue its policy of increasing competitiveness of SSIs.

Vidya and Shashidhar (2007)⁹⁹ opine that the SSI sector being labour-intensive in nature has shown higher capital productivity than the large capital-intensive industries due to its low investment per worker. However, the sector has high growth rate but low sustainability rate. The growth rate of production of MSMEs over the entire study period (1980-81 to 2003-04) shows a fluctuating trend but the trend is decreasing during the post liberalisation period (1990-2005). Production per employee at 1993-94 prices shows an increasing trend during the pre-liberalisation period but a decreasing trend during the post-liberalisation era. This may be due to the transition of the sector from protection to open market competition, de-reservation of products, superiority of modern technology over the outdated indigenous technology, poor marketing ability of MSMEs etc. The SSI export shows an impressive performance during post reform period due to the encouraging promotional policies taken up by the Govt. The authors believe that the SSIs have bright future because of persistent demand, increase in purchasing capacity of common people, flourishing markets and continuous efforts by the Govt. for removing infrastructural bottlenecks.

Murugan and Manivel (2009)¹⁵ study the performance of Khadi and Village Industries (KVI) in India from 1996-97 to 2003-04 considering production, sales and employment generation as the parameters. This sector has become more relevant in recent times because of continuous increase in rural population, substantial increase in number of marginal farmers and landless agricultural workers, prevalence of high rate of disguised unemployment in agricultural sector. The major source of finance for KVI sector is the budget support provided by the Govt. which shows an increasing trend from 1997-98 to 2003-04. Except 2001-02, the released amount constitutes

about 85 to 90 percent of the budgeted amount. Thus, the conversion rate of the budgeted amount into released amount is satisfactory. However, the village industries outperform khadi sector in employment generation, production and turnover. Though the overall performance of the KVI sector is satisfactory over the study period decline in growth in khadi sector is a matter of concern.

Sankaran (2009)²⁵ analyses the performance of the SSI sector during the post liberalisation era with the help of number of units, production, employment generation and export as parameters. The secondary data used in the paper is mostly collected from Annual Report of Ministry of SSIs, RBI Report, and Economic Survey. The entire study period from 1991-92 to 2004-05 is sub-divided into two parts- from 1991-92 to 1997-98 and from 1998-99 to 2004-05. The author uses Average Annual Growth Rate (AAGR) as the major statistical tool. All the four parameters have shown increasing trend in absolute numbers but the overall growth rate is less than the growth rate in the first and second phase (from 1991-92 to 1997-98 and from 1998-99 to 2004-05) of the study period (except number of units). The second phase shows a sharp decline in growth rate in export and capital. This may be due to decrease in demand of domestic commodities caused by damping of commodities by many countries in Indian market and lack of competitiveness of Indian SSIs. The SSI sector has put up an appreciable performance in export growth due to expansion of domestic market and favourable Govt. policy. However, in the second phase of study, export growth rate shows a saturated condition due to decrease in demand of Indian SSI commodities in international market. Thus, the study reveals that the impact of liberalisation policy is not evenly distributed over the study period.

Sonia and Kansai Rajeev (2009)⁹⁷ have studied the effects of globalisation on Micro, Small and Medium Enterprises (MSMEs) in pre and post liberalisation period from 1973-74 to 2008-09. They use number of units, production, employment and export as the major economic parameters and interpret study results based on Average Annual Growth Rate (AAGR) calculation. AAGR in pre liberalisation period (1973-74 to 1989-90) was higher in all selected parameters than that of post liberalisation period (1991-92 to 2007-08). They conclude that MSMEs fail to put up an impressive performance in post reform era.

Jethwant (2010)¹² analyses the opportunities and challenges faced by the MSMEs in the globalised regime. The book covers wide range of areas associated with the MSMEs like definition and types of MSMEs, growth and performance, technology transfer in MSMEs,

institutional credit support, production, employment generation, export etc. The author observes that globalization has created several opportunities for the MSMEs like private sector participation, less Govt. intervention, treating large industries as partners and not as competitors, increasing outsourcing and sub-contracting, access to latest technology etc. However, Indian MSMEs are constrained due to various inhibiting factors like lack of finance, less cluster development, old infrastructure, and low sustainability of MSMEs in adverse situations. The author suggests that a comprehensive plan to develop state-of-the art infrastructure, innovative finance to meet the short comings of traditional financing system, implementation of training, institutional development, capacity building programmes would be beneficial for the MSMEs.

Seema and Milind (2010)⁶⁷ analyse the technical and scale efficiency of the state-wise registered small scale industry cluster in 23 states and 3 union territories. Data Envelopment Analysis (DEA) is used as the major statistical tool and variable returns to scale is assumed. The researchers observe considerable difference in efficiency among the selected states. Delhi, Meghalaya, Uttranchal, Haryana, Punjab, Andaman and Nicobar and Tamilnadu are the technically efficient states / union territories. Delhi and Meghalaya are the two scale efficient states. Most of the other states show dismal performance exhibiting diminishing returns to scale. There exists huge scope of investment and employment generation in the SSIs in most of the states to improve their efficiency.

Bhavani, T.A. (2011)² argues that most of the employment generated by small-scale sector is low-income jobs as the technology level is poor. Employment generation may be high in quantitative term but very low in quality i.e. the jobs offer very low remuneration. Technological up gradation would enable the small firms to create quality employment improving remuneration, duration and skill. This structural shift may reduce the rate of employment generation in the short run but would ensure high-income employment generation in the long run. However, for infusion of advanced technology, it is important to determine the extent of new technology the firm can handle. The restructuring measures requires a paradigm shift in the policies- away from paternalistic and supply-driven to demand-driven, from unit centered atomistic approach to group-oriented, collective effort-based approach, from protection to facilitation. To implement the restructuring measures effectively, both the Govt. agencies and industry associations need to understand the needs of the small firms formulate policies in a coordinated manner and most importantly, need to instill confidence and faith in the small firms.

Ayyagari, Maksimovic and Demirgüç-Kunt (2011)⁷⁵ study the contribution of small firms, young firms and mature firms in total employment generation in 99 countries from a sample consisting of 47745 firms from 2006-2010. The firms which employ less than hundred workers are considered small firms. The firms in operation for more than ten years are identified as mature firms. The young firms have been defined as per two cut offs-firms operating for less than two years and firms operating for less than five years. The study shows that the small and young firms create more job opportunities compared to large and mature firms. But the growth rate in productivity of small firms is less than that of large firms. The young firms are the highest contributors in employment and productivity in different economies across the world. However, the degree of reliability of this finding is not very strong as the period of operation of the young firms is less. Though the SMEs generate more employment, the quality of job is poor. The researchers argue that the policy makers all over the world should not only concentrate on creation of job in quantitative term but also focus on improving quality of such jobs to promote growth. The large and mature firms have shown good performance in employment generation and productivity growth. Thus, these firms must get adequate focus along with small and young firms.

Biswas, Pradip (2011)⁴ analyses the need for proper training and skill development for the MSME entrepreneurs to exist and shine in highly competitive market. The educational background of MSME entrepreneurs is poor as many people shifting from agriculture to informal sector are either illiterate or have low level of literacy. The performance of the training institutes, both Govt. and private is not satisfactory. The training courses lack job orientation and fail to prepare trainees to set up their individual enterprises. Under informal training system, a worker gets training while doing the job by himself. In a family business, the training and skill development process pass on from generation to generation. This training system, however, lacks science and technology inputs. The formal training institutes have better access of modern science and technology. Thus, a proper combination between formal and informal training approaches would be useful for the entrepreneurs.

Subrahmanya, Bala (2011)²⁸ has probed the impact of globalisation on the exports potentials of the small enterprises. The study shows that share of SSI export in total export has increased in protection period but remained more or less stagnated during the liberalisation period. However, the correlation co-efficient in liberalisation period is higher than that of protection period

suggesting that the relationship between the total export and SSI export has become stronger in liberalisation period. This may be due to the drastic change in composition of SSI export items from traditional to non-traditional and growth in its contribution to total export through trading houses, export houses and subcontracting relation with large enterprises. Thus, the current policy of increasing competitiveness through infusion of improved technology, finance, and marketing techniques should be emphasised.

Sreepriya (2011)²⁷ analyses technical efficiency of small-scale industries in unorganised sectors in 14 major states in India collecting data from 56th Round (2000-01) of NSSO Report on Unorganised Manufacturing Sector (NSSO 2002). The author uses Data Envelopment Analysis (DEA) to compute technical efficiency for the small enterprises.

The performance analysis of the unorganised sector exhibits a direct relationship between the level of investment and performance of small enterprises. This may be due to the ability of the firm to employ sophisticated technology, skilled workers, innovations etc. However, DEA analysis shows wide variations in efficiency in major 14 states in India. The factors like geographical location, availability of local resources, religion and existence of backward and forward relations between the organised and unorganised sectors influence region-specific performance of the sector. The technical efficiency of firms in unorganised sector is dependent on the quality of infrastructure (electricity supply, raw material availability, capital etc) or the core industrial structure of the state concerned. Subcontracting firms show higher technical efficiency. Proper linkage between organised and unorganised sector may ensure transfer of technology which would help the subcontracting firms to improve their efficiency.

Das, Keshab (2011)⁸ observes that the rural non-firm sector has got less policy attention and investment in wide range of infrastructure, both physical and economic. The promotional policies are mostly subsector-centric and follow a subsistence approach without infusing technological dynamism in rural industries. He argues that the rural industrialisation policy was over obsessed with the employment generation aspect and less attentive towards modernisation of rural MSMEs. There has been serious lack of co-ordination between the technology generated through state initiatives and the actual access and implementation of such technology by the rural enterprises.

Vijayarani (2011)³¹ has compared the performance of MSMEs in Tamilnadu with Indian standard with reference to four parameters namely number of units, production, employment and investment. The period of study is from 1989-90 to 2003-04 and restricted to 18 small scale industries in Tamilnadu. During the pre-reforms period, all the four parameters show increasing trend for both India and Tamilnadu. During the post reforms period Tamilnadu showed increasing trend in all the four parameters registering higher growth rate than India. Regression analysis shows that the number of units of MSMEs in Tamilnadu is the most significant factor in explaining changes in employment. The author argues that the SSIs in Tamilnadu have maintained a steady growth in post reforms period in spite of increase in market competition and entry of MNCs in Indian market. However, the Cobb-Douglas Production Function applied in the study reveals that the SSIs exhibit decreasing returns to scale due to their inability to use optimal combination of capital and labour in production process.

Our Observation: Most of the studies observe that the performance of the MSMEs has not been satisfactory during post reforms period as the Indian MSMEs are not adequately prepared to face global challenges. The degree of variation in efficiency of MSMEs in different states is very high. The MSMEs play a vital role in employment generation, productivity, export, GDP growth etc. Though the MSMEs generate more employment compared to large scale industries, most of such jobs are poor quality jobs. Intensity of competition in the market has increased to a great deal due to withdrawal of several protective policies. The MSMEs must improve their product quality, use advanced technology, well formulated marketing strategies to convert the challenges of globalisation into opportunities. The Govt. must continue its current policy of increasing competitiveness of MSMEs.

SECTION III

2.4 SICKNESS IN MSMEs

Beaver (1968)¹⁰⁰ has carried out profit analysis between 79 failed firms and 79 non-failed firms of same industry group with same asset size with the help of 30 conventional financial ratios. He terms a firm as 'Failed firm' if one or all of the following events occur - bankruptcy, bond default, overdrawn bank account, failure to pay preference share dividend. The study reveals that the financial ratios of failed firms show a declining trend over the five year period, the trend line of non-failed firms has zero slope and the deviations from the trend line is very small. The most successful ratio in predicting financial distress is cash flow/ total debt as this ratio has only 10 percent error in prediction of failure in the first year and 22 percent in the fifth year. Beaver argues that the mixed ratios (income or cash flow to assets or liabilities) are better predictor of sickness than the short-term solvency ratios. This model is entirely based on accounting data and does not consider non-accounting factors causing sickness in a firm.

Altman (1968)³⁵ combines five variables into an equation to calculate Z score and predict propensity of distress after surveying 33 bankrupt and 33 non-bankrupt firms from the same industry group with same asset size. Out of 22 tested ratios, only 5 ratios (liquidity, profitability, leverage, solvency and activity) give good indication of corporate sickness.

The discriminant function is $Z=0.012X_1+0.014X_2+0.033X_3+0.006X_4+0.999X_5$ where z = Overall Index of Multiple Discriminant Function and X_1 to X_5 =Independent ratios/variables.

If the Z score of a firm is 3 or more, the firm has a healthy financial position with no future threat of bankruptcy. If the Z score is between 1.81 and 2.99, the firm belongs to the Grey Area i.e. it has the possibility of bankruptcy in future and needs further analysis to be sure of its financial position. If the Z score is less than 1.81, the firm is in bankruptcy situation. Altman observes that the firms with very high asset turnover ratio have very little chance of getting sick and this ratio is the best predictor of sickness.

LC Gupta (1983)⁴⁷ has studied industrial sickness in Indian context by surveying 41 Cotton textile Companies of which 20 were sick and 21 were non-sick using 63 accounting ratios consisting both profitability and Balance Sheet ratios for 13 years (from 1962 to 1972). The criterion of 'percentage classification error' was applied to judge the predictive power of financial ratios. As per the study results the two best ratios with least percentage error are EBDIT/Sales*100 (Indicator of Current Profitability) and Operating Cash Flow/Sales*100

(Indicator of Liquid Resources Capacity). Gupta observes that more importance should be given on income statement than balance sheet in sickness analysis as profitability Ratios computed from Income statement are better in sickness prediction than that of Balance Sheet Ratios. The study also reveals a direct relation between inadequacy of equity base and incidence of failure of a firm.

Dholakia, Bakul (1987)⁴⁵ observes that the criteria used by the Govt. agencies to determine industrial sickness often fail to identify sickness at the early stage and advocates for the need of a comprehensive set of empirically tested criteria. The period of the study is from 1980 to 1986. Various definitions about the sick industries usually refer to severe deterioration of financial health of a concern. The cash loss criteria which is mainly used to determine sickness does not evaluate normal profitability of representative unit in a given industry. Moreover, cash loss is not a sudden or abnormal occurrence rather a continuous trend already in evidence. Thus, this criterion cannot arrest sickness at incipient stage.

As per RBI Guideline, restructuring and rehabilitation process should be continued only for the viable sick units. Data collected from 1980 to 1986 shows a sharp increase in the potentially non-viable units. Empirically validated predictive sickness model may be developed to determine the early signals of sickness. With some improvement in data management procedure, the financial institutions can predict sickness at a nominal cost. The banks and other financial institutions have to be more vigilant in early detection and prevention of sickness closely monitoring any reduction in performance of SSIs after adjusting probable business fluctuation.

Renu (1995)¹⁹ explores the reasons and possible preventions for 'Infantile Sickness' in SSIs. The author observes that the SSIs are highly sensitive to policy changes and more prone to sickness. Most of such sicknesses occur at the initial stages (within 5-6 years) of operation of SSIs which is termed as 'Infantile Sickness' by the author. The Causal Model of Infantile Sickness developed by the author suggests that sickness is a combination of both internal and external factors but the external factors are more important in causing sickness in infant SSIs. Initial marketing problems, managerial inadequacies of the promoters, shortage of working capital and adverse Govt. policy are the major reasons for infantile sickness. The study observes that the net loss criterion is more suitable in indentifying sickness in young units than the cash loss criterion. The study argues if infantile sickness can be avoided, the possibility of SSIs becoming sick in later stages is significantly low. Infantile sickness may be prevented by reducing start-up risks,

creation of compulsory contingency reserves by the promoters, strengthening initial screening system to prevent indiscriminate entry and overcrowding the industry by the marginal firms, strong forewarning system to detect sickness early.

Panda and Meher (1995)¹⁷ analyse the economic and sociological factors that hinder the healthy functioning of SSIs with the help of a case study among the SSIs at Jagatpur Industrial Estate at Cuttack district in Orissa. The researchers find that scarcity of raw material and electricity, non-marketing of goods, delay in payment, competition etc are the main reasons for sickness. Three major ratios namely leverage ratio, current ratio and percentage of overdues to total outstanding have been used to determine the viability of SSIs. The study reveals that not only a significant portion of sample firms within sick category are found unviable but also some of the units in the non-sick category are in the incipient stage of sickness. The rehabilitation measures offered by the Govt. are ad-hoc in nature and include only the financial measures like rescheduling of debt, increase in working capital, sanctioning additional funds to purchase new machines or employ sophisticated technology without taking any measure to increase managerial capability, marketability of products etc. Due to lack of follow up measures, it is common for the SSIs to become sick again. The authors recommend improvement in infrastructure, simplification of the rehabilitation package sanction procedure, inclusion of both quantitative and qualitative factors and proper implementation of the rehabilitation package.

Khasnabis and Dutta (2002)⁵⁰ analyse the issue of industrial sickness in small scale industries and the measures taken by the Govt. to restructure them through SICA and BIFR. They have found that the SICA norm of defining sick units in terms of accumulated loss is inadequate. The sick industries should be identified after careful consideration of managerial, commercial and financial aspects. Operating cash loss of potentially sick units may be considered a base after excluding extra ordinary items or the items not related with the regular course of the business. Help from banks, economists, financial experts may be sought to address the conceptual issues of industrial sickness.

Kulkarni, P.R. (2002)⁵¹ observes that the incidence of sickness in Indian SSIs has increased during post liberalisation period. The potentially sick SSIs must be provided adequate financial support and uniform rehabilitation package. The sector needs technology up gradation, technology information exchange, and uncomplicated technology transfer process to increase competitiveness and prevent sickness.

Antony, Valasamma (2003)³² identifies that there are a large number schemes and policy packages available for the sick MSMEs but most of such schemes are not functioning well as these are not well planned and co-ordinated. Many of such schemes are similar in nature and run simultaneously. The rules and regulations of the Govt. and RBI are cumbersome and very much theoretical in nature resulting in corruption and delay in implementation. Many rehabilitation schemes are either not suitable for MSMEs or not known by the MSME entrepreneurs.

Raju, Yerram (2005)²² argues that the entrepreneurs and financial institutions should capture the signals of sickness early. Lack of supply of capital is a major cause for incipient sickness. Banks must supply adequate capital at the beginning and during the operation of the SSI unit. It may be a good strategy on the part of banks to offer different repayment schedule for different types of SSI units and to outsource the services of experts and to appraise the SSIs from both quantitative and qualitative basis. The banks as ‘monitoring and supervising institute’ should maintain a close eye on the operation of accounts, deficiency in cash flow, reduction in sale, short term fund flow, restructuring debt etc to arrest sickness at the initial stage.

Saini, Parmod and Mohan (2002)⁹⁵ analyse the magnitude of sickness in SSIs, examine the viability position of the sick units in India from 1992 to 2001. The study results show that the sick units as a percentage of total SSIs exhibit a declining trend from 1990-91 to 2000-01 (except 1991-92 and 1998-99) but the percentage of non-viable sick units, units whose viability position could not be determined and outstanding bank credit tied in those units show a rising trend. This may be due to the poor performance of the Govt. agencies to implement the rehabilitation programmes. The major steps taken by RBI includes introduction of asset classification system, instructing banks to undertake viability study and nursing programmes for newly detected sick units, setting up regional offices of the commercial banks etc. The authors argue that the credit policy for the SSIs should be modified as the cost of credit to the SSIs is higher compared to non-SSI sectors. Moreover, a proper co-ordination between the SSI entrepreneurs and promoting agencies would be required to overcome the problem of poor marketing and technology obsolescence.

JJ Irani Committee (2005)⁷¹ suggests some modifications regarding the definition and determination of sick SSIs. It recommends that the term ‘Sick Industrial Company’ should be replaced by ‘Insolvent Company’ and the major test for determination of sickness should be liquidity test instead of erosion of net worth. The committee advocates that the trained

professionals like CA, CS, law professionals should be involved with the insolvency process. National Company Law Tribunal should be established and the debtors are allowed to approach the Tribunal with the rehabilitation scheme while the creditors can also oppose the rehabilitation scheme.

Working Group on Credit Delivery to Small Enterprises (2008)⁷³ was constituted by the RBI under the chairmanship of K.C. Chakrabarty to identify the credit related problems faced by the SSIs especially regarding rehabilitation of potentially viable sick industries. The group emphasized on early detection of symptoms of sickness by the financial institutions. It recommended that RBI should introduce One Time Settlement (OTS) for the MSMEs. A fund with a corpus of Rs.1000 crores should be created for rehabilitation of sick units. 75 percent of the fund should be used for micro and small firms and the balance for the sick medium units. National Equity Fund Scheme should be restarted and the purview of support schemes like Credit Linked Subsidy Schemes, KVIC Margin Money Scheme should be extended. The state govt. should provide land at 50 percent of the normal rate for setting up of MSME industrial estates and 50 percent of the capital cost for common facilities like power plant, effluent treatment plant etc. The banks should introduce Centralised Credit Processing Cells for single point appraisal, sanction, documentation and renewal.

Prasain and Singh (2010)²⁰ examine the causes and probable solutions of industrial sickness in Small Enterprises in Manipur. The SSIs can be of great help in absorbing surplus labour in Manipur at a lower cost and can ensure equitable distribution of wealth throughout the state. The researchers have identified fifty small industries from the rural Manipur which operated for at least five years but currently do not operate and collected primary data through questionnaire method. The study results show that majority of the sample firms got sick due to financial problems, wrong project selection, marketing and production problems, delay in disbursement of sanctioned credit, delay in arresting the early signals of sickness, infrastructural bottlenecks, irregular raw material supply etc. However, the sampled firms show healthy interpersonal relations as no event of labour problem was reported in recent times. The researchers emphasise on ensuring steady supply of credit, allowing tax holidays, transport subsidy, rewards for full capacity utilisation to prevent sickness in small scale industries in Manipur.

Kadam and Laturkar (2011)⁴⁹ consider lack of financial discipline as the major cause of sickness/incipient sickness of the MSMEs in India. They have studied the sick small enterprises and the amount outstanding with them from 1987 to 2008 collecting information from the Third Small Scale Industry Census by the Ministry of MSMEs. Most of the small firms depend on financial support from internal sources as they do not get adequate help from banks and other commercial banks due to cumbersome loan sanctioning procedure, demand for collateral securities etc. Most of the MSME Entrepreneurs are ignorant about the techniques of financial management like cash finding, cash planning, cash distributing, cash collecting and cash conserving. The authors recommend that the entrepreneurs should be given training regarding cash management through EDPs. The banks and other financial institutions should be more cautious in monitoring the accounts of the MSMEs on a regular basis and should inform any signal of sickness to the appropriate agencies for proper rehabilitation measures.

Our Observation: Sickness in MSMEs has increased during post reforms period due to extreme competition with the MNCs and large domestic firms, lack of demand, poor credit supply, and poor financial management by the MSMEs etc. As per RBI Guidelines, rehabilitation packages are available only for the potentially viable sick units. Alarming, the percentage of potentially non-viable MSMEs has increased significantly. Sickness must be identified at the initial stage and the banks have a vital role to play in this regard. They must identify any change in banking transactions, reduction in sale, irregular repayment of loan etc to capture the signals of sickness early.

SECTION IV

2.5 IMPACT OF ECONOMIC REFORMS ON MSMEs

Nagraj, R (2003)⁵⁷ observes that introduction of reform measures has resulted in increase in competitiveness in market, improvement in quality and variety of products, withdrawal of Quantitative and Qualitative Restrictions, decrease in price of Machinery. However, there has not been much increase in output growth rate in 1990s compared to the growth rate during 1980s. The share of capital goods sector in registered manufacturing showed an increasing trend during 1990s but its share in total manufacturing showed a stagnating tendency since 1980s. Thus, outwardly may not be visible, this sector experienced negative effect of reforms. In spite of adopting many reforms policy, India could not achieve the desired growth rate mainly due to

lack of demand for investment. Public investment was deliberately cut down during the reform era which has resulted in lack of investment in domestic infrastructure and poor growth in output. The author emphasizes increasing agricultural productivity which in turn would increase the demand for consumer, capital and basic goods. Public infrastructure investment should be increased to improve the domestic infrastructural conditions.

Panagariya, Arvind (2004)⁵⁸ attempts a comparative analysis of reforms and growth in 1980s and 1990s and also the growth pattern of India and China. The author opines that though the reforms in 1991 are more highlighted, the reforms and growth in 1980s are also vital. However, the growth prior to 1990 was somewhat erratic and unplanned. The reforms procedures in 1980s were half-hearted which was shaped into more systematic and deeper reforms during 1990s. However, the Average Annual Growth Rate (AAGR) of industrial sector in India is unexpectedly low compared to China economy. While Indian economy showed an average growth rate of 5 to 6 percent, China showed an average growth rate of 8 percent. The contribution of Indian industries is about 25 percent of the GDP compared to 50 percent contribution in case of China. This is mainly due to poor implementation of reforms measures in India. The Govt. needs to ensure proper labour laws, withdrawal of reservation policy to make the SSI Sector more competitive, introduction of bankruptcy laws and tariff level at par or lower than the East Asian countries.

Kohli, Atul (2006)⁸⁸ observes that the acceleration of Indian industry in post globalisation period is not solely due to the reform measures. The growth of industries should be attributed more to the pro-business tilt of the Indian states. There exists a high degree of variation of economic growth in different states. The states better equipped to handle the reform measures have been able to attract more business opportunities whereas the state Govt. showing less encouragement in pro-business activities lag behind. Thus, the economic growth has not been well spread throughout the country and has accompanied growing inequalities in spatial distribution, concentration of wealth in few private companies, increase in capital intensity and poor employment in manufacturing sectors.

Sen, Kunal (2007)⁶⁵ has critically re-examined the popular 'Attitudinal Shift' theory attributed to the acceleration of India's economic growth. The researcher opposes the view that the economic growth in India was not the result of the reform measures rather directly associated with the pro-business outlook of the Govt. The researcher argues that economic growth in India since 1980

should be attributed primarily to the economic policy changes. ‘Attitudinal Shift’, from anti-business to pro-business, if any, may be due to the policy changes rather than happening independently. Thus, if policy changes are considered the cause, the ‘Attitudinal Shift’ can only be its result. A simple growth regression model was used to find out whether increase in private equipment investment has a significant bearing on the economic growth in India. The results indicate a direct relation of private equipment investment with the increase in GDP per capita.

Dobson, Wendy (2007)⁸⁴ attempts a comparative analysis of financial reforms in India and China in terms of legal systems, ownership, corporate governance, market monitoring, performance of banks and capital markets. Since 1973, China changed its economy pattern from socialistic economic model to market-driven economy. India, on the other hand, started with mixed economy concept and initiated reforms measures from 1991.

China’s economy has more circulation of money but Indian economy ensures more diversity of financial institutions and better allocation of capital. Both the countries have large number of state-owned banks and less developed corporate bonds market. The nationalised banks in India are under more pressure to maintain their social commitments ensuring ‘Priority Lending’ to agriculture, small scale industries etc. China’s huge bank-dominated state owned financial system persists in lending to entities associated with the state regardless of their productivity. In both the economies, the percentage of credit to small industries, agriculture, and job creation is below par. In spite of initiating official efforts, priority financing has been a failure in India though it performed better than China. However, since 1991, with the adoption of deregulation measures, performance of Indian banks, measured in terms of rate of decrease of NPA (Non-Performing Assets), has shown a considerable rise. Financial reforms have reduced the risk of banking system failure in both India and China. Still, the economic growth rate, in both the countries, is less compared to the size and complexities of the economy. The author observes that the two economies need to be more efficient in adjusting the global financial changes and absorbing economic shocks.

Our Observation: The reform measures adopted in 1991 was much highlighted but the reforms in 1980 was also important in the sense that it prepared the field for 1991 reforms. The reforms in 1980 were somewhat unplanned and improperly implemented. As the above reviews suggest, the economists have difference in opinion regarding the reasons for growth of Indian industry during post liberalisation period. Some believe that industrial growth is due to reform measures whereas the others believe it is due to business friendly attitude of the state govt. However, economic growth due to liberalisation has not been well distributed rather resulted in concentration of wealth in few hands. The competitiveness of Indian market has increased significantly after reforms due to withdrawal of reservation policy, introduction of bankruptcy rule etc. have increased competitiveness of the MSMEs. The Govt. must ensure infrastructural development and favourable business environment for the MSMEs to flourish.

SECTION V

2.6 MARKETIBILITY AND RESERVATION POLICY ISSUES

Rasul, N (2002)⁶¹explores the possibility of using the large organisations in solving the marketing and technology constraints faced by the SSIs. The large industries have well formulated marketing strategy, sophisticated technology and strong capital base. The small units may act as the ancillary to the large organisations and produce products as per the need of the principal unit. Thus, the small firms would be able to get rid of marketing problems as their products would be sold mainly to the principal units. This joint venture between the small and large units would also ensure advanced technology and equity capital to the small units. However, this concept can be successfully implemented only if a proper network of small and large industries may be established.

Jha and Agrawal (2010)⁴⁸analyse the marketing problems of small scale industries in Varanasi collecting information from sample survey of 101 small units from 2000 to 2010. The SSI units were selected randomly from the list of SSI units registered with the DIC (District Industries Centre). The study highlights that the SSIs in Varanasi are concerned about the general problems like lack of financial support, poor infrastructure, inadequate govt. policies etc. but none of the SSI entrepreneurs speak about the marketing problems. The Marketing Situation Analysis shows that the entrepreneurs do not have adequate information about actual and potential customers, consumption pattern, disposable income, competitors and pricing models. The Marketing

Objective Analysis shows that the marketing objectives (Customer satisfaction, maximisation of profit, and increase in sale) are determined on short term basis. The SSIs select their target market arbitrarily or on the basis of previous experience. The product pricing policy followed by the firms is not in conformity with the modern management techniques. The middlemen dominated selling and distribution practices are extremely traditional and short term based.

Singh, Gajendra (2006)²⁶ analyses the product planning and pricing policies by the MSMEs in Punjab and Haryana from 1966 to 1999. The study is based on both primary and secondary data and restricted to 50 units of MSMEs each from Punjab and Haryana. The study results show that most of the small firms in both the states do not have any product planning, branding and packaging policy. However, small units with relatively bigger size or medium scale industries employ proper marketing strategies. Pricing policy for both small and medium enterprises in both the states depends on competitor's price, Govt. policy and market condition. The state govt. should set up a marketing corporation for marketing and selecting the media for advertisement. Marketing consortium should be established to ensure effective distribution channels, promoting market research, providing after sale services to the member units. Thus, the marketing problems of the small enterprises are lack of standardisation, inadequate market intelligence, insufficient holding capacity and tough competition from the multinationals. Urgent action is needed to ensure steady flow of credit, proper collection of marketing information, improving product quality, branding and packaging and reducing the dominance of the middlemen.

Gupta, Sant Kumar (2007)⁸⁵ analyses the marketing problems faced by the SSIs in North East States (Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura) collecting secondary data from various issues of Annual Reports from the Ministry of Development of N.E Regions. The researcher observes that the major hindrances for SSIs are poor marketing structure, inadequate raw material supply, poor transport facility etc. The small enterprises in this region are losing their ground to the MNCs and domestic large firms due to their inability to afford the cost of advertisement, sales promotion, packaging, market research and innovation activities. The author emphasizes on a preferential treatment for the SSIs in this region because of economic backwardness of the North East states and highlights the role of marketing co-operatives and govt. agencies. Sales depots should be opened in all the major cities in the region and exhibitions of the small firm products should be regularly organised. The

small firms must improve their database regarding the taste, preference and choice of the customers and involve technology (Internet, E-mail, E-Commerce) in marketing activities.

Sandesara, J.C. (1993)⁶² has studied the performance of SSIs producing reserved items collecting data from the second census conducted by the Ministry of SSIs. The study examines the null hypothesis that the SSI firms producing reserved category items should perform better than the SSIs producing non-reserved items. The study result reveals that capacity utilisation and aggregate change in production in 1987-88 are both lower for reserved items compared to unreserved items. This below par performance of the SSI firms producing reserved items is surprising as these firms do not have to face competition from the large firms. The author observes that this could be due to the entrance of excess SSI firms into the protected areas.

Basudeva, P.K. (2001)⁴⁰ argues that the reservation policy for the SSIs has become a meaningless policy as the free imports of the reserved items have been allowed by the Govt. The reserved items face full competition as the items can be freely imported. The researcher believes that the reservation policy has lost its relevance and criticises the sloppy approach of the Govt. in withdrawal of the policy.

Morris, Beshant and Das (2001)¹⁴ examine the impact of reservation policy on the SSI sector by studying about 1200 SSIs. The study results shows that the growth rate of production of the reserved items is less than that of unreserved products produced by the other SSIs. The awareness about the reservation policy is very low among the SSI entrepreneurs. Many SSIs do not know that their products fall into reserve category. The author argues that the SSIs are not likely to be much affected by the withdrawal of the reservation policy. However, the SSIs producing lifestyle consumer goods might face more competition in the market.

Our Observation: The marketing problem has taken a serious shape as majority of MSMEs especially the micro and tiny firms are not adequately aware of marketability aspect. They should be encouraged to undertake innovative low cost promotional techniques, product planning, branding, packaging and standardising products.

The reservation policy seems to lose its relevance in globalised regime. The SSIs have not performed satisfactorily even after implementation of reservation policy for long time. The Govt. has rightly followed the de-reservation policy to increase competitiveness of the MSMEs.

SECTION VI

2.7 PERFORMANCE OF MSMEs IN WEST BENGAL

Mukherjee, Das and Bhattacharya (1999)⁵⁶ analyse the growth trend of small scale industries in West Bengal over the last 25 years collecting data from different Economic Reviews published by West Bengal Govt. The researchers compute time series of the number of registered SSIs and employment on 31st March every year and then determine growth rate of the two series for every district. The study results show that there exists considerable variation and no specific trend in growth rate in number of registered SSIs and employment in different districts.

Awasthi and Pal (2000)³⁶ analyse the need and availability of Business Development Services for small enterprises in Kolkata and Howrah districts on the basis of field survey. The authors argue that with the advent of globalisation the small enterprises face severe competition in the market due to managerial and technological incompetence of the small firms. The firms must be provided adequate support through relevant counseling and consultancy. The field survey shows that there exists a severe mismatch between the demand and supply of Business Development Services due to market imperfections and price distortions. The Business Development Services are available to only some limited firms while the majority others are either ignorant or could not avail because of paucity of such facilities. The authors argue that the small firms in Kolkata and Howrah would be better equipped to handle market competitiveness if Business Development Services are easily available.

Banerjee, Bardhan, Basu et al (2002)³⁹ observe that the performance of West Bengal in industry, higher education and public finance is below par. For upliftment of SSIs, the Govt. must ensure public investment in infrastructure development, increase interaction between industry and university, ensure easy availability of credit, sophisticated technology and improved distribution channels. The paper also recommends providing more authority to panchayets to facilitate social service delivery and agro-business development in West Bengal.

Biswas, Pradip Kumar (2003)³ analyses the basic pattern and nature of rural industries in West Bengal and effect of liberalization on the rural industries. West Bengal registered good performance in rural industries during 1970 to 1980 due to favourable economic condition, skilled workers, rich tradition for crafts, social and community network etc. However, liberalisation process has not been beneficial for rural industries in West Bengal. The author argues that the preparation for free economy has not been adequate at the ground level and

drastic change in outlook and policy framework of the Govt. has adversely affected rural industries in West Bengal.

Maity, Dibeyendu (2005)⁵⁴ carries out an empirical investigation regarding different organisational forms of rural industries in West Bengal during the post reforms period by conducting a field survey in selected traditional crafts industries in 2001-02. The major organisational forms considered in the study are independent units, tied units and cooperative units. The tied units refer to being tied to traders and/or master enterprises for raw materials and work-orders. The cooperative units show a declining trend over the study period but the tied units play a vital role in product differentiation and innovation in rural industries in West Bengal.

Chakrabarti and Bose (2009)⁸¹ compared the industrial performance of West Bengal with the industrially advanced states Maharashtra, Gujarat and Tamilnadu over the last three decades. The study showed that the labour productivity was extremely low in organised manufacturing sector in West Bengal compared to Maharashtra, Gujarat and Tamilnadu. The difference between four states in industrial scenario was not very prominent till 1980s. The difference got wider since 1991 due to poor implementation of liberalisation policies in West Bengal. West Bengal suffered a reduction in real assets per worker from 1994-95 to 2000-01 due to poor use of modern technology in manufacturing sector compared to industrially advanced states in India. Moreover, bureaucratic formalities, political interference, corruption, huge documentation etc. were the other constraints for industrial development in West Bengal.

Roy and Chaudhury (2012)⁹⁴ try to identify potential sectors for industrial development in West Bengal. The researchers have used a four quadrant matrix for identifying Star, Attention, Dull and Slow category of industries. The category 'Star' refers to the sector where West Bengal has production advantage in at least 6 years out of last ten years and where the net shift of sales is positive. Tobacco, leather etc fall in this category. The sector 'Attention' refers to the sectors where West Bengal has production advantage in less than 6 years out of last ten years, but these sectors have positive net shift of sales. This sector needs immediate attention because West Bengal does not have production advantage here in spite of having good demand in the market. Automobiles, food processing, non-metallic materials and apparels fall into this category. With proper initiatives, this sector has every chance of upgrading itself to the 'Star' sector in future. The 'Dull' sector means the sector where West Bengal does not have production advantage in at least 6 years out of last ten years and where the net shift of sales is negative. These are not the

preferred field for investment. Majority of the products produced in West Bengal (paper, rubber, plastic, radio, T.V. etc) come under this sector. The 'Slow' sector includes the sector where West Bengal has production advantage in at least 6 years out of last ten years but where the net shift of sales is negative. Petro products, metal, chemical, textile and basic metals are the sectors under this category. The researchers argue that the Govt. must come out with proper strategy regarding land bank, infrastructural development and simplification of rules and regulations.

Our Observation: As the above reviews suggest, MSMEs especially the village industries were badly hit by the liberalisation procedure. Industrial development in West Bengal upto 1980s was almost at par with the industrially developed states in India. But since 1990, West Bengal started losing the race due to poor adoption and implementation of reform measures. There exists significant variations in employment generation and the number of SSIs registered in different districts in West Bengal. Infrastructural development, clear land acquisition policy, priority sector lending can improve industrial scenario in West Bengal.

SECTION VII

2.8 SMALL AND MEDIUM ENTERPRISES (SMEs) IN OTHER COUNTRIES

Dae-Woo (1993)⁴⁴ analyses the policy taken up by the Korean Govt. to ensure co-existence and mutual dependence between small and large enterprises. Since 1980, Korean Govt. has taken up vital measures to promote small and medium scale sector as a complement to big organisations. The Govt. followed the reservation policy approach where some items are earmarked for exclusive production and manufacture by the SSIs. Through reservation policy, the Govt. has successfully promoted the small concerns and helped them to become ancillary industries.

Aktheruddin (2000)³⁴ has conducted a study in Bangladesh to judge the impact of socio-economic environment on small-scale sector by collecting information from 70 small firms. The study result shows that effective entrepreneurship policy can help in improving supply of raw material, marketing effectiveness, supply of credit etc. The performance of small firms is highly dependent on the business environment. Stable economic and political environment help small firms to perform better.

Rodriguez and Sandee (2001)⁴¹ analyse the development in small and medium enterprises in Indonesia after the economic crisis faced by the country in 1997. The authors argue that though the small firms are severely affected by the crisis, these have more capacity of combating crisis

than the large firms as the small firms are less dependent on formal markets and formal credit systems. The productivity of the small firm in Indonesia has increased significantly in recent years due to formation of clusters. The authors suggest that the Govt. should concentrate more on providing favourable environment and adequate business development services to the MSMEs.

Chi and Chou (2003)⁴³ explain the fabulous growth of Township and Village Industries (TVEs) in China. In 1978, the China Govt. introduced the concept of establishing the rural and village industries in little townships and villages. Since 1980, the Township Industries got real momentum and the sector employed 27 percent of the workforce and contributed half of industrial value added of China in 2003. The significance of TVEs sector is attributed to absorption of rural workforce and implementation of local agricultural and industrial raw materials. The study reveals that though the TVE sector has received fewer subsidies and financial helps compared to state-owned enterprises, this sector has exhibited a better performance than the state-owned enterprises.

Chung-Chiang (2003)⁸² has conducted a study among seven Taiwanese firms to determine the survival policy the small firms should adopt to maintain their existence under globalised regime. The firms which were selected were going through financial crunch. Their profit and market share were steadily reducing. The firms accepted some tough measures like temporary employment reduction, sale of fixed assets etc. The study highlights that the small firms must analyse survival strategy and apply them suitably under changing economic situation.

Rhodd, Lawrence and Scott (2005)⁵³ have studied the relationship between financial distress and firm specific and economy specific factors in Jammica. They identified 36 small non-banking enterprises and used parametric statistics to analyse results. The study showed that both economy specific and firm specific factors were responsible for sickness of the firm. Appropriate financing of firms, reduction of wastes, proper strategy for combating the interest rate change and devaluation of currency can be helpful in reducing sickness in SMEs in Jammica.

Kuruba (2006)⁵² observes that the small industries are the main source of employment generation in Botswana. One striking feature of industrial pattern in Botswana is high rate of ownership of small industries by the foreigners. The author emphasizes that the SMEs in Botswana are at the initial stage and the Govt. must ensure infrastructural development and more participation of common people in the economic activities of the country.

Cheng and Yermekbayeva (2006)⁴²analyse the position of small industries in Republic of Kazakhstan based on information collected through interview of 70 SSI entrepreneurs. The study results show that the major problems of SMEs in Kazakhstan are lack of financial support, incidence of non-repayment of loan, lack of managerial and marketing skills etc. The SMEs are at the growing phase and the Govt. need to ensure active support for the SMEs.

Our Observation: The above reviews reveal that the MSMEs have truly emerged as the engine of growth all over the world. The major problems faced by the MSMEs in other countries especially Asian and African countries (like poor credit availability, lack of raw material supply etc) are almost the same as faced by the MSMEs in India.

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CHAPTER 3

GROWTH AND PERFORMANCE OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) DURING PRE AND POST LIBERALISATION PERIOD

3.1 INTRODUCTION

The Micro, Small and Medium Enterprises (MSMEs) are the major drivers of Indian economy and key instrument in promoting equitable development. The main highlight of the sector is its capacity to generate employment with comparatively low capital requirement (**Dhar, Pranam, 2013**)⁷. MSMEs complement large industries as ancillary units and contribute significantly in socio economic development of the country. The sector has consistently maintained higher growth rate than Overall Industrial Sector and Gross Domestic Product (GDP) growth rates since 2002-03.

Table 3.1: Comparative Growth Rate of MSMEs, Overall Industrial Sector and Gross Domestic Product

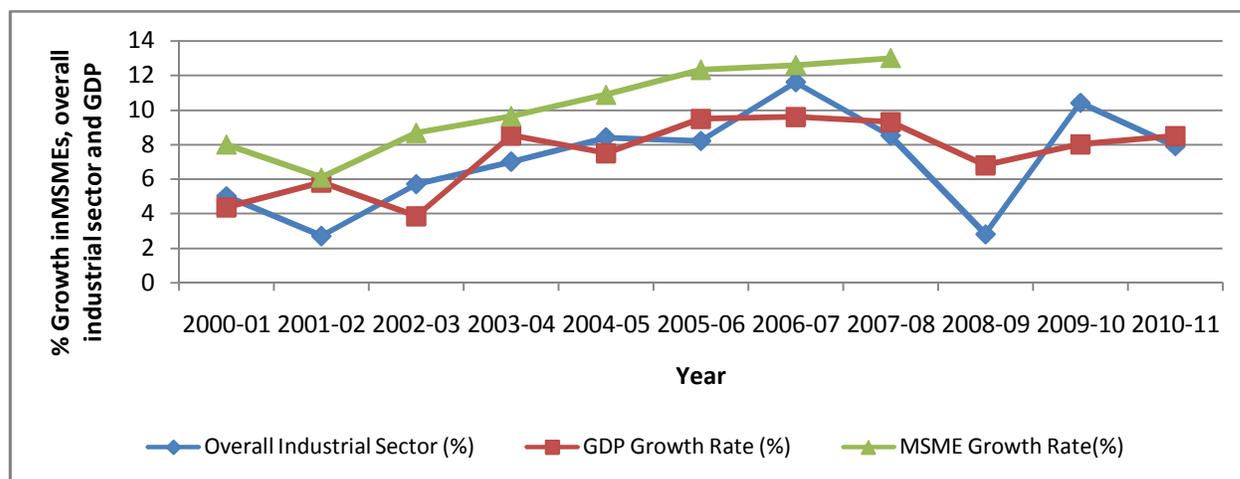
Year	Growth Rate of SSI/ MSME Sector [2001-02 Base (IIP %)]	Overall Industrial Sector (%) #	Growth Rates in GDP (2004-05 Prices)(at Factor Cost)
2000-01	8.00	5.00	4.35
2001-02	6.10	2.70	5.81
2002-03	8.68	5.70	3.84
2003-04	9.64	7.00	8.52
2004-05	10.88	8.40	7.50
2005-06	12.32	8.20	9.50
2006-07	12.60	11.60	9.60
2007-08	13.00*	8.50	9.30
2008-09	**	2.80	6.80

2009-10	**	10.40	8.00
2010-11	**	7.90	8.50
CAGR(2000-01 to 2005-06)	9.01	10.39	16.90
CAGR(2006-07 to 2010-11)	2.72	-0.74	-2.20
CAGR(2000-01 to 2010-11)	7.18	4.68	6.92

Source: 1) Ministry of Micro, Small and Medium Enterprises (MSMEs), Government of India, Annual Report 2011-12 (assessed from www.msme.gov.in)²⁸ 2) Katoch (2012)³⁵

Notes: 1) * Projected Index of Industrial Production (IIP) 2) ** Due to revised definition of MSME sector, methodological revisions are in progress.

Fig 3.1: Growth Rates of MSMEs, Overall Industrial Sector and GDP



Source: Same as Table 3.1 Notes: Same as Table 3.1

The MSME sector shows an increasing growth trend from 8 percent in 2000-01 to 13 percent in 2007-08. After this period, data collection procedure is in progress due to definitional change of the sector as a result of introduction of Micro, Small and Medium Enterprise Development Act (MSMED Act) in 2006. Similarly, overall industrial growth has shown an increasing trend from 5 percent in 2000-01 to 7.90 in 2010-11 with some fluctuations in 2007-08, 2008-09 and in

2010-11 mainly due to unstable financial conditions. The GDP growth has also shown an increasing trend from 4.35 percent in 2000-01 to 8.50 in 2010-11 except some fluctuations in 2002-03, 2004-05 and 2008-09. To compare the growth rate in three areas, we have calculated Compound Average Growth Rate (CAGR) dividing the entire period (2000-01 to 2010-11) into two segments viz. 2000-01 to 2005-06 and 2006-07 to 2010-11 (Katoch, 2011)³⁵. This segregation is done to account for the changes brought in by the introduction of MSME Act, 2006. The CAGR of MSMEs was less than the CAGR of Overall Industrial Sector and GDP during 2000-01 to 2005-06. However, in the second phase (i.e. 2006-07 to 2010-11) CAGR of MSMEs was higher compared to Overall Industrial Sector and GDP. The CAGR of MSMEs for the entire period i.e. 2000-01 to 2010-11 (data from 2008-09 to 2010-11 is still not available) is 7.18 percent compared to 4.68 percent for Overall Industrial Sector and 6.92 for GDP. Thus the MSMEs have registered higher growth rate than Overall Industrial Sector and GDP.

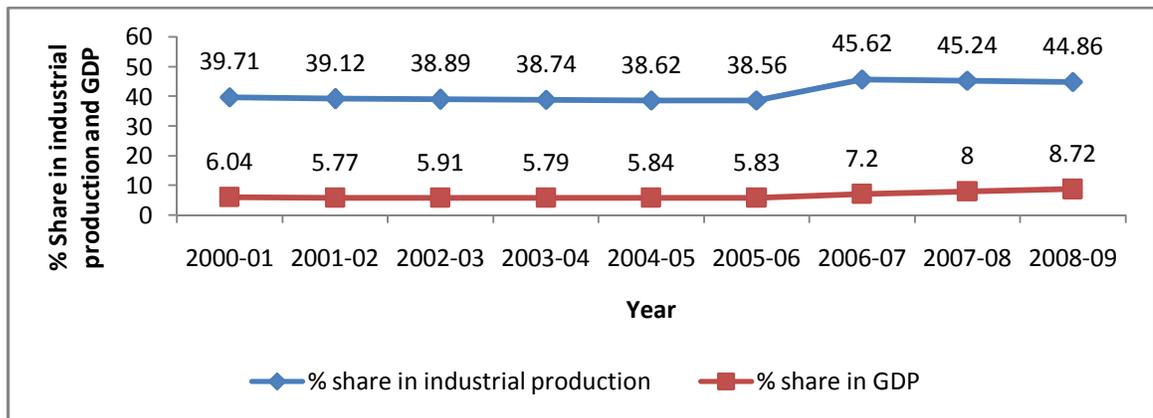
Table 3.2: Contribution of MSMEs in Total Industrial Production and GDP

Year	Contribution of MSMEs (%) at 1999-2000 prices in	
	Total Industrial Production	Gross Domestic Product
2000-01	39.71	6.04
2001-02	39.12	5.77
2002-03	38.89	5.91
2003-04	38.74	5.79
2004-05	38.62	5.84
2005-06	38.56	5.83
2006-07	45.62	7.20
2007-08	45.24	8.00
2008-09	44.86	8.72

Source: Ministry of Micro, Small and Medium Enterprises (MSMEs), Government of India, Annual Report 2011-12 (assessed from www.msme.gov.in)²⁸

Note: Data up to 2005-06 relates to Small Scale Industries (SSIs)

Fig 3.2: Contribution of MSMEs in Total Industrial Production and GDP



Source: Same as Table 3.2

MSMEs have shown significant increase in industrial production from 39.71 percent in 2000-01 to 44.86 percent in 2008-09. MSME contribution to GDP has also registered an increase from 6.04 percent in 2000-01 to 8.72 percent in 2008-09. As Fig 3.2 shows MSMEs have been very much consistent in their contribution to industrial production and GDP since 2000-01 and represent an increasing trend except a few mild fluctuations.

However, with the introduction of New Economic Policy (NEP) in 1991, coupled with World Trade Organisation (WTO) directives, many Quantitative and Qualitative Restrictions were withdrawn (Sonia and Kansal, Rajiv, 2009)³⁸. This has created an environment where the MSMEs have to prove their worth to sustain and excel in the highly competitive market.

3.2 CONCEPT OF GLOBALISATION

Globalisation is one of the most vital issues in recent times. It is difficult to identify a unique definition of the term. Globalisation may be defined as the process of integrating various economies of the world without creating any hindrances in the free flow of goods and services, technology, capital and even labour or human capital. Therefore, it signifies internationalisation plus liberalisation, through which the world has become a small global village. It implies widening and deepening integration with the globe i.e. with people and processes abroad. (Vijayarani, 2011)¹⁵. The most vital dimensions of globalisation are a) breaking down national barriers b) international spread of trade, financial and production activities and c) growing power of transnational corporations and international financial institutions. Globalisation process has been quite uneven as increased trade and investment activities were confined in some limited

countries but almost all the countries were affected by the process. The tremendous development in information technology and communication has been the major driver of globalisation.

One of the major features of globalisation is growth of transnational corporations due to concentration and monopolisation of economic resources. A few transnational corporations have been able to capture a major proportion of world economic resources, production and market share. The multinational companies used to dominate the world market in one product. Now the Transnational Companies (TNC) through continuous mergers and acquisitions dominate the world market in a number of products, services and sectors.

The other vital feature of globalisation is the global influence on determination of national policies of a country. Previously, the national policies were determined mainly to satisfy the need and objectives of the country. Now these are greatly influenced by international bodies, big corporations or major financial players. This pressure is more on the developing countries as they are forced to accept the global norms to facilitate free trade and commerce across the world. Globalisation is a reality. Every country whether developing or developed has to accept it and must find out ways to combat the challenges and get benefitted out of it. It has helped the developing countries to improve their economic structure, economic discipline and efficiency. Supply of advanced technology and competitiveness of the domestic market have increased significantly.

Principally the impact of globalisation on Indian industry had been started with the emergence of industrial policy statement of 1973 when foreign investment allowed in specific industries. The real thrust to the globalisation process was provided by the New Economic Policy (NEP) introduced by the Government of India in July 1991 at the behest of International Monetary Fund (IMF) and the World Bank. Globalisation process has created more interdependence among the financial machineries due to progress in communications, transport and computer technology.

3.2.1 Globalisation Background in India

Immediately after the independence in 1947, public sector was given more importance for economic development of India. The Govt. followed strict export-import policy as several restrictions like Industrial Licensing System, Import License, Foreign Exchange Control, Restrictions on Investments by big business houses etc were imposed. Many items were kept in the Negative List which can neither be exported nor imported. However, restrictive policies did not produce good results. Foreign exchange reserve was all time low during 1990s. Industrial

progress was very slow due to extreme controlling measure, inflation, political instability, gulf crisis, increase in Balance of Payment deficit and fiscal deficit, below par performance of the public sectors etc. Under this background the economic reform process was initiated on July 24, 1991 with the introduction of the New Economic Policy. With the establishment of WTO (World Trade Organisation) in 1995, the globalisation process took up pace. India, being one of the members of WTO, was forced to withdraw many restrictive measures like reducing the number of items from negative list, removing QRs (Quantitative /Qualitative Restrictions) etc. Taking lessons from the downfall of some other countries like Brazil, Indonesia etc India opened up the economy in a gradual manner allowing the domestic economy adequate time to absorb the after-shock of globalisation.

Since 1991 with the introduction of reforms measures the economic growth has been quite steady and the microeconomic parameters showed encouraging results. However, it remains a matter of debate whether the reform measures should have been implemented in India lot early. Let us consider the case of India and South Korea. Both the countries have got their independence in 1947 and both the countries started their journey with import-substitution. South Korea, however, changed the mode early in 1960 from import-substitution to export-orientation to rejuvenate their economy and that really paid rich dividends. Three decades ago South Korea's Gross Domestic Product (GDP) per capita was comparable with levels in the poorer countries of Africa and Asia. The Gross Domestic Product (GDP) in India was worth 1841.70 billion US dollars and in South Korea was worth 1129.60 billion US dollars in 2012. However, if we consider per capita GDP, South Korea's per capita GDP (27990.83 US dollars) is about 8 times of India's per capita GDP (3340.60 US dollars) in 2012. The GDP per Capita, in South Korea, when adjusted by Purchasing Power Parity (PPP) is equivalent to 127 percent of the world's average whereas GDP per capita in India is equivalent to only 15 percent of the world's average in 2012 (<http://www.tradingeconomics.com/india/gdp>)³⁴.

3.3 STRENGTHS AND WEAKNESSES OF MSMEs IN THE ERA OF LIBERALISATION

Deregulating industrial sector, liberalising foreign investment and technology imports have been the most significant development in India since 1991. Globalisation has unfolded many opportunities and constraints for the MSMEs.

3.3.1 STRENGTH

Exposure to foreign markets: Globalisation has opened up the economy and integrated it with the world economy. The MSMEs enjoy the benefits of selling their products and services to the world market rather than being confined into domestic market. The free economy ushers in accessibility to bigger markets, greater linkages with larger companies and marketing outfits, improved manufacturing techniques and processes.

Flow of foreign investment and technology: The MSMEs suffer from outdated technology and sub-optimal scale of operation. Many foreign companies have tied up with Indian MSMEs to help them with better technology, managerial skill. A proper collaboration between the small and large companies can help small firms to develop technology base through research and development activities, contribution from the technological institutes, universities etc.

Emerging areas of business: MSMEs have been able to identify many uncommon but highly promising business areas like outsourcing, medical transcription, clinical research trials, sub-contracting and many new technologies like biotechnology, nanotechnology etc. The new generation MSME entrepreneurs are taking good interest in these areas.

Employment generation: Being labour-intensive in nature, the MSMEs make significant contribution in employment generation and expanding industrial network in rural areas. This sector nurtures the traditional skills and knowledge based small and cottage industries. The workers inherit and transfer skills from generation to generation. The handicrafts and other products have good demand in market. As per the Annual Report of the Ministry of Micro, Small and Medium Enterprises, 2012-13 this sector has generated 101.26 million job opportunities.

Export contribution: The products of MSME sector (like sports goods, readymade garments, woolen garments and knitwear, plastic products, processed food and leather products, handicrafts etc) have an excellent foreign market. As per the Annual Report of the Ministry of MSMEs in 2012-13, this sector has registered an export earning of Rs 202017 crores.

Operational flexibility: Small industrial units enjoy some inherent advantages like low investment requirement, economies of scale, less managerial complexity etc. With the introduction of globalisation, MSMEs can access larger markets, superior technology, marketing methodology etc which can offer more flexibility to their operation.

Removal of Regional disparity: People from remote areas have the tendency to migrate to urban areas in search of jobs. This creates excessive pressure on urban areas and initiates social and personal problems. This problem can be addressed by setting up a network of MSMEs in economically backward areas. MSME sector can take care of local needs, improve economic condition of the area and most importantly, can bring a qualitative change in the economy of the country.

Better industrial relations: The MSMEs are less prone to industrial disputes. However, the truth behind the scene is that the workers in small sectors are mostly from unorganised sector and cannot raise their voice collectively. Thus apparently, they share harmonious relation with the firm owners.

3.3.2 WEAKNESS

Lack of Institutional Credit: There are several commercial banks, co-operative banks, State Financial Corporations (SFCs) to ensure steady supply of credit to the MSMEs. Small Industries Development Bank of India (SIDBI) was established in 1960 as an exclusive re-finance bank for the MSMEs. Still institutional financing remains a major problem for the MSMEs. They mostly depend on internal sources of finance (personal savings, loan from relatives, and loan from local money lenders) than that of institutional financing by banks and other financing institutions.

Traditionally, banking sector considers Small industries a risky field of investment due to low growth rate, informal business practices, inability of the entrepreneurs to maintain collateral securities, lack of creditworthiness, relatively high processing cost, and poor flow of information. Moreover, incidence of Non-Performing Assets (NPA) in the sector is high, about 15 percent compared to about 9 percent in large business houses.

Marketing and Distribution Problems: Marketing is probably the most neglected and less explored problem for micro and small firms. Most of them do not have any well formulated marketing strategy, market research programmes, and innovative advertisement techniques. They do not have adequate monetary support to develop marketing section and many are not aware of

modern low-cost marketing techniques (blogging, sending mails, developing website for the company).

Lack of Skilled workers: Though India has no dearth of human resource, most of them are unskilled workers. Large firms pay higher remuneration and employ skilled workers. The MSMEs have to operate with unskilled or semi-skilled workers and suffer from low managerial capabilities. The performance of the training institutes, both Govt. and private is not satisfactory. The training courses lack job orientation and fail to prepare trainees to set up their individual enterprises (Biswas, Pradip, 2011)⁴.

Outflow of wealth: Globalisation process seems to benefit the multinationals only as these use domestic wealth, infrastructure and local unskilled workers at a lower cost and repatriate huge profits to their own countries. There are some serious question marks on the employment generation capacity of globalisation. In many cases, the multinationals do not depend on the skilled workers of the native country; they only use unskilled workers at a very low rate. Moreover, the firms operate with the sole objective of profit making. Therefore, qualitative services and social welfare aspects are ignored.

Poor access to modern Technology: There exists considerable heterogeneity among the MSMEs in India regarding use of technology. A small percentage of firms operate with sophisticated technology whereas majority of firms use outdated technology. There exist significant variations in technical efficiency of the MSMEs in different states and even in different areas of the same state (Seema and Millind, 2010)²². They suffer from low productivity and poor product quality. Due to their small size, they cannot enjoy large-scale production economies.

Delayed payments: The small firms find it difficult to recover their dues from the large firms and even from Govt. departments due to complex payment procedure and corruption. Due to lack of funds, they cannot employ credit collection machineries (like factoring services). The large firms force them to offer long credit period and even pay advance to ensure timely supply of materials.

Lack of co-ordination: Both the Central and State Govt. offer several schemes for MSMEs but there exists serious lack of co-ordination among the Govt. organisations. Different organisations run almost the same types of schemes meant for same category of entrepreneurs. Many schemes run by the Govt. are either not known or not suitable for the entrepreneurs.

Inadequate infrastructural facilities: Infrastructural lacking includes inadequate power supply, transportation, water supply etc. Small firms cannot bear the cost of setting up independent power supply unit and have to depend on irregular power supply from the electricity boards. Inadequate transportation system increases cost of production. The MSMEs producing beverages, tobacco products, medicines etc face the problem of inadequate water supply. As per the study conducted by **Keshab Das and Sebastian Morris (2001)**¹¹, out of 1063 surveyed firms, 716 firms (more than sixty-seven percent) confessed that they have serious infrastructural problems.

Withdrawal of protection policies: With the advent of globalisation, the Govt. has withdrawn many protection policies and introduced promotional measures to increase competitiveness and self-sufficiency of the sector. Many MSME units find it difficult to survive in the market due to ruthless competition from the multinationals and large domestic firms and increasing cases of merger and acquisition. The change in attitude of the Govt. from protection to promotion has created a psychological problem to many MSME entrepreneurs who still expect preferential treatment for the small industries. Fortunately, this tendency is low among the new generation entrepreneurs. Workshops, success story based approach may help reduce this tendency even more.

3.4 ISSUE OF RESERVATION

Reservation Policy for allowing the SSIs to manufacture some specific products as statutorily provided by the Industrial Development & Regulation Act, 1951 is a vital measure for promoting this sector. The Policy aims at increasing production of consumer goods, increasing employment opportunities, safeguarding the small industries from competition, reducing regional industrial imbalances etc. Non-MSME units can manufacture reserved items only if they undertake 50% export obligations.

The Reservation Policy was introduced in 1967 when only 47 items were put in the list. The policy received statutory backing in 1984 under Section 29B of Industries (Development & Regulation) Act, 1951. Gradually a large number of items were placed in the Reservation List. However, with the betterment of industrial environment and introduction of global measures, the reservation policy has lost its importance.

Table 3.3: Changing Patterns of Reservation Policy

Era of Reservation		Era of De-Reservation	
Year	No. of Items in Reservation List	Year	No. of items Dereserved
1967	47	1997	15
1970	55	1999	9
1971	128	2001	15
1971	124	2002	51
1974	177	2003	75
1976	180	2004	85
1978	504	2005	108
1987	807	2006	180
1989	836	2007	212
		2008	93
		2010*	1

Source: <http://dcmsme.gov.in>³³

*As on 30th July, 2010 (date of last revision of reservation list)

As the table 3.3 shows, there has been an increase in the number of items in the reservation list till 1989. With the opening up of Indian economy and increase in competitiveness, the performance of the SSI sector producing reserved items was monitored closely and the deregulation process got its momentum in 1997. Since then, there has been a steady increase in the number of items dereserved till July 2010 when the last revision of the Reservation List took place.

There has always been a great debate on whether reservation policy is successful in India. The policy has been able to reduce competition and offer stress-free environment for the small industries. The main question is whether the small enterprises have been able to perform satisfactorily while the Reservation policy was in full force. Probably the answer is no. In many cases the small industries have failed to live up to the expectation and satisfy the needs, taste and preferences of the customers keeping in mind the fact that they have the exclusive right to produce the items in the reservation list. The Govt. policy should create a competitive

environment, which can bring out the best performance from the MSMEs without being threatened to lose their existence by the entrance of large firms into the market. **Little et al (1987)**¹⁰ observed that reservation policy reduced efficiency of SSIs, reduced customer choice and eventually hindered welfare. **Sandesara (1993)**²¹ showed that the SSIs producing reserved items performed poorly compared to the SSIs producing non-reserved items. **Morris et al (2001)**¹¹ studied de-reservation effects of about 1200 SSIs and noticed that the units producing reserved items performed below par and small scale firms producing unreserved items showed more competitiveness. The degree of awareness about the reservation policy is poor as many SSI entrepreneurs were not even aware that their product fell in the category of reserved items. They argued that except some limited items, reservation policy has not made significant difference in SSI efficiency. **Rakesh Mohan (2001)**³⁷ argued that many of the items listed in the reservation list are not actually manufactured by the SSIs. So there is no point in continuing reservation on those goods. **Keshab Das (2006)**³² observed that the reservation policy fails to make any impact and points out that frequent addition or deletion in the list of reserved items are mostly done for vested political interest rather than to satisfy small-scale sector needs.

The Expert Committee on Small Enterprises under the chair of **Abid Hussain (1995)**²⁶ recommended total abolition of reservation policy. However, Advisory Committee on Reservation (1997) recommended that total abolition of Reservation Policy might send wrong signal and should be implemented gradually.

The following arguments may be raised against the reservation policy:

- The MSMEs could not perform satisfactorily. Surprisingly, MSME units with no reservation facility have performed better than those units with reservation support. These units have competed well with large firms.
- In many cases, reservation policy has become just a policy on paper. Many MSMEs do not produce the reserved items. It is not relevant with the new trade policy that allows the items reserved for the MSMEs can freely be imported.
- Reservation policy has reduced export potential of India especially in textile and leather.
- As per different surveys and field studies, many MSME Entrepreneurs do not know about the policy and many believe it does not make any significant difference.

To summarise, we can say that the dereservation policy should be continued. The performance of MSMEs does not show any significant change due to dereservation. The dereservation policy

will ensure increase in competitiveness in domestic market enabling the MSMEs to become self-sufficient and compete with the large firms.

3.5 KHADI AND VILLAGE INDUSTRIES (KVI) SECTOR

Khadi and village industries are two national heritages of India. The most striking feature of the sector is its ability to generate good employment with nominal investment. The KVI sector not only serves the basic needs of processed goods of the vast rural sector but also provides sustainable employment to rural artisans. Khadi and Village Industries represent an exquisite heritage product, which is ‘ethnic’ as well as ‘ethical’. (MSME Annual Report, 2012-13)²⁹

Khadi and Village Industries Commission (KVIC), a statutory body set up by the KVIC Act, 1956 is entrusted with the responsibility of planning, promotion, organisation and implementation of programs for the development of Khadi and Village industries.

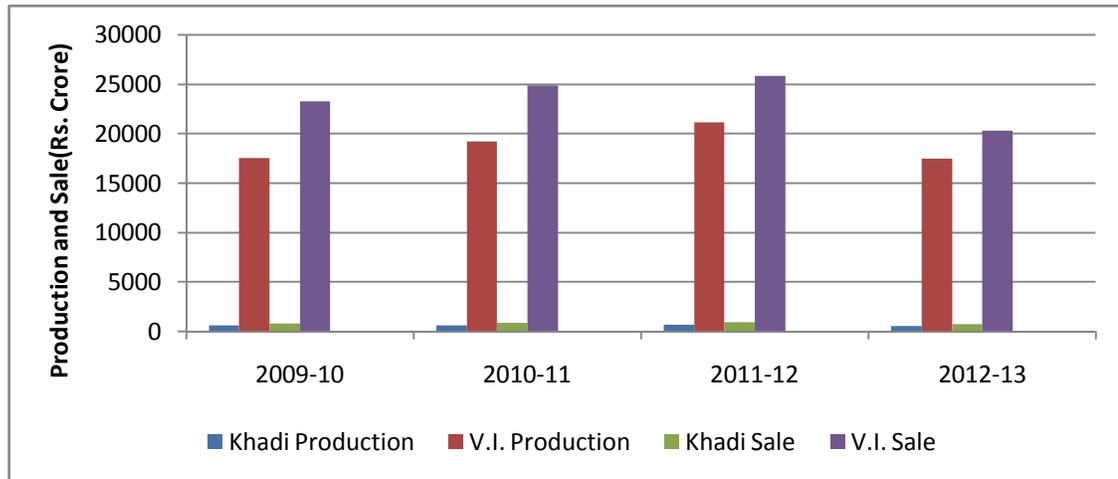
Table 3.4: Production, Sale and Employment of Khadi and Village Industries from 2009-10 to 2012-13

Year	Production (Rs. Crores)			Sales (Rs. Crore)			Cumulative Employment (Lakh persons)		
	Khadi	V.I	Total	Khadi	V.I.	Total	Khadi	V.I.	Total
2009-10	628.98	17508.00	18136.98	867.01	23254.53	24121.54	9.81	98.72	108.53
2010-11	673.01	19198.85	19871.86	917.26	24875.73	25792.99	10.15	103.65	113.8
2011-12	716.98	21135.06	21852.04	967.87	25829.26	26797.13	10.45	108.65	119.1
2012-13*	569.30	17448.31	18017.61	790.78	20320.73	21111.51	10.69	111.04	121.73

Source: 1) Ministry of Micro, Small and Medium Enterprises (MSMEs), Government of India, Annual Report 2012-13 (assessed from www.msme.gov.in)²⁹ 2) KVIC Annual Reports, 2012-13³¹

* Upto 31.12.12, V.I. stands for Village Industries

Fig 3.3: Khadi and Village Industries Production and Sale from 2009-10 to 2012-13



Source: Same as Table 3.4

Note: Information regarding 2012-13 is available upto 31.12.12.

Both Khadi and Village Industries show increasing trend in production, sales and employment generation. However, Village Industries exhibit better performance than Khadi. Even though the official figure shows a steady increase in employment, it is not the real story. Most of the workers in KVI sector are part time workers. The quality of employment is very poor and carries low wage. The new generation workers are not interested in KVI sector. Therefore, employment generated by the KVI sector in qualitative term is not satisfactory (**Murugen and Manivel, 2009**)¹².

Products of KVI sector have good foreign market. The sector needs special attention on export through enhanced participation in international exhibitions, business delegations, and buyer-seller meet and also through special promotional events abroad.

3.6 WOMEN ENTREPRENEURSHIP IN MSMEs IN INDIA

As per general concept, women entrepreneurs are the women or a group of women who initiate, organise and operate a business enterprise. A women enterprise may be defined as an organisation owned and controlled by women with a minimum 51 percent financial interest and at least 51 percent of the workers are women (**Charantimath, Poornima 2013**)⁵. Women entrepreneurship has been recognised as a vital untapped source of economic growth (**Tripathy, T. 2005**)²⁵. Unfortunately, even after representing nearly half the total population by the women as per Census 2010, entrepreneurship is extremely gender-biased and considered a “man thing”

in India (Lahiri, Rajib, 2012)¹⁶. According to the Fourth All India Census of MSMEs with base year of 2006-07, the number of women enterprises is 2.15 Lakh which forms merely 13.72 percent of total MSME firms. Female employment in MSMEs is about 19.04 Lakh forming about 20.45 percent of total workforce employed in registered MSMEs.

Women entrepreneurs may be classified under three main categories. The first category represents women entrepreneurs operating in big cities, possessing high educational and professional qualification. They run large business houses maintaining high turnover and produce non-traditional items. The number of such entrepreneurs is very few. The second Category includes women entrepreneurs operating in cities and in towns. They are adequately educated but usually do not possess high professional qualification. Their size and level of operation of business is moderate and produce both traditional and non-traditional items. The third category refers to entrepreneurs from rural areas possessing low educational qualification. Their business size is small and produces only traditional items. According to the study carried on by Das (2000)⁶, push factors dominate women entrepreneurs in Asian developing countries as the majority of female entrepreneurs are forced to join business due to financial reasons while only a small percentage take up entrepreneurship to face challenges, to prove their ability or to be independent.

Table 3.5: Scenario of women entrepreneurs in rural and urban areas in India (Numbers in Thousands)

Enterprise Type	Rural Areas			Urban Areas		
	Female Entrepreneurs	Total Entrepreneurs	% of Female Entrepreneurs	Female Entrepreneurs	Total Entrepreneurs	% of Female Entrepreneurs
Micro	636.83	2736.44	23.27	763.50	3797.74	20.10
Small	162.04	807.82	20.05	274.42	1535.21	17.88
Medium	26.88	137.75	19.51	40.37	294.52	13.71
TOTAL	825.75	3682.00	22.43	1078.29	5627.47	19.16

Source: Final Report of Fourth All India Census of MSMEs, Registered Sector: 2006-07, Results computed³⁰

The percentage of female entrepreneurs is significantly low in both rural and urban areas. It is 22.43 percent in rural areas and only 19.16 percent in urban areas. In both rural and urban areas, maximum number of women entrepreneurs is found in micro enterprises followed by small and medium enterprises.

3.6.1 Problems faced by the women entrepreneurs

Male dominated society: Indian society is mostly male dominated and women folk are not given adequate importance and exposure especially in business activities. They are deprived of educational qualification and managerial training. Even the male workers do not prefer to work under female boss (**Charantimath, Poornima, 2013**)⁵. Barring exception, women entrepreneurs are still considered second class citizen in the business world and face far more difficulties than male entrepreneurs.

Financing Problems: Financing problem is more prominent among women entrepreneurs. Despite the women entrepreneurs are found more regular in repaying their loans than the male counterparts, they are considered less creditworthy by the banks and other financial institutions due to risky nature of operation of MSME firms, informal business practices, high possibility of NPA, inability of the women entrepreneurs to maintain collateral securities (**Subrahmanian, 2011**)²³. Some lenders believe that loan offered to the women entrepreneurs are actually used by the male members of their family and women entrepreneurs can leave the business and go back to household arena due to family obligations. The incidence of rejection of loan application to the banks is high among the female entrepreneurs (**Manikavel, S. 1997**)¹⁸.

Family obligation: Women entrepreneurs have to maintain an incredible balance between their family ties and business responsibilities (**Charantimath, Poornima, 2013**)⁵. They cannot devote sufficient time to their business after maintaining family. Thus, support from the other family members play a vital role in women entrepreneurship.

Lack of managerial skills: Some believe that the women have poor managerial qualities and have to depend on other personnel for decision making especially regarding marketing and complex financial issues. Today the situation is rapidly changing in India. More and more women are entering into business schools to sharpen their managerial and decision making skills. Many studies have revealed that women entrepreneurs have outperformed male entrepreneurs.

Risk Averter Approach: General notion is that the women are defensive and conservative in their business decisions. Modern business world requires tough decisions regarding financing options, investment options etc. They may lose business opportunities for not taking risky decisions.

Limited Mobility: Women entrepreneurs have less mobility mostly due to their family obligation (Lahiri, Rajib 2012)¹⁶. Therefore, some common business activities like extensive travelling, settling business deals, knowledge of raw material etc are more suitable to male entrepreneurs.

3.6.2 Major Developments in women entrepreneurship during Five Year Plan Periods

The importance of women entrepreneurship was highlighted even during the first Five Year Plan (1951-56) but it got its real momentum during 1970s. The First Five Year Plan took some important measures like establishment of the Central Social Welfare Board, Organisation of Mahila Mandals and the Community Development Programmes etc. The Second (1956-61), Third (1961-66) Fourth (1969-74) and Fifth Five Year Plan (1974-79) emphasized on women education and training for entrepreneur. The Sixth Five Year Plan (1980-85) emphasized on the availability of finance and other vital resources needed for development of women entrepreneurship. The Eighth five Year Plan (1992-97) highlighted the role of Panchayet to motivate women entrepreneurship in rural areas. The Ninth Five Year Plan (1997-02) focused on the qualitative areas like increase in awareness of women entrepreneurs about training and skill development programmes, increase in confidence and self-belief etc. The Tenth Five-Year Plan (2002-07) stressed on implementation of National Policy for Empowerment of Women and awareness of women about their rights. The Eleventh Five Year Plan identified women entrepreneurs as the principal agent for growth and social and economic upliftment of women. It also focused on understanding the impact of globalization on women entrepreneurs.

3.7 PERFORMANCE ANALYSIS OF MSMEs DURING PRE AND POST LIBERALISATION PERIOD

The performance of the MSME sector (previously the SSI sector) is analysed with regard to four important economic parameters like No. of units, Production, Employment generation and Export. The data collected from 1973-74 to 2011-12 are secondary in nature and collected mostly from the census reports and the annual reports published by the Ministry of Micro, Small and Medium Enterprises. The study period has been divided into two parts- pre-globalisation period (1973-74 to 1989-90) and post-globalisation period (1990-91 to 2011-12). A comparative Average Annual Growth Rate (AAGR) has been calculated for the above two periods to find out the effects of globalisation on the MSMEs.

3.7.1 Number of Units

Table 3.6: Units (Million Numbers)

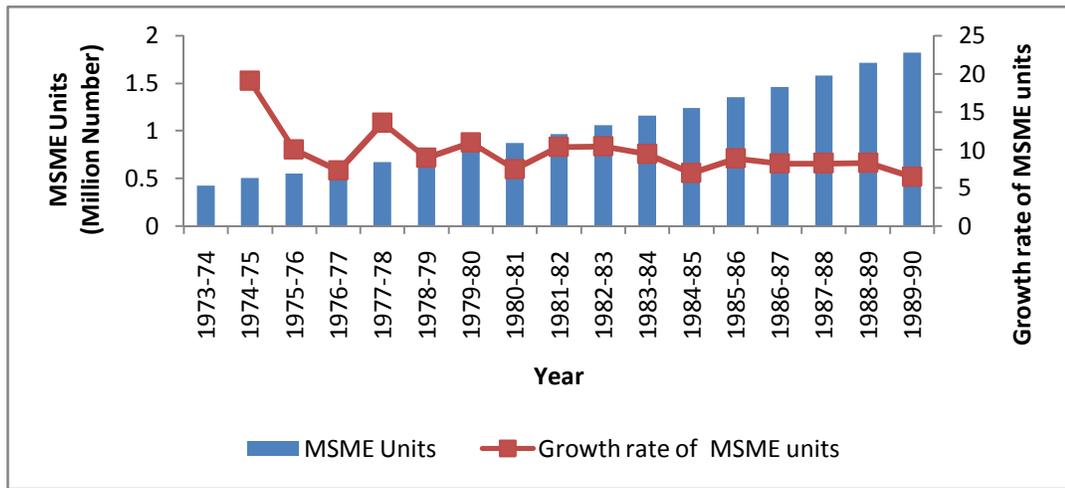
Year	Units	Growth Rate (%)	Year	Units	Growth Rate (%)
1973-74	0.42	-----	1990-91	6.79	273.08
1974-75	0.50	19.05	1991-92	7.06	3.98
1975-76	0.55	10.00	1992-93	7.35	4.11
1976-77	0.59	7.27	1993-94	7.65	4.08
1977-78	0.67	13.56	1994-95	7.96	4.05
1978-79	0.73	8.96	1995-96	8.28	4.02
1979-80	0.81	10.96	1996-97	8.62	4.11
1980-81	0.87	7.41	1997-98	8.97	4.06
1981-82	0.96	10.34	1998-99	9.34	4.12
1982-83	1.06	10.42	1999-00	9.72	4.07
1983-84	1.16	9.43	2000-01	10.11	4.01
1984-85	1.24	6.90	2001-02	10.52	4.06
1985-86	1.35	8.87	2002-03	10.95	4.09
1986-87	1.46	8.15	2003-04	11.4	4.11
1987-88	1.58	8.22	2004-05	11.86	4.04
1988-89	1.71	8.23	2005-06	12.34	4.05
1989-90	1.82	6.43	2006-07	36.18+	193.12
			2007-08#	37.74	4.31
			2008-09#	39.37	4.32
			2009-10#	41.02	4.19
			2010-11#	42.88	4.53
			2011-12#	44.77	4.41
AAGR	9.36			10.12	

Source: 1) Ministry of Micro, Small and Medium Enterprises (MSMEs), Government of India, Annual Report 2012-13 (assessed from www.msme.gov.in)²⁹ 2) Sonia and Kansal, Rajiv (2009)³⁸ 3) Lahiri, Rajib (2012)³⁶

Note:

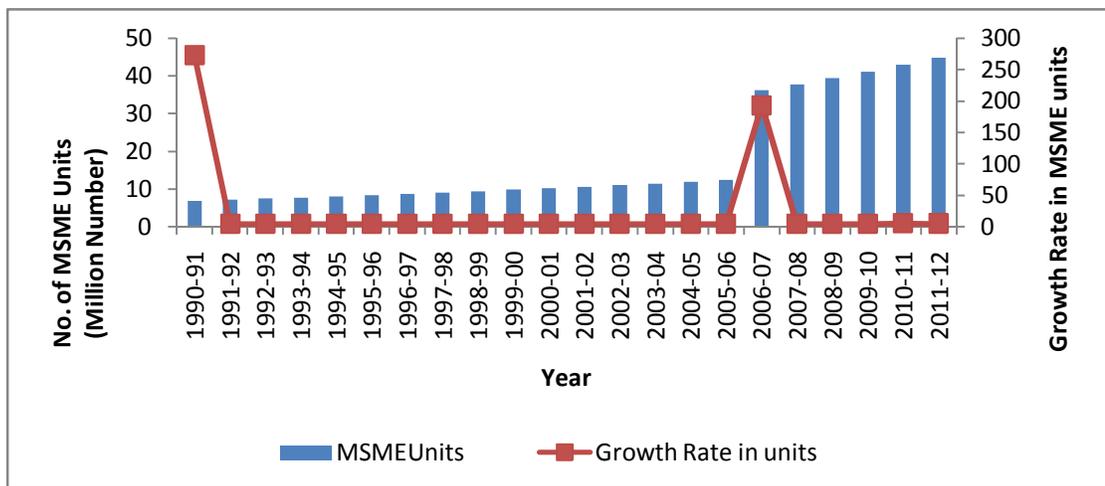
- 1) + Including activities of wholesale/retail trade, legal, education & social services, hotel & restaurants, transport & storage & warehousing (except cold storage) for which data were extracted Economic Census 2005, Central Statistics Office, M/O SPI.
- 2) # Projected
- 3) The data for the period up to 2005-06 is Small Scale Industries (SSI). Subsequent to 2005-06, data with reference to Micro, Small and Medium Enterprises are compiled.
- 4) AAGR refers to Average Annual Growth Rate

Fig 3.4: MSME (erstwhile SSI) Units during Pre Liberalisation period



Source: Same as Table 3.6

Fig 3.5: MSME (erstwhile SSI) Units during Post Liberalisation period



Source: Same as Table 3.6

Analysis: As Table 3.6 shows, the Annual Average Annual Growth Rate (AAGR) of number of units during post- liberalisation period is 10.12 percent compared to 9.36 percent during pre-

liberalisation period. Fig 3.4 shows number and growth rate of MSME units during pre liberalisation period. The growth rate of the number of MSMEs shows a fluctuating trend. Yearly growth rate was higher than average growth rate in the initial years and from 1984-85 to 1989-90, the yearly growth rate was less than average growth rate. In 1989-90, the yearly growth rate of number of units was the least. During post- liberalisation period, the growth rate in MSME units was extremely high (273.08 percent) in 1990-91. This might be due to favorable business policies announced by the Govt. However, the growth rate fluctuated between three to four percent from 1991-92 to 2005-06. This may be due to disappearance of ‘protection seeking firms’ or the inability of the firms to sustain highly competitive market. Many SSI entrepreneurs were attracted by the announcement of promotional policies by the Govt. without making proper viability analysis and those units could not survive for long(Nag. A, 1980)¹⁹. During 2006-07, the yearly growth rate was abnormally high (193.12percent) due to enactment of Micro, Small and Medium Enterprises Development Act, 2006 which put micro, small and medium enterprises within the same bracket. After that, from 2007-08 to 2011-12 the growth rate again started falling (except 2010-11). Most of the time, the yearly growth rate was less than average growth rate. As Fig 3.5 shows, except significant increase in 1990-91 and 2006-07, there was no noticeable change in growth rate of MSME units. Though the AAGR during the post liberalization period is mildly high, the performance of MSMEs in terms of growth rate of units is not satisfactory.

3.7.2 Production

Table 3.7: Production (Rs.Crore)

Year	Production (At current prices)	Growth Rate (%)	Year	Production (At current prices)	Growth Rate (%)
1973-74	7200	-----	1990-91	78802	-40.44
1974-75	9200	27.78	1991-92	80615	2.3
1975-76	11000	19.57	1992-93	84413	4.71
1976-77	12400	12.73	1993-94	98796	17.04
1977-78	14300	15.32	1994-95	122154	23.64
1978-79	15800	10.49	1995-96	147712	20.92

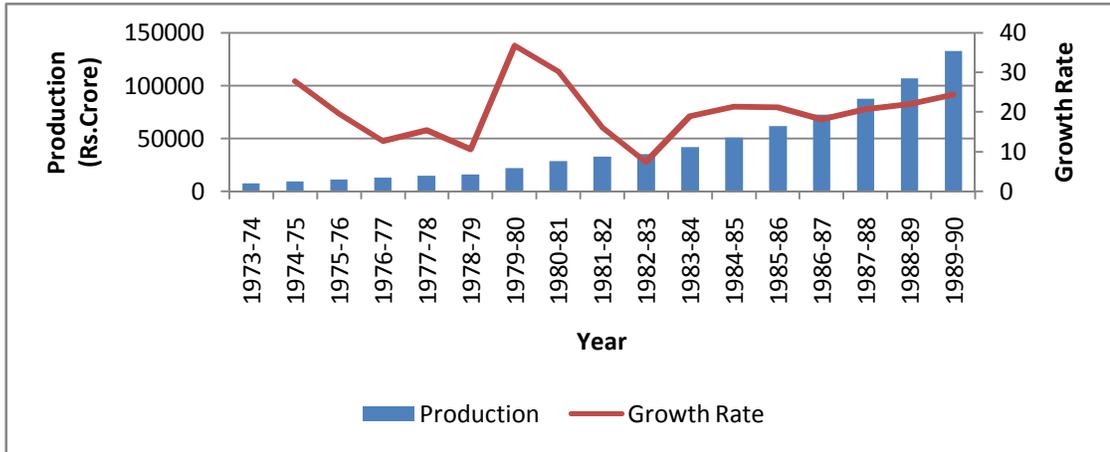
Year	Production (At current prices)	Growth Rate (%)	Year	Production (At current prices)	Growth Rate (%)
1979-80	21600	36.71	1996-97	167805	13.6
1980-81	28100	30.09	1997-98	187217	11.57
1981-82	32600	16.01	1998-99	210454	12.41
1982-83	35000	7.36	1999-00	233760	11.07
1983-84	41600	18.86	2000-01	261297	11.78
1984-85	50500	21.39	2001-02	282270	8.03
1985-86	61200	21.19	2002-03	314850	11.54
1986-87	72300	18.14	2003-04	364547	15.78
1987-88	87300	20.75	2004-05	429796	17.90
1988-89	106400	21.88	2005-06	497842	15.83
1989-90	132300	24.34	2006-07	1351383.45*	171.44
			2007-08#	1435179.26	6.20
			2008-09#	1524234.83	6.21
			2009-10#	1619355.53	6.24
			2010-11#	1721553.42	6.31
			2011-12#	1834332.05	6.55
AAGR	19.45		AAGR	17.87	

Source: 1) Ministry of Micro, Small and Medium Enterprises (MSMEs), Government of India, Annual Report 2012-13²⁹ (assessed from www.msme.gov.in) 2) Sonia and Kansal, Rajiv (2009)³⁸ 3) Lahiri, Rajib (2012)³⁶

Notes:

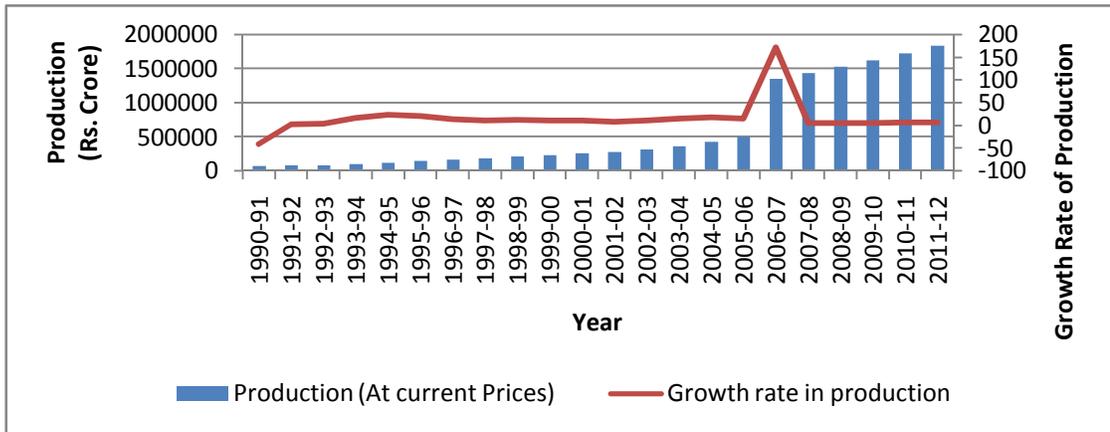
- 1) # Projected
- 2) The data for the period up to 2005-06 is Small Scale Industries (SSI). Subsequent to 2005-06, data with reference to Micro, Small and Medium Enterprises are compiled.
- 3) *Estimated on the basis of per enterprises value obtained from sample survey of unregistered sector for activities wholesale/ retail trade, legal, education & social service, hotel and restaurants, transport and storage & warehousing (except cold storage) which were excluded from Fourth All India Census of MSMEs, unregistered sector.
- 4) AAGR refers to Average Annual Growth Rate

Fig 3.6: MSME (erstwhile SSI) Production during Pre Liberalisation period



Source: Same as Table 3.7

Fig 3.7: MSME (erstwhile SSI) Production during Post Liberalisation period



Source: Same as Table 3.7

Analysis: During Pre-globalisation period, the growth rate in production exhibited a fluctuating trend from 1974-75 to 1983-84 and increasing trend from 1984-85 to 1989-90 except in 1986-87 (Fig 3.7). In 1990-91 the yearly growth rate was surprisingly negative (Fig 3.7). Even if the number of SSI units experienced a high growth rate in 1990-91, production did not increase. It could be due to inefficiency of the workers employed in the sector. However, production showed an increasing trend from 1991-92 to 1994-95. In 2006-07, growth rate was the highest because of including micro, small and medium industries within the same bracket as a result of introduction of MSMED Act, 2006. After that, from 2007-08 to 2011-12, the growth rate was around 6 percent. The production was increasing in absolute term during the study period but the average and yearly growth rate was higher in pre- liberalised period than post liberalised period. The

AAGR of production during post reforms period is lower (17.87 percent) compared to pre reforms period (19.45 percent).

3.7.3 Employment

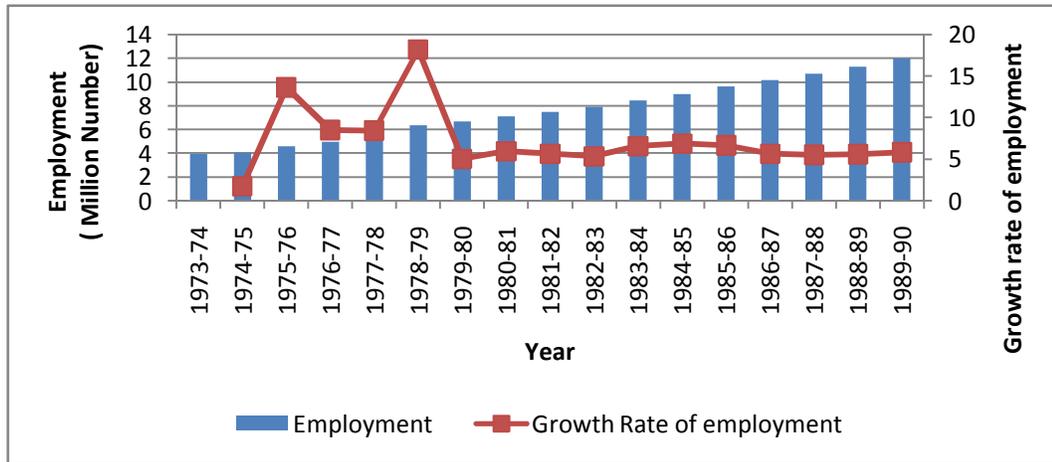
Table 3.8: Employment (Million No.)

Year	Employment	Growth Rate (%)	Year	Employment	Growth Rate (%)
1973-74	3.97	-----	1990-91	15.83	32.36
1974-75	4.04	1.76	1991-92	16.6	4.86
1975-76	4.59	13.61	1992-93	17.48	5.3
1976-77	4.98	8.5	1993-94	18.26	4.46
1977-78	05.4	8.43	1994-95	19.14	4.82
1978-79	6.38	18.15	1995-96	19.79	3.4
1979-80	06.7	5.02	1996-97	20.59	4.04
1980-81	07.1	5.97	1997-98	21.32	3.55
1981-82	07.5	5.63	1998-99	22.06	3.47
1982-83	07.9	5.33	1999-00	22.91	3.85
1983-84	8.42	6.58	2000-01	24.09	5.15
1984-85	9.00	6.89	2001-02	25.23	4.73
1985-86	09.60	6.67	2002-03	26.37	4.52
1986-87	10.14	5.63	2003-04	27.14	4.4
1987-88	10.70	5.52	2004-05	28.26	4.13
1988-89	11.30	5.61	2005-06	29.49	4.35
1989-90	11.96	5.84	2006-07	80.52+	173.04
			2007-08#	84.22	4.60
			2008-09#	88.11	4.62
			2009-10#	92.22	4.66
			2010-11#	96.57	4.72

			2011-12#	101.26	4.86
AAGR	7.25		AAGR	9.81	

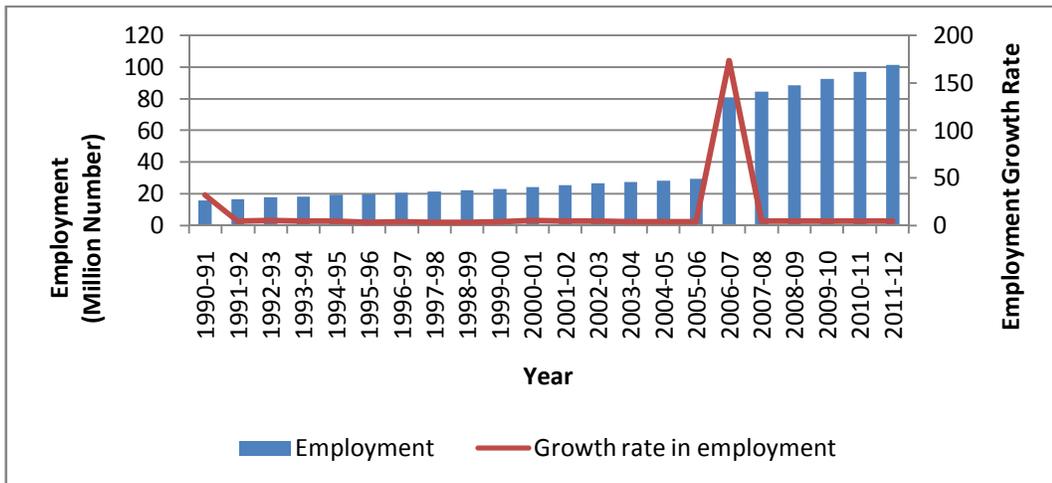
Source: 1) Ministry of Micro, Small and Medium Enterprises (MSMEs), Government of India, Annual Report 2012-13 (assessed from www.msme.gov.in)²⁹ 2) Sonia and Kansal, Rajiv (2009)³⁸ 3) Lahiri, Rajib (2012)³⁶ **Note:** Same as Table 3.6

Fig 3.8: MSME (erstwhile SSI) Employment during Pre Liberalisation period



Source: Same as Table 3.8

Fig 3.9: MSME (erstwhile SSI) Employment during Post Liberalisation period



Source: Same as Table 3.8

Analysis: From 1975-76 to 1978-79, growth rate in employment was more than the Average Annual Growth Rate and from 1979-80 to 1989-90 it showed a decreasing trend. In 1990-91, growth rate was quite high because of increase in number of MSME units during this period. However, growth was only in quantitative term and not in terms of quality. The quality of

jobs generated by the MSMEs in terms of skill of the workers and salary offered remained very poor (T.A Bhavani, 2011)³. After 1990-91, employment growth rate decreased considerably. In 2006-07, the growth rate was the highest because of including micro, small and medium industries within the same bracket and after that it maintained a mild increasing trend from 2007-08 to 2011-12. Except 1990-91 and 2006-07, there is no significant change in growth rate in employment during the post reforms period. Average Annual Growth Rate of employment in post reform period (9.81 percent) is marginally high than that of pre reforms period (7.25 percent) but it is far from being satisfactory. This unsatisfactory rate of growth in employment may be due to adoption of capital-intensive technology by some MSMEs in post-reform period, lack of skilled workforce and inadequate training facilities (Bala, 2011)¹.

3.7.4 Export

Table 3.9: Export (Rs Crore)

Year	Export	Growth Rate (%)	Year	Export	Growth Rate (%)
1973-74	400	-----	1990-91	9664	27.16
1974-75	500	25.00	1991-92	13883	43.66
1975-76	500	0	1992-93	17784	28.10
1976-77	800	60.00	1993-94	25307	42.30
1977-78	800	0	1994-95	29068	14.86
1978-79	1100	37.50	1995-96	36470	25.46
1979-80	1200	9.09	1996-97	39248	7.62
1980-81	1600	33.33	1997-98	44442	13.23
1981-82	2100	31.25	1998-99	48979	10.21
1982-83	2000	-4.76	1999-00	54200	10.66
1983-84	2200	10.00	2000-01	69797	28.78
1984-85	2500	13.64	2001-02	71244	2.07
1985-86	2800	12.00	2002-03	86013	20.73
1986-87	3600	28.57	2003-04	97644	13.52
1987-88	4400	22.22	2004-05	124417	27.42

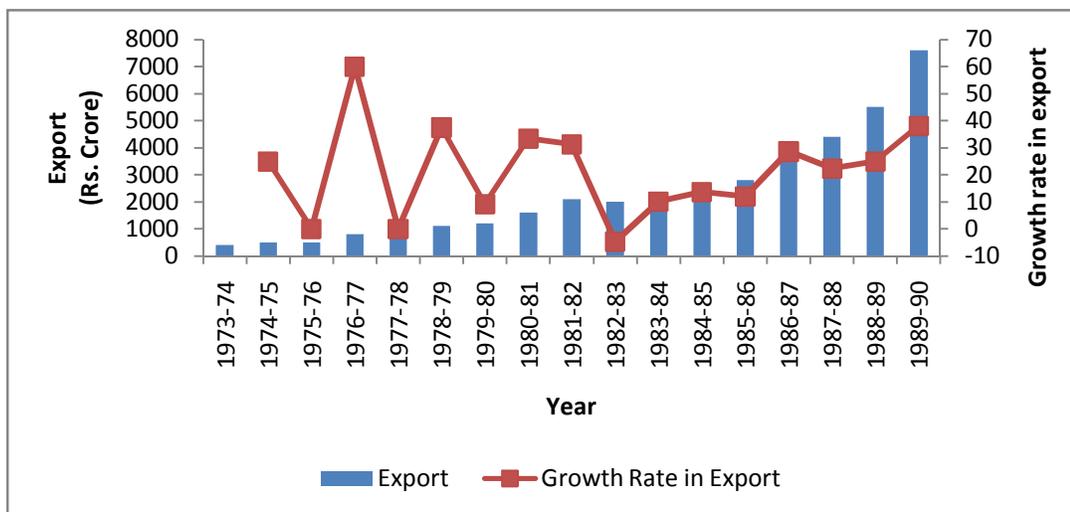
1988-89	5500	25.00	2005-06	150242	20.76
1989-90	7600	38.18	2006-07	182538	21.50
			2007-08	202017	10.67
			2008-09	NA	
			2009-10	NA	
			2010-11	NA	
			2011-12	NA	
AAGR	18.86		AAGR	17.58	

Source: 1) Ministry of Micro, Small and Medium Enterprises (MSMEs), Government of India, Annual Report 2012-13 (assessed from www.msme.gov.in)²⁹ 2) Sonia and Kansal, Rajiv (2009)³⁸ 3) Lahiri, Rajib (2012)³⁶

Note:

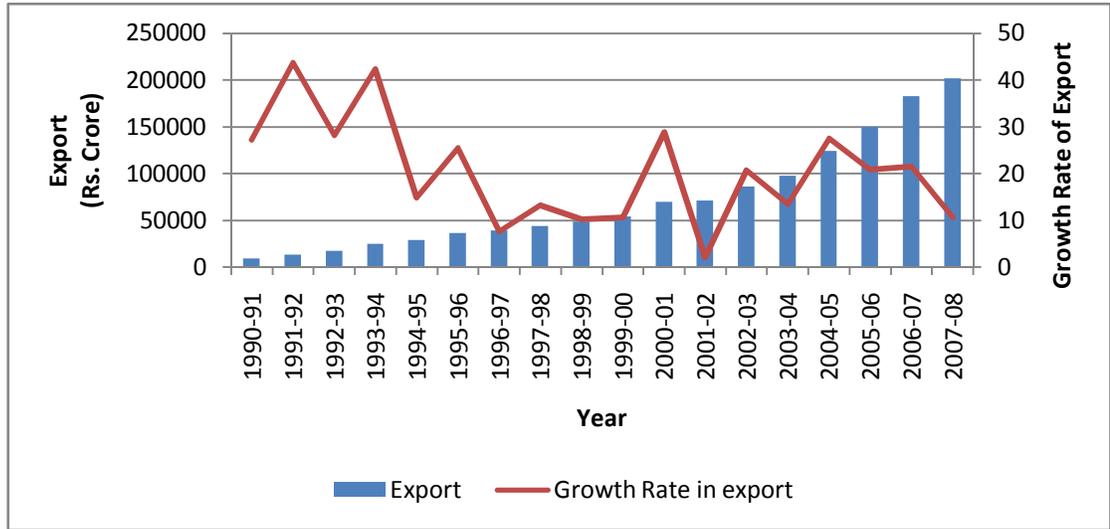
- 1) The data for the period up to 2005-06 is Small Scale Industries (SSI). Subsequent to 2005-06, data with reference to Micro, Small and Medium Enterprises are being compiled.
- 2) N.A. : Not Available

Fig 3.10: MSME (erstwhile SSI) Export during Pre Liberalisation period



Source: Same as Table 3.9

Fig 3.11: MSME (erstwhile SSI) Export during Post Liberalisation period



Source: Same as Table 3.9

Note: Export Data for 2008-09, 2009-10 and 2010-11 are not available as per MSME Annual Report, 2012-13.

Analysis: During pre- liberalisation period, the yearly growth rate in export showed a fluctuating trend (Fig 3.10). It registered the highest growth rate in 1976-77 (sixty percent) and negative rate in 1982-83. From 1985-86 to 1989-90, the yearly growth rate was increasing and reached at 38.18 percent in 1989-90. During post-liberalisation period, the growth rate was high in both 1990-91 and 1991-92 (Fig 3.11) mainly because of the withdrawal of quantitative and qualitative restrictions. The average annual growth rate in export was higher in pre- liberalised period (18.86 percent) compared to post liberalised period (17.58 percent). However, export data for 2008-09 to 2011-12 are not available as per the Annual Report of MSMEs, 2012-13.

Table 3.10: Performance of MSMEs (in terms of AAGR): Protection vs. Liberalisation

Parameters	Average Annual Growth Rate (%)	
	Protection (1973-74 to 1989-90)	Liberalisation (1990-91 to 2011-12)
No. of Units	9.36	10.12
Production	19.45	17.87
Employment	7.25	9.81
Export	18.86	17.58

Source: 1) Prepared on the basis of Annual Reports of Ministry of MSMEs, GOI. 2012-13²⁹ 2) Balasubhramanya (2011)¹

The comparative analysis of growth pattern of key parameters between Pre and Post Globalisation periods (Table 3.10) reveals that the growth rate in production and export of MSMEs during post-reforms period is less than that of pre-reforms period while the growth rate in employment and number of MSMEs in post-reforms period is marginally high. The performance of MSMEs in terms of growth rate during post reforms period is not satisfactory due to extreme competition from large industries, lack of infrastructure, challenges on product standardisation, total quality management etc.

However, there are some limitations of the study:

- 1) We have compared performance of MSMEs during pre liberalization period from 1973-74 to 1989-90 i.e. 17 years against post liberalization period from 1990-91 to 2011-12 i.e. 22 years.
- 2) Export data from 2008-09 to 2011-12 was not available.
- 3) Data from 2007-08 to 2011-12 is projected data as the collection process is still on.

3.7.5 Changes in Registration Procedure of MSMEs since 2006

The newly introduced Micro, Small and Medium Enterprises Act (MSMED), 2006 has changed the existing procedure of registration. As per MSMED Act, 2006 the MSEs have to submit the filled-in memorandum to the respective DIC along with necessary documents at free of cost. After proper verification, the DIC shall issue the acknowledgement or Entrepreneurship Memorandum (E.M.-I) which shall remain valid for two years from the date of issue. If the unit can start production or render services within two years, it should directly file E.M.-II. On

verification, the DIC will assign necessary codes to the unit depending on the nature of operation of the unit (like NIC 2004 and ASICC 2000 and other relevant codes) and hand over the acknowledgement of E.M.-II.

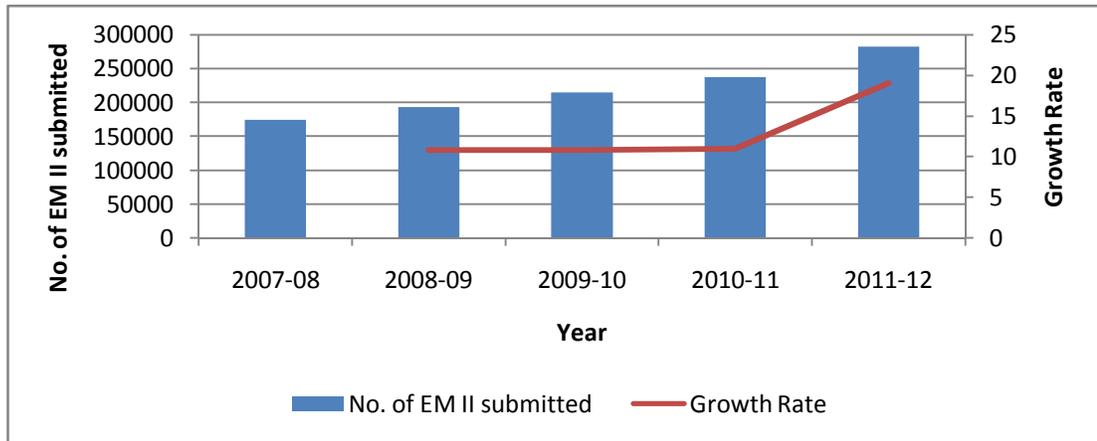
Obtaining E.M. may be highly beneficial for the MSMEs. This will help the unit to get benefits from several subsidy schemes (Capital Investment Subsidy, Interest Subsidy, Incentive for generation of employment, Waiver of Electricity Duty, Subsidy of energy charges, refund of Stamp Duty and Registration fee etc), obtain more financial assistance from commercial banks SIDBI, WBFC, DIC etc for expansion or modernisation and get support from Micro & Small Enterprises Facilitation Council in case of delayed payments. Moreover, the registered MSMEs would participate in DIC sponsored EDP or training programmes, different trade fairs, seminars etc.

Table 3.11: Number and Growth Rate of EM-II filled up by the MSMEs

Year	Number of EM II				Annual Growth Rate (%)
	Micro	Small	Medium	Total	
2007-08	156051	17777	491	1,74,319	-----
2008-09	171031	18757	690	1,93,077	10.76
2009-10	186126	23999	1412	2,13,894	10.78
2010-11	204064	29101	1260	2,37,263	10.93
2011-12	242606	34192	2939	2,82,496	19.06

Source: www.dcmsme.gov.in/publications/EMP2.pdf

Fig 3.12: Number and Growth Rate of EM-II filled up by the MSMEs



Source: Same as Table 3.11

Entrepreneurship Memorandum (EM-II) issued to the MSMEs shows an increasing trend. In 2011-12, EM-II issued shows a healthy growth rate of 19.06 percent which is almost twice the growth rate of the last three years.

3.8 RURAL-URBAN DISTRIBUTION OF MSMEs IN INDIA

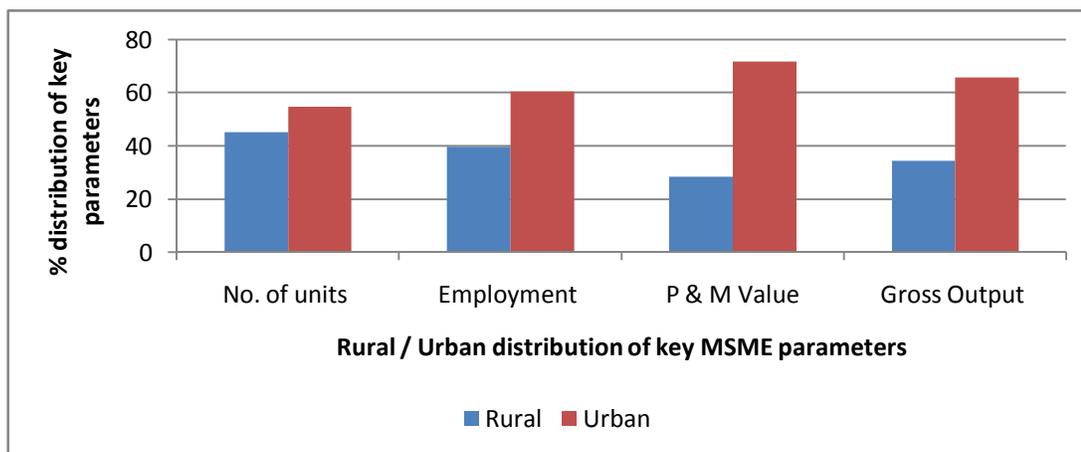
The rural-urban distribution can be a good measure to judge how far the MSMEs have been effective in reducing regional imbalance of economic growth (**Ramchandran, K, 1993**)²⁰. For this purpose, some major parameters like number of units, employment, original value of investment, market value of investment and gross output have been considered.

Table 3.12: Absolute and Percentage Distribution of Key Parameters of MSMEs in Rural and Urban Areas

	Working Units		Employment		Plant & Machinery Value		Gross Output	
	Absolute (Thousands)	%	Absolute (Thousands)	%	Absolute (Rs. Crore)	%	Absolute (Rs. Crore)	%
Rural	707.40	45.23	3682.01	39.55	29726	28.30	242532	34.28
Urban	856.57	54.77	5627.47	60.45	75298	71.70	464978	65.72
All	1563.97	100	9309.48	100	105024	100	707510	100

Source: Final Report of Fourth All India Census of MSMEs 2006-07: Registered Sector³⁰

Fig 3.13: Percentage Distribution of Key Parameters of MSMEs in Rural and Urban Areas



Source: Same as Table 3.12

MSMEs in urban areas dominate the MSMEs in rural areas in percentage distribution of all the parameters. The difference is prominent in investment in plant & machinery, market value of fixed assets and gross output where the share of urban MSMEs is more than double compared to rural MSMEs. However, the difference is not much pronounced in working units of MSMEs and employment.

Table 3.13: Per Unit Values of Key Parameters of MSMEs in Rural and Urban Areas

	Employment	Original Value of P & M (Rs. Lakh)	Market Value of Fixed Assets (Rs. Lakh)	Gross Output (Rs. Lakh)
Rural	5.20	4.20	18.93	34.28
Urban	6.57	8.79	36.80	54.28
TOTAL	5.95	6.72	28.72	45.24

Source: Final Report of Fourth All India Census of MSMEs 2006-07: Registered Sector³⁰

Note: P & M refers to Plant and Machinery.

The average size of registered units (in terms of investment in plant and machinery and market value of fixed assets) in urban area is almost double than that of rural areas. However, the difference in per unit value is comparatively less in employment and gross output. Thus, MSMEs in rural areas have less per unit values in employment, value of plant and machinery, market value of fixed assets and gross output.

3.8.1 Employment Intensity

Employment intensity is measured in terms of employment per unit of investment in plant and machinery, employment per unit of market value of fixed assets and employment per unit of output.

Table 3.14: Employment Intensity of MSMEs in Rural and Urban areas

	Employment (Lakh)	Fixed Investment (Rs. Crore)	Original Value of P & M (Rs. Crore)	Employment / original value of P & M	Employment / Fixed Investment
Rural	36.82	133880	29726	123.86	27.50
Urban	56.27	315258	75298	74.74	17.85
TOTAL	93.09	449138	105024	88.64	20.73

Source: Final Report of Fourth All India Census of MSMEs 2006-07: Registered Sector³⁰

Note: P & M refers to Plant and Machinery

The MSMEs in rural areas are more employment intensive than that of MSMEs in urban areas. Employment intensity in form of employment per unit of investment in plant and machinery and per unit investment in fixed assets is more than 1.5 times compared to urban areas.

3.8.2 Productivity

Table 3.15: Productivity of MSMEs in Rural and Urban areas

	Market Value of Fixed Assets (Rs. Crore)	Gross Output (Rs. Crore)	Original Value of P & M (Rs. Crore)	Gross Output/ Market value of Fixed Assets	Gross Output/ Original Value of P & M
Rural	133880	242533	29726	1.81	8.16
Urban	315258	464977	75298	1.47	6.18
TOTAL	449138	707510	105024	1.58	6.74

Source: Final Report of Fourth All India Census of MSMEs 2006-07: Registered Sector³⁰

Productivity has been measured in terms of gross output per Rs. one crore of fixed investment and gross output per Rs. One crore of original value of Plant and Machinery. The MSMEs in rural areas are more productive than urban MSMEs as the MSMEs in rural areas produce goods or services for Rs. 1.81 crore per Rs. One crore of fixed investment compared to Rs. 1.47 crore

in urban areas and Rs. 8.16 crore per Rs. One crore of original value of Plant and Machinery compared to Rs 6.18 in urban areas.

3.9 SECTORAL DISTRIBUTION OF MSMEs

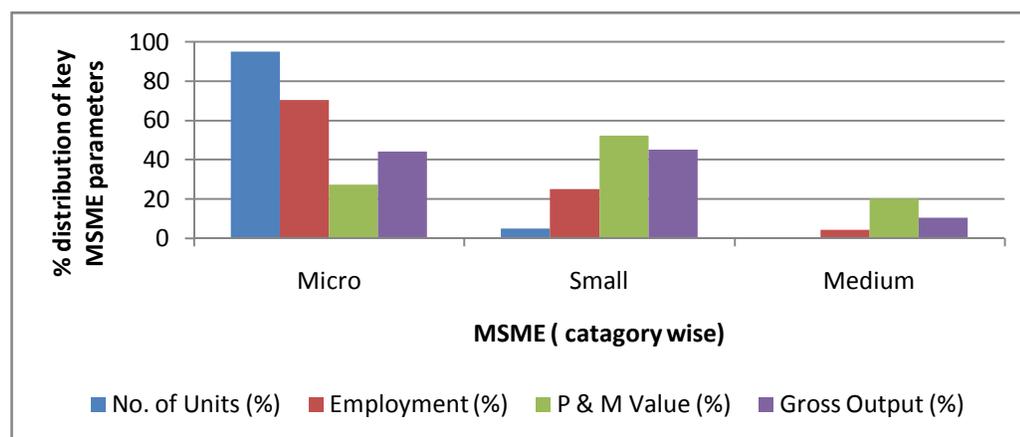
The MSME sector consists of Micro, Small and Medium Enterprises but all three constituents are not equally dominant. This section tries to bring out the sectoral distribution of MSMEs with some key parameters like number of units, employment, original value of investment, market value of investment and gross output.

Table 3.16: Sector-wise Distribution of Key Parameters of MSMEs

Sector	No. of Units		Employment		P & M Value		Market Value of Fixed Assets		Gross output	
	Absolute (Thousand)	%	Absolute (Thousand)	%	Absolute (Rs. Crore)	%	Absolute (Rs. Crore)	%	Absolute (Rs. Crore)	%
Micro	1484.77	94.94	6534.19	70.19	28746	27.37	169538	37.75	312973	44.24
Small	76.52	4.89	2343.03	25.17	53789	52.17	223503	49.76	318794	45.06
Medium	2.68	0.17	432.27	4.64	21490	20.46	56097	12.49	75743	10.71
TOTAL	1563.97	100	9309.49	100	105025	100	449138	100	707510	100

Source: Final Report of Fourth All India Census of MSMEs 2006-07: Registered Sector³⁰

Fig 3.14: Sector wise Percentage Distribution of Key Parameters of MSMEs



Source: Same as Table 3.16

Micro enterprises account for about 95 percent of total working MSMEs and 70 percent of employment generation. However, the sector is behind the small sector in investment (both in market value of fixed assets and value of plant and machinery) and marginally in gross output. Thus, micro sector is the most dominant part of MSME sector in terms of number of units, employment and output.

The small sector also puts up an impressive show. In spite of being less than 5 percent in terms of number of working MSMEs, this sector shows highest percentage of investment in fixed assets and plant and machinery (52 percent and 50 percent respectively) and in gross output (45.06).

The medium sector has less influence forming only 0.17 percent of total working MSMEs and 4.64 percent of employment generation. However, this sector looks impressive in terms of percentage of investment in Plant and Machinery and market value of fixed assets (20.46 and 12.49 respectively) and gross output (10.71 percent) considering the less number of medium units in operation.

3.9.1 Sector-wise Employment Intensity

Employment Intensity refers to employment per unit of investment in plant and machinery, employment per unit of market value of fixed assets and employment per unit of output.

Table 3.17: Employment Intensity of Micro, Small and Medium Enterprises

Sector	Employment/ Original Value of P&M (Rs. Crore)	Employment/ Fixed Assets (Rs. Crore)	Employment/Gross Output (Rs. Crore)
Micro	227.31	34.58	20.88
Small	42.76	10.48	7.35
Medium	20.12	7.71	5.71
TOTAL	88.64	20.73	13.16

Source: Final Report of Fourth All India Census of MSMEs 2006-07: Registered Sector³⁰

Micro sector seems to be a lot more employment intensive compared to small and medium sector. Employment intensity of micro sector in all the three parameters is about three to five times of small sector whereas employment intensity of small sector is about two to three times of all the selected parameters than the medium sector.

3.9.2 Productivity

Table 3.18: Productivity of MSMEs

	Market Value of Fixed Assets (Ra. Crore)	Gross Output (Rs. Crore)	Original Value of P & M (Rs.Crore)	Gross Output/ Fixed Assets	Gross Output/ Original Value of P & M
Micro	169538	312973	28747	1.85	10.89
Small	223503	318994	54788	1.43	5.82
Medium	56097	75743	21489	1.35	3.52
TOTAL	449138	707510	105024	1.58	6.74

Source: Final Report of Fourth All India Census of MSMEs 2006-07: Registered Sector³⁰

Micro sector is more productive as the sector produces goods or services worth Rs. 1.85 crore against Rs. One crore investment in fixed assets compared to 1.43 crore and 1.35 crore in small and medium enterprises respectively. Similarly, the productivity of micro units in terms of gross output per unit of original value of plant and machinery is much higher than small and medium enterprises.

3.10. CONCLUSION

The MSMEs in India were a highly protected field during the pre liberalisation period to safeguard the sector at its infancy so that it can effectively face market competition at the adult stage. The policy, however, backfired as the MSMEs never showed intention to become large scale industries and continuous protection reduced their competitiveness, productivity, employment and export (Vijayarani, K.R. 2011)¹⁵.

The dynamic global economic condition has offered several opportunities for this sector to increase productivity and expand their business in national and international markets. The efficient entrepreneurs can enjoy reduction in production cost due to lowering tariff and withdrawing various restrictions. However, Globalisation suits the MSMEs prepared to face the challenges while the unprepared lot has to suffer. Unfortunately, majority of Indian MSMEs are not in a position to compete with the large domestic firms and the MNCs due to poor product quality, costly credit, inflexible labour laws, poor availability of information etc. Moreover, the degree of competition in the export market has intensified due to increase in competition among the developing countries which enjoy similar comparative advantages (Jethwant, 2010)⁸.

To increase competitiveness and sustainability of MSMEs in global market, the Govt. must ensure promotional measures like improvement in credit facilities, infrastructural development, training facilities, technical consultancy and technology upgradation, assistance for domestic marketing and export and special facilities for the MSMEs set up in backward areas, establishment of modern testing centres and laboratories in all districts and formulating easy exit policy for the sick MSME units.

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CHAPTER 4

FINANCING TO MSMEs IN INDIA

4.1 INTRODUCTION

Financing has always been a major problem for the MSMEs in India. Banks and other financial institutions are more interested in investing in large industries than that of MSMEs, especially the micro firms. Moreover, the complex loan sanctioning procedure, need for collateral security, huge paper work, corruption among bank officials, lack of creditworthiness and poor loan repayment record of the MSME sector make the situation worse. In spite of several guidelines of Reserve Bank of India (RBI) to offer collateral security free loan and to consider credit to MSMEs as Priority Sector Lending, poor supply of credit to the MSMEs continues. The absence of performance-based incentive system for proactive bankers (those assessing loan eligibility) is also a vital reason for lack of credit to MSMEs (**Das, Keshab, 2007**)²⁷.

As per the **Third Census of SSIs**¹⁸ (Base year 2001-02), only 14.26 percent of the registered units availed of bank finance while only 3.09% of the unregistered units had access to bank finance. This means that 97% of the unregistered small enterprises were deprived of the institutional credit. The **Fourth Census of MSMEs**¹⁷ (Base year 2006-07) shows that out of the registered MSMEs, more than 87% of firms do not have any access of institutional financing and majority of such firms have to depend on self finance or funds from unorganised market.

4.2 ANALYSIS OF INSTITUTIONAL CREDIT TO THE MSMEs

There are several financial institutions in the country to ensure steady supply of credit to the MSMEs like commercial banks, co-operative banks, Regional Rural Banks (RRBs), State Financial Corporation (SFCs) etc. Small Industries Development Bank of India (SIDBI), a re-financing bank exclusively for MSMEs was introduced in 1960. Several committees like Nayak Committee (1991-92), Kapoor Committee (1997-98), Ganguly Committee (2002) etc. were formed to assess the credit flow of MSME sector. As per the estimations made by the Planning Commission in the **11th Five Year Plan**³⁴ (2007-12), the total working capital and loan requirement by the MSMEs/ unorganised sector would be 2,96,000 crore in the next five years. Given the small percentage of financing by the formal banking system, this huge credit requirement cannot be met by the banking system alone. Bond financing for MSMEs has not

been successful in India. A large part of the capital required by MSMEs still comes from lending by Non-Banking Financial Intermediaries (NBFCs) and through informal finance – wherein the cost of borrowing is significantly high. Alternative routes of financing like micro financing, venture capital financing, angel financing, factoring etc need to be employed. When properly operated and regulated, micro financing can be a good instrument to supply funds to MSMEs. But the micro financing agencies in India mostly operate with welfare motive or these are too small to create any impact on the economic system (Banerjee, Ayan 2006)²⁵. Unfortunately, these unconventional methods of financing have been still at their infancy in India. Therefore, in spite of having several sources, the feasible options of collection of fund for the MSMEs are limited.

Table 4.1: Outstanding Bank Credit to MSMEs (Rs. Billion)

Last Friday of March	Public Sector Bank	Private Sector Bank	Foreign Banks	All Scheduled Commercial Banks
2005	678	85.92	69.07	832.99
2006	824.34(21.6)	104.21(21.3)	84.30(22)	1012.85(21.6)
2007	1025.50(24.4)	131.36(26.1)	116.37(38)	1273.23(25.7)
2008*	1511.37(47.4)	469.12(257.1)	154.89(33.1)	2135.39(67.7)
2009	1914.08(26.64)	466.56(-0.54)	180.63(16.61)	2561.28(19.94)
2010	2783.98 (45.44)	645.34(38.32)	210.69(16.64)	3640.01(42.12)
2011	3766.29 (35.28)	878.67 (36.16)	214.61(1.86)	4859.57(33.5)
2012 (Provisional)	3959.76 (5.14)	1050.85(19.6)	198.39 (-7.56)	5209 (7.19)

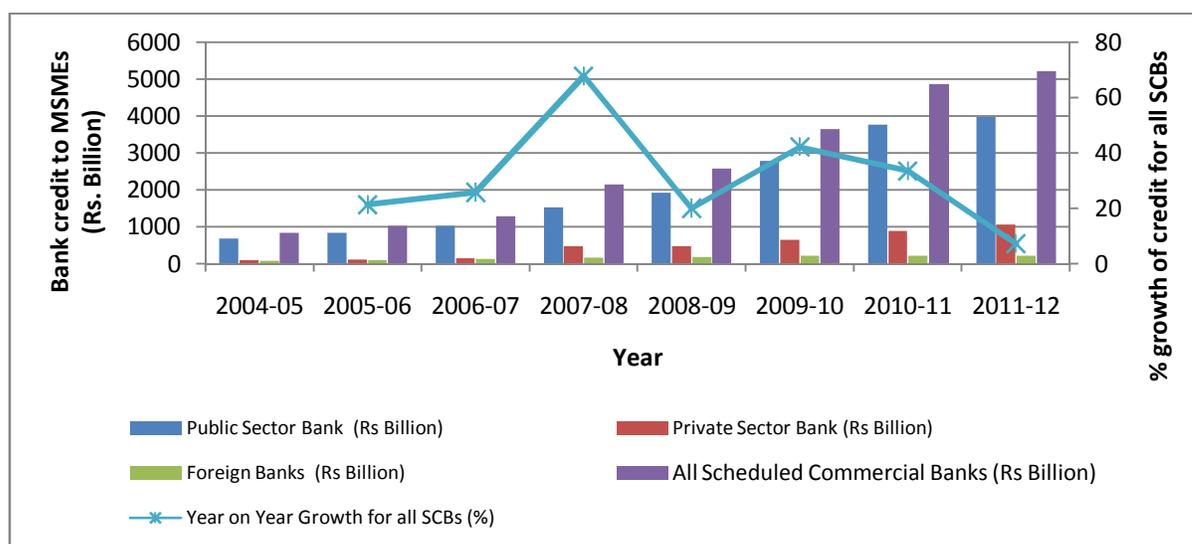
Source: Ministry of Micro, Small and Medium Enterprises (MSMEs), Government of India, Annual Report 2012-13 (Assessed from www.msme.gov.in)¹¹

Note: Figure in parentheses indicates year-on-year growth.

*Change in Definition of the sector as per MSMED Act, 2006 advised to banks in 2007.

As per RBI Guideline dated September 18, 2009, retail traders with credit limit not exceeding Rs. 20 lakh has also been included under the ambit of MSE sector.

Fig 4.1: Credit to MSMEs by the different banks and year on year growth rate for all SCBs



Source: Same as Table 4.1

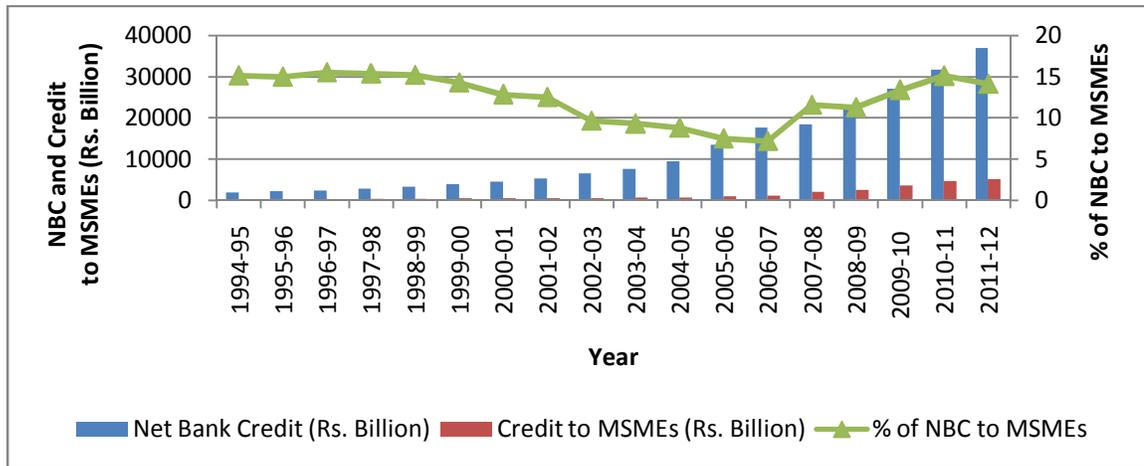
Table 4.2: Flow of Credit from Scheduled Commercial Banks to MSME Sector

Year	Net Bank Credit (Rs. Billion)	Growth rate in Net Bank Credit (%)	Credit to MSME (Rs. Billion)	Growth rate in credit to MSMEs (%)	% of Net Bank Credit offered to MSMEs
1994-95	1924.24	----	291.75	----	15.17
1995-96	2281.98	18.75	342.46	17.12	14.98
1996-97	2459.99	17.89	381.96	11.40	15.52
1997-98	2972.65	21.20	457.71	19.60	15.40
1998-99	3394.77	14.14	516.79	12.66	15.22
1999-00	3982.05	17.40	570.35	10.46	14.31
2000-01	4672.06	17.33	601.41	5.43	12.86
2001-02	5350.63	14.56	671.07	11.65	12.53
2002-03	6685.76	25.04	647.07	(-)3.60	09.67
2003-04	7638.55	14.20	712.09	10.04	09.32
2004-05	9488.41	24.12	834.98	17.26	08.80
2005-06	13504.67	42.23	1012.85	21.30	07.5
2006-07	17683.75	30.95	1273.23	25.71	07.2
2007-08	18408.53	04.09	2135.39	67.72	11.6
2008-09	22666.19	23.13	2561.28	19.9	11.3
2009-10	27036.64	19.28	3622.91	42.1	13.4

2010-11	31690.53	17.21	4785.27	32.08	15.1
2011-12 (Provisional)	36917.59	16.49	5208.99	08.85	14.11

Source: Ministry of Micro, Small and Medium Enterprises (MSMEs), Government of India, Annual Report 2011-12 (assessed from www.msme.gov.in)

Fig 4.2: Net Bank Credit and Credit to MSMEs



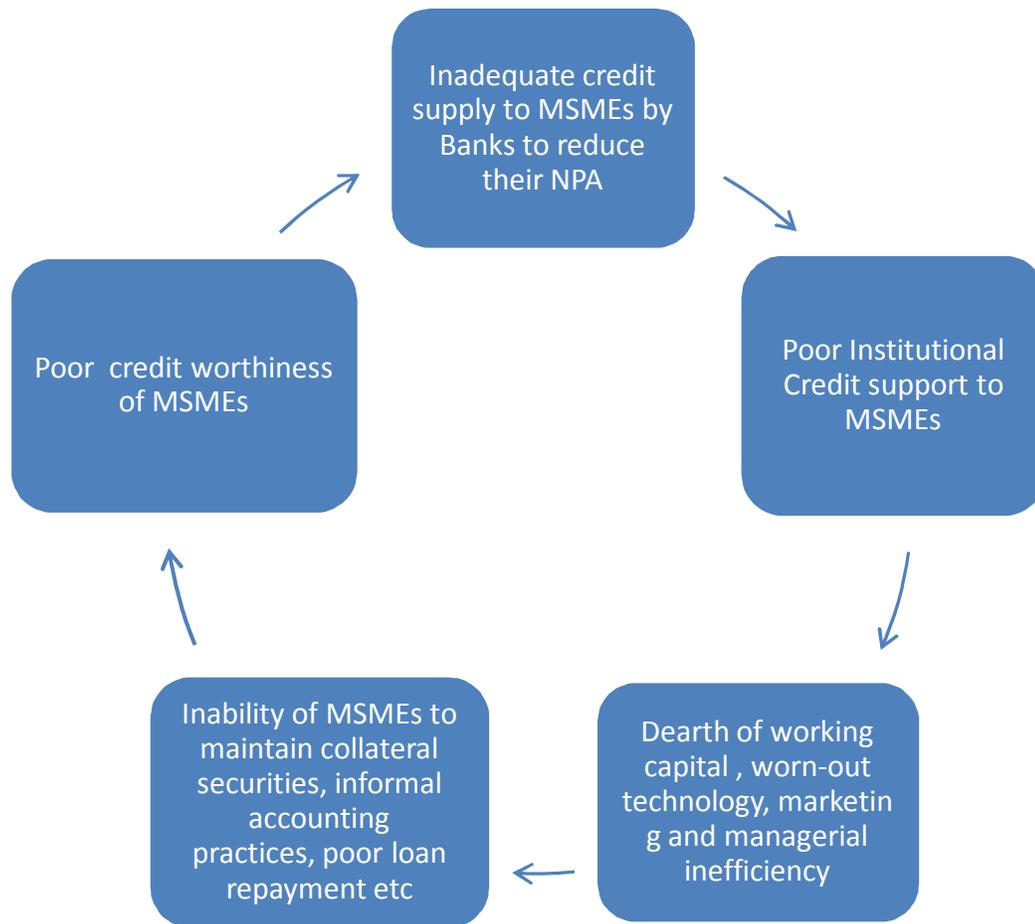
Source: Same as Table 4.2

Note: NBC refers to Net Bank Credit

Fig 4.1 and Fig 4.2 capture the scenario of bank credit to the MSMEs. The public sector banks play the pivotal role in MSME lending whereas the private banks and foreign banks are yet to play a significant role though their influence is increasing continuously.

The annual growth rate of Net Bank Credit, Credit to MSMEs and Percentage of Net Bank Credit offered to MSMEs show fluctuating trend. In 2002-03, the annual growth rate showed a negative result when all the scheduled banks offered credit to SSI sector to the tune of Rs 647.07 billion which was less than that of the last year (2001-02) by Rs 24 Billion. Another noteworthy year is 2007-08 which witnessed highest annual growth rate of credit to MSME Sector (67.7 percent). This was not due to sudden increase in bank credit to the MSMEs keeping in mind the considerably low growth rate of NBC (4.09 percent) in 2007-08 rather this abnormally high growth rate was due to re-classification of micro, small and medium units as per MSMED Act, 2006. The percentage of NBC offered to the MSMEs has not shown sufficient increase even after re-classification of MSMEs as per MSMED Act, 2006.

Fig 4.3: Vicious Circle of Poor Institutional Credit Support to MSMEs



Source: Prepared by the Researcher

Traditionally, banking sector considers MSMEs especially micro and small enterprises a risky field of investment due to low growth rate of the small firms, informal business practices, inability to maintain collateral securities, lack of creditworthiness, relatively high processing cost and poor flow of information (Haider, E 2000)²⁸. Poor supply of credit results in dearth of working capital, technological inefficiency, poor managerial performance, irregular loan repayment and reduces loan eligibility of the MSMEs. Thus, poor supply of credit by the banks ultimately reduces loan eligibility of the MSMEs and creates the vicious circle.

Table 4.3: Estimated Credit Demand Vs Estimated Credit Supply for the MSMEs

Estimated Outstanding Credit Demand and Supply for the MSMEs (Rs. Crore)				
Year	Total Demand	Total Supply	Credit Gap in Absolute Term	Credit Gap as a % of total demand
2010-11	2092500	737161	1355339	65
2011-12	2308384	874482	1433902	62
2012-13	2541574	1038948	1502626	59
2013-14	2803628	1237539	1566089	56
2014-15	3089863	1477928	1611935	52
2015-16	3405845	1769659	1636186	48
2016-17	3757755	2124644	1633111	43

Source: Report of the Private Sector Investment for MSME Sub Group under Working Group for the 12th Five Year Plan (2012-17)²¹

There exists a significant gap between demand for credit and supply of credit to the MSMEs. The estimated credit gap from 2010-11 to 2016-17 in absolute term shows an increasing trend (except 2016-17). Though the percentage of credit gap on total demand is projected to come down to 43 percent by 2016-17 from 65 percent in 2010-11, still the gap is considerably high.

Table 4.4: Impaired Assets Ratio (%) for Micro, Small, Medium and Large Industries

Impaired Assets Ratio (%)					
Segment	March 09	March 10	March 11	March 12	March 13
Micro+ Small	10.7	10.6	9.4	9.7	10.6
Medium+ Large	7.8	9.4	8.0	11.2	14.8

Source: <http://www.moneylife.in/article/bank-loans-to-smes-and-the-eality/35540.html>³³

Note: Impaired Assets Ratio = (GNPA + Restructured Standard Advances + Cumulative Write Off) to (Total Advances + Cumulative Write Off)

Impaired asset is a condition in which an asset's market value falls below its carrying amount and is not expected to recover. This means that an asset's market value is less than its book value and the future cash flows to be generated from the asset are less than the net difference Between the market value and the book value (http://en.wikipedia.org/wiki/Impaired_assets)³⁹.

Banks usually blame the MSMEs for their poor loan repayment record. However, the Asset Impaired Ratio shows that performance of MSMEs in case of loan repayment is not unsatisfactory as the ratio from March 2009 to March 2013 has been increasing in case of medium and large enterprises while it is comparatively stable for micro and small enterprises. Thus, the major reasons for poor credit support are extremely defensive or conservative approach by the banks and excessive pressure on the bank officials to reduce NPA.

4.3 REASONS FOR POOR BANK FINANCING

Need for Collateral Securities: MSMEs, especially the micro enterprises fail to maintain collateral securities and the banks consider such loans highly risky (**Srinibus, 2005**)⁴¹. However, as per the **RBI Guidelines, 2009**⁴⁰ the banks have to offer mandatory loans up to Rs 5 lakh to MSME Sector (both manufacturing and service sectors as per the MSMED Act, 2006) without a collateral security. They may extent collateral security free loans up to Rs twenty five lakh if they are satisfied with the performance and loan repayment record of the MSME. As per RBI Directives, banks need to invest sixty percent of their funds in priority sectors. Loan to MSMEs is also included in the list of priority sector loans along with some other fast growing and relatively more profitable areas like Home loan, Educational loan etc. It is observed that the percentage of loan sanctioned to MSMEs is gradually reducing compared to other priority sector loans. Therefore, financing MSMEs, especially the small and the micro firms has become a legal liability rather than a willing investment for banks. They try to avoid this responsibility by employing the loopholes of regulations. The Govt. should earmark a certain ceiling of financial support for MSME sector and make it compulsory for banks to finance.

Poor Creditworthiness and Financial Discipline of MSMEs: The creditworthiness of MSMEs is difficult to judge due to information asymmetry and lack of financial discipline (**Subramanian and Nehru, 2012**)⁷. Determination and monitoring risk of MSME unit is a costly process. To overcome this problem, there should be adequate and reliable credit information mechanism, such as an SME credit bureau, that serves the needs of both the SMEs' and the potential lenders through credit rating, SME policies and schemes, providing consultancies (**Haider, E 2000**)²⁸. As per **World Bank Report, 2011**³³ small firms with access to credit bureaus have a 40 percent chance of obtaining a loan, whereas firms without access to credit bureaus have only a 28 percent chance of receiving a loan.

Poor Repayment: Incidence of Non-Performing Assets (NPA) in MSME Sector is about 15 percent compared to about 9 percent in large business houses. The bank officials have to operate under tremendous pressure of reducing NPA and increasing profitability of banks. They try to reduce credit to MSMEs to lower the risk of NPA. Moreover, processing cost of large number of small amount loan applications by the MSMEs is relatively high. Normally, the cost of processing small loans is in the range of 18 to 21 percent and other big amount loans are 15 to 16 percent.

Delayed Recovery of Dues: The small firms find it difficult to recover their dues from the large firms and even from Govt. departments due to complex payment procedure and corruption. The large firms force them to offer long credit period and even pay advance. This problem can effectively be solved by introduction of credit collection machineries like factoring services and adequate legal measures. The Prime Minister's Task Force on MSMEs (2010) also has recommended creation of suitable framework for promotion of factoring services for MSMEs.

The MSME Act, 2006 has provided for protection to micro and small Enterprises (not to the medium enterprises) against delayed payments of dues by increasing penalties substantially for delay in payment. For example, the Act mandates that all payments be made within 45 days failing which the creditor must pay compound Interest higher than the bank rate notified by the RBI. However, this facility would be available only to the Micro and Small units which have filed Entrepreneurship Memorandum (EM-II).

Poor Non-Credit activities: The banks mainly act as a credit supplier. They need to think beyond this and act as business partners of the MSME units by providing counseling and guidance to new units, helping in preparation of feasibility reports, exploring new markets so that their credit activities are adequately be supplemented by non-credit activities (Lahiri, Rajib 2012)⁵.

Industrial Sickness: Incidence of industrial sickness is increasing in MSMEs especially with the advent of globalisation. This has reduced loan viability of MSMEs as the banks do not want to invest in losing business.

High Interest Rate: Banks usually offer loans at competitive rates but the sensitive sector like MSMEs require loans at a subsidised rate. As per RBI Guidelines, all loans up to Rs 2 lakh are charged interest not exceeding Prime Lending Rate (PLR) of the bank while loans more than 2 lakhs have been deregulated and banks are given the freedom to fix the interest rates based on

cost of funds, risk cost, transaction cost etc. The MSME sector is usually considered a risky field of investment and the cost of credit to MSMEs is high. However, with effect from July 1, 2010, the Base Rate System replaced the BPLR (Benchmark Prime Lending Rate) system whereby banks determined their actual lending rates on loans and advances with reference to the Base Rate (www.rbi.org)³⁸. Deregulation of lending rates is expected to increase the credit flow to small borrowers.

4.4 ROLE OF SIDBI IN DEVELOPING MSME SECTOR

Small Industries Development Bank of India (SIDBI) came into existence in 1990 to act as an apex bank for priority refinancing of small loans. The Charter establishing it, The Small Industries Development Bank of India Act, 1989 envisaged SIDBI to be "the principal financial institution for the promotion, financing and development of industry in the small scale sector and to co-ordinate the functions of the institutions engaged in the promotion and financing or developing industry in the small scale sector and for matters connected therewith or incidental thereto" (www.sidbi.com)³⁸.

4.4.1 Functions of SIDBI

SIDBI has introduced various market driven new schemes for meeting the credit and non-credit needs of the MSME sector to make it strong, vibrant and globally competitive. The brief highlights of refinance and direct finance schemes are as follows:

Refinancing: The main function of SIDBI is to provide refinance to various financial institutions / Non-Bank Financial Intermediaries (NBFIs). It provides refinance to augment the resource position of Primary Lending Institutions (PLIs), like banks, SFCs, SIDCs/ SSIDCs, MFIs etc (**Karnar, Susanta, 2013**)².

Direct Financing: Under direct financing scheme, SIDBI offers financial support to the MSMEs which lack viability in their projects and not financially supported by other banks. The major schemes under this category include Term Loan Assistance, Working Capital Assistance, MSME Receivable Finance Scheme, Vendor Development Programme, Foreign Currency Loans etc.

Risk Capital: SIDBI has set up "SIDBI Foundation for Risk Capital (SFRC)" to ensure more standardised and appropriate risk capital products for quick and effective supply of risk capital to the MSMEs.

Technology upgradation: It scheme aims at increasing awareness amongst MSME units on process, improvements, technological developments and induce the units to upgrade their technological levels. The total number of technology development supported by the Bank upto 2012 reached 1460 benefiting more than 35,000 participants (www.sidbi.com)³⁸.

Micro Credit: SIDBI introduced SIDBI Foundation for Micro Credit (SFMC) in 1999 to “create a national network of strong, viable, and sustainable Micro Finance Institutions (MFIs) for providing micro finance services to economically disadvantaged people of India, especially women”(www.sidbi.com)³⁸. Cumulatively, as on January 31, 2012, SIDBI has disbursed more than Rs 5000 crore under its micro finance programme, which is estimated to benefit more than 2 crore poor clients.

Receivable Financing: SIDBI operates the MSME Receivable Finance Scheme (RFS) which helps in fixing the limits to well-performing purchaser companies and discounting bills of MSMEs or eligible service sector units so that the MSME / service sector units realize their sale proceeds quickly.

4.4.2 Performance Analysis of SIDBI

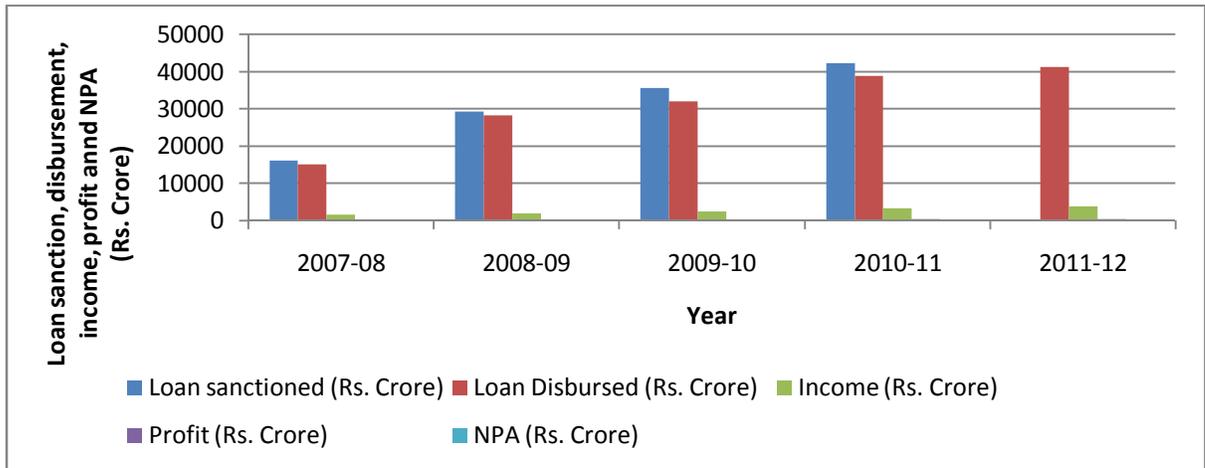
Table 4.5: Performance of SIDBI from 2007-08 to 2011-12

Year	Loan Sanctioned (Rs. Crore)	Loan Disbursed (Rs. Crore)	Income (Rs. Crore)	Profit (Rs. Crore)	NPA (Rs. Crore)
2007-08	16164	15087	1638	198	0.25
2008-09	29188(80.57)	28289(87.51)	2082 (27.11)	299 (51.01)	0.08(-68)
2009-10	35521(21.70)	31918(12.83)	2540 (22)	421(40.80)	0.18(125)
2010-11	42214 (18.84)	38796 (21.59)	3433 (35.16)	514 (22.09)	0.28 (55.56)
2011-12	N.A.	41160 (6.09)	3870 (12.73)	567 (10.31)	0.34 (21.43)

Source: SIDBI Annual Report, 2010-11, 2011-12 and 2012-13^{12,13,14}

Notes:1) Figures in the parenthesis represent year on year growth 2) Data on loan sanctioned by SIDBI in 2011-12 is not available.

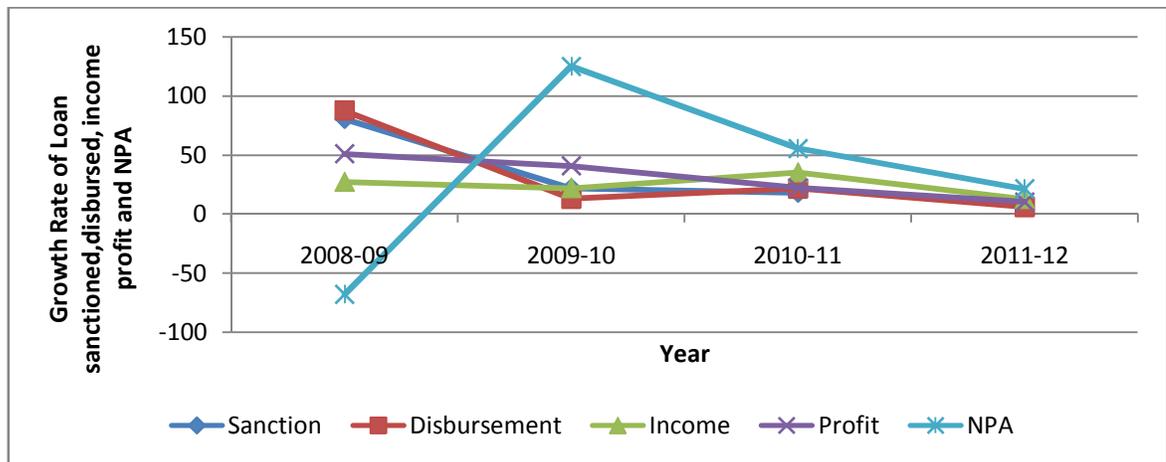
Fig 4.4: Performance of SIDBI in Absolute Term



Source: Prepared by the researcher on the basis of SIDBI Annual Report, 2011-12.

Note: Data on loan sanctioned by SIDBI in 2011-12 is not available

Fig 4.5: Performance of SIDBI in terms of Growth Rate



Source: Same as Table 4.5

For performance analysis of SIDBI, we have considered five parameters namely Loan Sanctioned, Loan Disbursed, Income, Profit and Non-Performing Assets (NPAs) from 2007-08 to 2011-12 and used percentage growth rate over the previous year as the yardstick. If we consider all the parameters in their absolute figures, they show an increasing trend from 2007-08 to 2010-11. However, if we compute growth rate, all the parameters (except NPA) show declining trend in 2009-10, 2010-11 (except Loan Disbursed and Income) and 2011-12. Regarding NPA, 2008-09 experiences a drastic reduction in NPA whereas in 2009-10, 2010-11, 2011-12, it increases by 125 percent, 55 percent and 21 percent respectively. Thus, the recovery

of loans offered by SIDBI is not satisfactory. In 2011-12, growth rate for loan disbursement, income and profit is significantly less compared to 2010-11 (**Lahiri, Rajib 2014**)²⁰.

4.5 UNCONVENTIONAL METHODS OF FINANCING MSMEs

Institutional credit is not sufficient to fulfill the credit needs of the MSMEs. The ability of MSMEs (especially those involving innovations and new technologies) to access alternative sources of capital like angel funds/risk capital needs to be enhanced considerably. For this purpose, removing fiscal/regulatory impediments to the use of such funds by the MSMEs should be considered on priority (**Chakrabarty, K.C., 2012**)⁹.

Venture Capital Funds

This financing method helps new and risky ventures (Bio-Technology, IT industries, food processing and many other knowledge-based industries) which do not possess adequate operating history to qualify for institutional credit (**Raj, Brij 2012**)⁴⁰. It supplies initial capital to the innovative and risky ventures where traditional bank credit may not be available and accepts high risk of investment in new business ideas where return on investment may take a long time. Venture capital funds can meet the equity requirement in these sectors in the initial stage and traditional finance may follow once these industries have established themselves in the market. Apart from supplying credit, it offers a comprehensive package of services like business consultation, management consultation, settling tax and legal issues etc.

However, in many cases, the company has to offer a certain percentage of equity positions to the venture capital firms. This may create problem for internal operation and decision making of the company and the venture capital firm may take over the control of the company.

Venture capital financing firms maintain their representatives in the management of the company. The basic idea is to help the company with the management expertise. However, this can reduce operational flexibility, freedom of decision making and secrecy of business plans.

Factoring Services

One of the major problems of the MSMEs is their failure to collect dues from the debtors which adversely affects working capital, recycling of funds, profitability and sustainability. A study conducted by CRISIL with 5000 MSMEs shows that the MSMEs can increase their profit by 15 percent if they are able to recover their dues in time from the large business houses (**CII-PwC Report, 2013**)¹⁵. This problem can be effectively handled by factoring which ensures steady

collection of dues providing 80 percent advance of the dues at the time of entering into contract and paying the final balance on completing the process of collection. Thus, factoring ensures liquidity and can be an alternative source of working capital. The Govt. has passed the Factoring Regulation Bill, 2011 to provide a legal framework for factoring services.

Angels Investors

It refers to a club of members who have sufficient funds and are willing to invest funds in MSME projects. The pool or collection of deposits by all members in the network generates a bigger amount and invested in MSMEs. It ensures steady supply of risk capital to the risky ventures at the initial stages and also provides additional services like decision making, developing marketing strategy, providing technical support etc.

For MSMEs, this investment increases the risk of interferences by the angel investors who are the outsiders to the business. The concern has to sell a part of their equity holding which may lead to decrease in command over the concern. This method may not be very rewarding for the investors as the investments are made in risky ventures and the returns, if any may be expected after a long time. This method works well only when good relationship between the MSME management and the investors is maintained.

Micro Finance

Micro finance is ideally suited for the firms where traditional bank credit system cannot be effectively applied due to small financial requirements. It does not require any securities and can be helpful for the MSMEs which cannot maintain collateral securities.

This method is suitable only for meeting small financial needs of the micro enterprises but may not be adequate to meet the ever rising financial needs of small and medium enterprises.

The cost of raising such loans is comparatively high. This system may not perform well where the members are geographically dispersed or depending on single economic activity or single agricultural crop. Moreover, this sector has grown quite indiscriminately without specific regulatory structure in place (Chakraborty and Ravi, 2011)²⁶.

Green Financing

Today the world believes in “going green”. The companies have been producing products more energy efficient and environment friendly. Green Finance is a market-based investing or lending program that considers environmental impact into risk assessment or utilises environmental incentives to drive business decisions. This is a new future oriented technique which aims at

attaining economic growth and environmental protection. This type of financing is ideally suited for export financing, financing for small and medium and IT firms (**Venkatesh and Kumari, 2012**)⁴³. Popular green products/services include energy prudent mortgages, green credit cards etc. Under Energy Efficient Mortgage Scheme (EEM), the financial institutions offer credit at a concessional rate to the customers who purchase energy efficient houses or invest in green power. Green financing is still a new concept and at its primary stage in India. SIDBI has taken some active steps in lending green and energy efficient technology in MSMEs viz. Electronic Waste Recycling Facility, Common Effluent Treatment Plant (CETP) Scheme, Taxi Financing Scheme etc.

4.6 RISK CAPITAL AND MSMEs

Risk Capital refers to the provision of capital where the provider reduces the risk burden of the entrepreneurs and bears some part of the total risk involved in a productive activity (**Sidbi Article, 2008**)²⁴. It usually includes equity and quasi-equity financial instruments which have the feature of both debt and equity. Depending on the nature and stage of development of MSMEs, risk capital may be of two types- collateral based and information based. In the first category, risk capital is supplied on the basis of collateral securities which also include factoring based finance. Information based finance means generating risk capital through friends and family based on their perception and expectation of the entrepreneur's ability and intention to repay. Several other unconventional forms of finance like venture capital also depends on the information revealed through financial reports, profitability of the project, entrepreneurs ability etc (**SIDBI Report on MSMEs in India, 2010**)²³.

The type of risk capital suitable for the MSME has an important bearing on the stage of development of the MSME. There may be three stages of development- seed stage, start-up stage and expansion stage. At the seed and start-up stage, informal equity may be obtained from founders, associates and contacts. Bank loan and equipment leasing, if available may be useful in this stage. During the expansion stage, original equity, factoring finance, venture capital finance, bank loan may be utilised to use full-fledged risk capital.

Table 4.6: Financing MSMEs in different Stages of Development

Stage of development	Sources of fund
Seed Stage	Informal equity from founder and associates. FI/Bank loan/equity, if available and needed.
Start-up stage	Informal equity from founder and associates and contacts. Bank loan, if available. Leasing for equipment.
Expansion stage	Equity from original sources, plus trade investments or venture capital. Loans from banks. Other sources of finance including leasing and factoring.

Source: SIDBI Report on MSMEs in India, 2010²³

4.6.1 Capital Market Access to the MSMEs

Capital market ensures better capital allocation and efficient risk distribution which helps superior economic performance in terms of increase in productivity, employment, real wage, economic stability. The MSMEs have very limited access to capital markets. Though the new generation technology based innovative MSMEs are getting good support from Venture Capital Financing (VCs) and Private Equity Funds (PEs), the manufacturing MSMEs are still struggling from the dearth of risk capital. One of the major attempts to promote capital market access to the MSMEs was the establishment of Over the Counter Stock Exchange of India (OTCEI) in 1990. The OTCEI was a path breaking concept but lacked proper implementation (**FISME Policy Paper 2, 2012**)¹⁶. OTCEI was the first exchange with an online depository which operated in the absence of any legal laws on depository and was fraught with many legal and operational issues. Moreover, during the establishment of OTCEI, Indian stock market experienced a slowdown which adversely affected OTCEI. SEBI introduced the Issue of Capital and Disclosure Requirement Regulation, 2009 (ICDR Regulation, 2009) to enable willing MSMEs to participate in capital market activities. The Regulation provides transparency in reporting financial and material information about the issuer company and its promoters, increasing minimum investment limit to Rs One lakh to ensure that marginal investor cannot invest in MSMEs, introduction of the concept of market making for a minimum period of 3 years to ensure that enough liquidity is maintained in the initial period for investors and insisting 100 percent underwriting of shares (www.sebi.gov.in)³⁸. Still, lack of interest on the part of the investors to invest in MSMEs, poor information about the performance and prospects of the MSMEs,

improper legal framework are the main reasons for unavailability of capital market funds in MSMEs.

4.6.2 Problems faced by the MSMEs in Capital Market Financing

High capital raising cost: The MSMEs must release advertisements in leading newspapers on multiple occasions while issuing shares. Moreover, the fees payable to the financial intermediaries especially the merchant banks for due diligence of the offer document, market making, assessment of underwriters' capabilities, tie-up with other intermediaries, underwriting of shares etc create additional financial burden on the MSMEs.

Lack of awareness: The investors are not aware of the investment option in MSMEs. Similarly, the option of raising capital through capital market is also not known by many MSME entrepreneurs. Most of them are ignorant about the eligibility criteria, procedure of listing securities at the exchange etc.

Disclosure requirement: The technology based new generation MSMEs and the MSMEs operating in the service sector find Venture Capital Financing or Private Equity Funds (PEs) more effective than listing securities at the SME Exchanges. This is due to stringent disclosure requirement for the Initial Public Offerings (IPO) which would have to be made available in public domain.

The following measure may be taken to encourage the MSMEs to participate in capital market.

- SEBI should suitably modify the ICDR Regulation, 2009 regarding issuance of detailed advertisement for issuing shares. It should be made optional for the MSMEs or should be realised through the website of SEBI, Merchant Banker, SME Exchange and its own website (**FISME Policy Paper 2, 2012**)¹⁶.
- The Ministry of Finance should direct the banks and other financial institutions to earmark a certain proportion of funds for investing into the issues on SME exchanges.
- Banks, insurance companies and financial institutions with significant capital base should be engaged as market maker. The market makers should provide information about the performance and financial position of the MSME to attract prospective investors.
- SEBI should reduce the minimum investment limit requirement for the MSMEs (currently Rs. One lakh). It is argued that only institutional investors are likely to invest in MSMEs at the start up phase. Maintaining a high minimum investment limit requirement may reduce the number of investors in MSMEs.

4.7 CREDIT RATING FOR MSMEs

Rating is a comprehensive assessment of the enterprise, taking into consideration the overall financial performance, management competence, industry overview, peer group performance, relationship with customer/vendor etc and a vital tool to increase creditworthiness of MSMEs **(Subramanian and Nehru, 2012)**⁷. The technique of rating the MSMEs is markedly different than the techniques used in large companies as the MSMEs do not have organised information on financial detail, market share, details about the competitors etc. Thus, the rating agencies firstly judge the overall performance of the MSMEs depending on major parameters (profitability, growth potential, customer's and bank's opinion about the company etc) and then compare the performance with the sector as a whole. The major credit rating agencies involved in MSME rating are CRISIL, CARE, and ICRA etc.

Credit rating can be a very effective tool to install confidence in the bankers about the loan repayment capacity of the MSMEs where the performance of the company is rated by some accepted neutral agencies. The high rated MSMEs also enjoy a reduction in interest rate ranging from 0.5 percent to 1.5 percent resulting in substantial increase in profitability. Empirical evidences show that the banks take less time to settle loan application of a rated MSME compared to non-rated MSME. Even the high rated MSMEs are directly approached by the banks with the loan offer. Through credit ratings, the MSMEs can reduce interest rates by negotiating with the banks to reduce their cost of borrowing. High rated MSMEs may also attract private equity or venture capital investors.

High rated MSMEs attract the best employees and successfully retain them. Thus, labour turnover is significantly less in such companies. Moreover, rating also increases confidence among the existing and prospective customers.

Credit rating for MSMEs has not yet got the full momentum in India. It is not compulsory and cannot hastily be declared compulsory without significant development of micro firms. Credit rating will increase professionalism and creditability of the MSMEs and more and more MSMEs should be encouraged to take up rating procedure.

4.8 DIFFERENT PROGRAMMES/ SCHEMES TO SUPPORT THE MSMEs

Credit Guarantee Fund Scheme

The Government approved Credit Guarantee Fund Scheme for small industries on 19th May, 2000 to supply credit to SSI units, particularly the tiny units. The Scheme provides for collateral free loan up to Rs 25 lakh by member lending institutions. It hedges the collateral risk and encourages the banks to judge the credit needs of the MSMEs only on the basis of viability of the project without being concerned about collateral security. However, if the MSME unit fails to repay the loan, the 70/80/85 percent of the default, as the case may be, would be compensated by the Credit Guarantee Scheme (<http://www.cgtsi.org.in/schemes.aspx>)²⁹. The rate of interest charged on the credit would not be more than 3% over and above the Prime Lending Rate (PLI) of the lender.

Table 4.7: Credit Guarantee Scheme since 2000-01 to 2009-10

Period	No. of active MLIs	No. of credit facilities approved	Guarantees approved (Rs. Crore)	Cumulative guarantees approved (Rs. Crore)
2000-01	9	951	6.06	6.00
2001-02	16	2,296	29.52	35.00
2002-03	22	4,955	58.67	94.00
2003-04	29	6,603	117.60	212.00
2004-05	32	8,451	267.46	538.00
2005-06	36	16,284	461.91	1,000.00
2006-07	40	27,457	704.53	1,705.00
2007-08	47	30,285	1,055.84	2,701.00
2008-09	57	53,708	2,199.40	4,824.00
2009-10*	82	1,13,029	5,110.09	9,822.50

Source: rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=585#CRE³⁷

Note: 1) *Upto 31.01.2010 2) Actual may vary due to intervening cancellations/modifications.

Credit Linked Capital Subsidy Scheme (CLCSS)

The Credit Linked Capital Subsidy Scheme (CLCSS) was introduced by the Ministry of MSMEs in October, 2000 (revised w.e.f. 29.9.05) for technology upgradation by providing 15% capital subsidy on institutional finance availed of by the MSMEs for induction of identified technology in selected sub-sectors/ products.

National Manufacturing Competitiveness Programme (NMCP)

National Manufacturing Competitiveness Programme (NMCP) was initiated in 2007-08 to increase competitiveness of manufacturing sector. The programme includes several schemes like establishment of new tool rooms, benchmarking of the global competitors, enhancing product and process quality, cost reduction through lean manufacturing techniques (<http://www.dcmsme.gov.in/schemes/NMCPDetail.html>). The programme is implemented through Public Private Partnership (PPP) mode with active participation from the MSME sector.

Other Credit Support Schemes for MSMEs

Tie-up arrangements with Banks

National Small Industries Corporation (NSIC) has entered into tie-up arrangements with eleven banks (i.e. United Bank of India, UCO Bank, Oriental Bank of Commerce, Central Bank of India, Bank of Maharashtra, YES Bank, AXIS Bank, Karur Vysya Bank, HSBC and Union Bank of India) for helping MSMEs in accessing term and working capital loans.

Raw Materials and Marketing Activities (Short term)

National Small Industries Corporation (NSIC) facilitates raw material procurement of the MSMEs by making arrangements with bulk manufacturers and helps in internal marketing, exports and bill discounting.

Credit Rating Scheme for MSMEs

NSIC has introduced “Performance & Credit Rating Scheme” for MSMEs in collaboration with the Ministry of MSMEs through seven accredited rating agencies i.e. CARE, CRISIL, ICRA, ONICRA, Dun & Bradstreet and SMERA. The Govt. offers a subsidy of 75% of the rating fees subject to a maximum of Rs 75,000 to encourage the MSMEs to take up rating procedure.

Collateral Security Free Loans

RBI has issued directives to the banks to offer loans up to Rs.5 lakh without any collateral security to the MSME units (both manufacturing and service enterprises). Such loans may be extended to Rs.25 lakhs if the MSME unit maintains a good repayment record.

Rehabilitation of sick MSME units

Based on the recommendations of the Working Committee for Rehabilitation of Sick Units under the Chairmanship of **Dr. K.C.Chakrabarty**²² in 2007, banks have been advised to review and put in place a loan policy governing extension of credit facilities, restructuring/ rehabilitation policy for revival of potentially viable sick units/ enterprises and a non-discretionary one time settlement scheme for recovery of non-performing loans. The working group has also recommended the creation National Equity Fund, Fund for Technology Upgradation, Marketing Development Fund etc for MSME sector.

4.9 CONCLUSION

In spite of several RBI guidelines and formation of a number of committees and working groups, supply of credit to MSMEs is still in critical situation. The MSME credit market is highly dominated by the banks. The competitiveness of the loan market must be increased by increasing the number of financial institutions. The banks must be pro-active and evaluate both quantitative and qualitative factors in loan sanction procedure. The MSMEs have to be responsible borrower ensuring maintenance of proper accounting procedure, supply of necessary documents as and when required by the banks and timely repayment of loan. The traditional institution based financing is not sufficient to meet the growing credit need for MSMEs. Unconventional sourced of financing (venture capital funds, micro financing, factoring etc) can be very effective in bridging the credit gap. A proper blend between traditional and unorthodox methods of financing can effectively solve the credit problems for the MSMEs.

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CHAPTER 5

SICKNESS IN MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN INDIA

5.1 INTRODUCTION

Industrial Sickness has been a common problem for both developing and developed countries. A unit may face many difficulties from internal and external sources which could deter the unit from proper capacity utilisation, surplus generation and repayment of loan on regular basis. If such problems continue, the unit may become sick and may adversely affect productivity, employment generation, and socio-economic stability of the country **(Singh, Navneeta, 2011)¹⁶**. In market economy, the inefficient and marginal firms are bound to lose their existence. This does not amount any societal loss but sickness assuming an epidemic shape is a serious concern for the policy makers as it results in high cost economy, reduction in competitiveness, increase in NPA (Non-Performing Assets), and reduction of creditworthiness of MSMEs. Creation of objective conditions and environment through suitable policy support is essential for sustained growth of the MSME sector in India.

5.2 CONCEPT OF SICKNESS IN MSMEs

A healthy industrial unit is one, which earns a reasonable return on capital employed and creates reserve after adequate provision for depreciation. Therefore, a sick unit cannot make profit regularly over a period and needs external financial help to continue its operation **(Mishra and Nayak, 2006)²⁵**. There are many definitions available for sick industries.

As per RBI guideline (Kohali Committee) 31.3.2002²², an SSI unit should be considered 'Sick' if

- a) any of the borrowal accounts of the unit remains substandard for more than six months i.e. principal or interest, in respect of any of its borrowal accounts has remained overdue for a period exceeding one year. The requirement of overdue period exceeding one year will remain unchanged even if the present period for classification of an account as substandard, is reduced in due course;

or

- b) there is erosion in the net worth due to accumulated cash losses to the extent of 50 per cent of its net worth during the previous accounting year; and

c) the unit has been in commercial production for at least two years.

One major problem with this definition is that it tends to detect sickness in MSMEs so late that rehabilitation measures could not be taken in time. **The Working Group for Rehabilitation of Sick MSMEs (2007)**²³ under the chairmanship of K.C. Chakrabarty suggested some modifications of the prevailing definition and defined Micro and Small Enterprise Sickness as “A Micro or Small Enterprise (as defined in the MSME Act 2006) may be said to have become sick, if any of the borrowal account of the enterprise remains NPA for three months or more or there is erosion in the net worth due to accumulated losses to the extent of 50 percent of its net worth”. The working Group emphasized on removing the existing clause that the unit should have been in commercial production for at least two years to facilitate early detection of signals of sickness.

However, the **Review Committee for Modification of the Definition of Sickness (2012)**²¹ set up by RBI has suggested that the term “accumulated losses” as has been used in the definition given by K.C. Chakrabarty Committee should be substituted by “accumulated cash losses” as this term is more acceptable with the banks.

Industrial Sickness is an evil to market economy. It is like a patient at home; suffering himself and creating discomfort to other family members. Similarly, a sick unit adversely affects the economy and the people directly or indirectly connected with it.

5.3 SICKNESS STAGES

Sickness in MSMEs is a gradual process. An MSME unit gives several signals before getting sick or non-viable. If we have a strong forewarning system, incidence of sickness can be reduced to a significant extent through preventive measures.

Normal / Healthy Unit (Stage I): An MSME unit is said to be at normal or healthy stage when it performs all its functional activities (production, sales etc) normally or efficiently, earns a reasonable return on capital employed, maintains positive net worth, net working capital and satisfactory debt-equity ratio (**Parmer, Renu, 1995**)⁶. Thus, at the healthy stage, it shows good cash profit and positive values for net working capital and net worth.

Tending Towards Sickness (Stage II): The unit shows reduced profit compared to last year, even some firms may experience loss while maintaining the net working capital and net worth positive. Though the unit shows the signals of early sickness; it is still able to pay installments due to the lending institutes (**Singh, Navneeta, 2011**)¹⁶.

Incipient Sickness (Stage III): During incipient sickness stage, the unit shows negative cash profit and negative net working capital. Net worth shows a positive value but indicates erosion of less than fifty percent of peak net worth. Increased cash loss, falling current ratio and debt-equity ratio are the main features of this stage (Lahiri, Rajib, 2013)⁴.

Sickness (Stage IV): The unit shows negative cash profit and negative net working capital. Net worth remains positive but shows more than fifty percent erosion.

Increasing Sickness (Stage V): This stage shows almost a dire situation for the MSME unit as all the parameters like cash profit, net working capital, and net worth show negative results. If adequate revival measures are not taken provided that the unit is considered potentially viable, it will lead to closure of the business.

Table 5.1: Process of Sickness in MSMEs

Healthy Unit	Tending towards Sickness	Incipient Sickness	Sickness	Increasing Sickness	Closure
1. Cash Profit (+)	1. Cash Profit/Loss (-)	1. Cash Profit/Loss (-)	1. Cash Profit/Loss (-)	Negative Net Worth, hence all negative	
2. Net Working Capital (+)	2. Net Working Capital (+)	2. Net Working Capital (-)	2. Net Working Capital (-)		
3. Net Worth (+)	3. Net Worth (+)	3. Net Worth (+) (Erosion of less than 50% in peak Net Worth)	3. Net Worth (+) (Erosion of more than 50% in peak Net Worth)		

Source: 1) Parmer S Renu (1995)⁶ 2) Singh (2011)¹⁶

5.4 REASONS FOR SICKNESS IN MSMEs

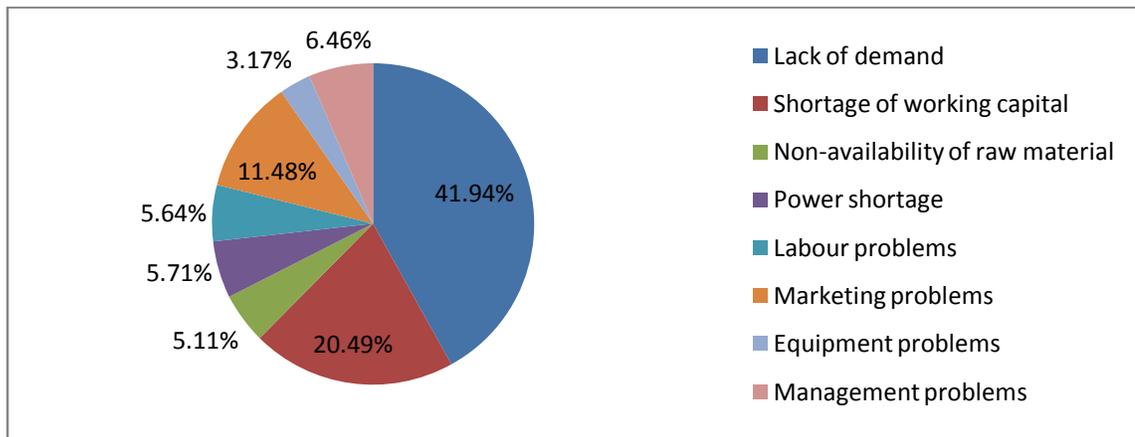
As per the final report of the **Fourth Census of MSMEs (2006-07)**¹⁸ (Table 5.2), lack of demand in the market is the most vital reason for sickness in MSMEs (41.94%) followed by shortage of working capital (20.49%), scarcity of raw material, power supply, labour problems, marketing problems etc. This is surprising that in a country like India the MSMEs do not find sufficient demand for their products in the market. This is due to marketing inability, lack of well formulated marketing strategies, innovative but low cost marketing techniques, poor product quality of the MSME units. Moreover, poor credit support, lack of adequate infrastructure, resistance to technological up gradation, uneven competition with big domestic firms and giant multinationals etc. contribute to sickness in MSMEs.

Table 5.2: Reasons for Sickness (As per the Final Reports of 4th Census of MSMEs)

SL No.	Reason for sickness/ incipient sickness	Proportion of sick/ incipient sick units
1	Lack of demand	41.94%
2	Shortage of working capital	20.49%
3	Marketing problems	11.48%
4	Management problems	06.46%
5	Power shortage	05.71%
6	Labour problems	05.64%
7	Non-availability of raw material	05.11%
8	Equipment problems	03.17%

Source: Final Report of Fourth All India Census of MSMEs 2006-07: Registered Sector¹⁸

Fig 5.1: Reasons for Sickness in MSMEs



Source: Final Report of Fourth All India Census of MSMEs 2006-07: Registered Sector¹⁸

Causes of Sickness

Sickness in MSMEs is a multi variable phenomenon. Different MSMEs may get sick for different causes in different situations. Such factors may be internal or external or combination of both. The internal causes are within the control of the firm whereas the external factors are economy specific and beyond the control of the firm. The external factors are usually more influential in causing sickness (**Renu, 1995**)⁶.

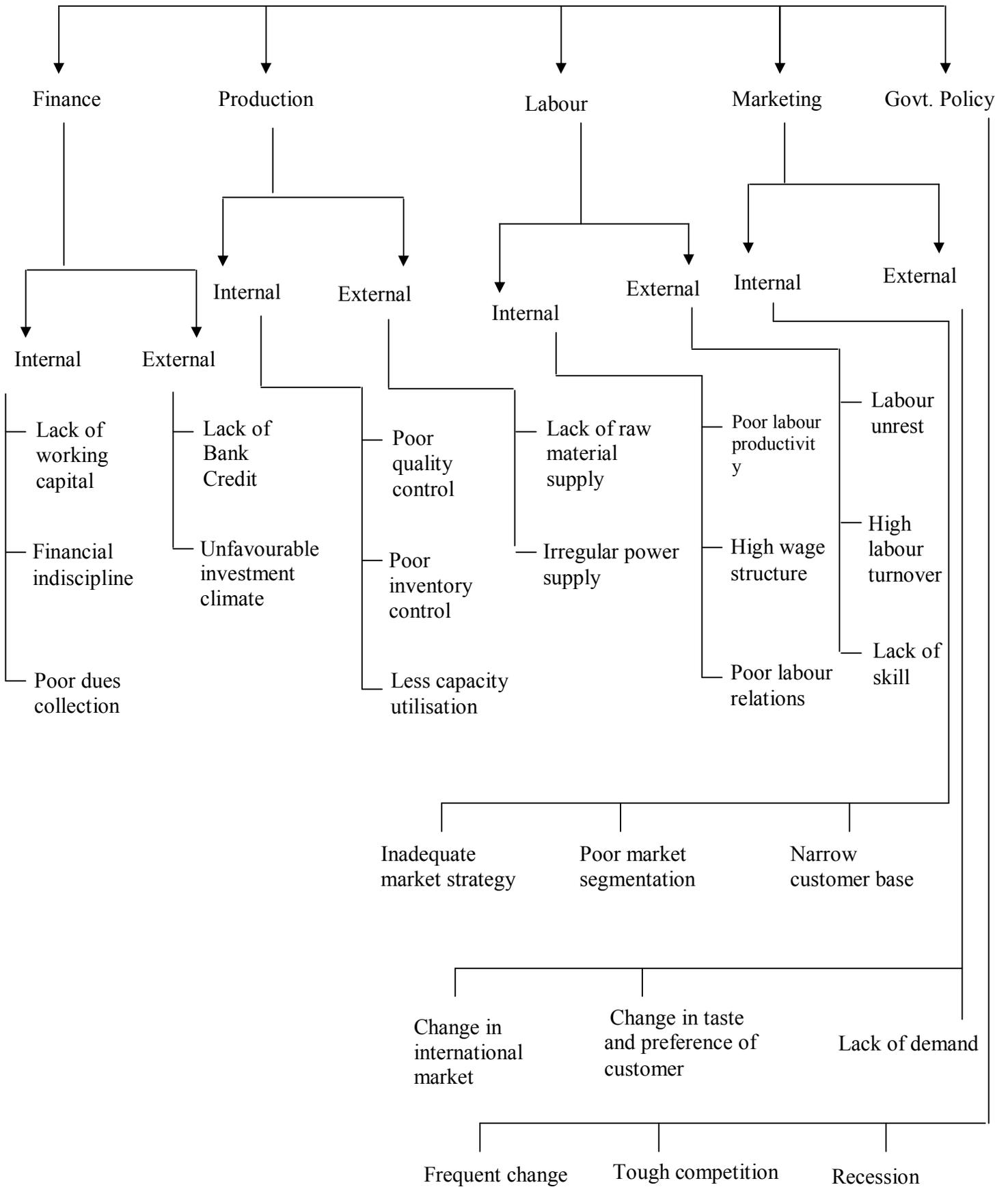
The vital internal factors responsible for sickness in MSMEs are wrong project selection or wrong capacity utilisation, inadequate technical knowledge and experience, lack of working capital, high wage structure, high labour turnover, inappropriate marketing strategy, lack of delegation of authority etc.

The vital external reasons for sickness in MSMEs are delay in sanction or disbursement of loan, infrastructural bottlenecks, sudden change in Govt. policy, extreme competition, inflation, unfavourable change in import or fiscal duties etc.

We have made an attempt to prepare a model of sickness in MSMEs in which we have considered the following parameters- financial constraints, marketing and managerial constraints, production constraints, labour constraints and Govt. policy constraints.

Fig 5.2 Sickness Model

Causes of Sickness in MSMEs



Source: Developed by the Researcher

5.5 IDENTIFICATION OF SICKNESS IN MSMEs

One vital way of treatment of illness is to identify the disease early. The same happens for MSMEs. There are some signals or symptoms which are helpful in identifying the potentially sick unit. However, temporary financial distress in an MSME does not amount to sickness.

5.5.1 Cash Loss Criteria

Generation of sufficient internal cash is a vital condition for healthy operation of a firm. If a unit continuously suffers from cash losses it will fail to make regular loan repayment, supply of raw materials, acquire fixed assets and may have to operate at a lower capacity. This process of sickness identification does not analyse profitability of a firm rather it assumes that decline in profitability rate may be a temporary phenomena. Another approach is to draw a comparative performance analysis among the same firms in the industry. Business fluctuations and changes in theeconomic environment do not affect the profitabilityof different firms in the same manner. A pronounceddownswing in business conditions or a recession ina given industry would bring about a general declinein the average profitability of that industry (**Dholakia, Bakul, 1987**)¹². In favourable condition, all firms, even the marginal and inefficient firms are expected to perform well. In adverse situations, the inefficient firms would experience decline in profitability and may become sick. Thus, cash loss is not a sudden criterion. **Panda and Meher (1992)**⁵ has shown that inthe early stages (i.e. up to six years preceding thecash loss period), the profitability index shows amarginal decline, followed by sustained declineduring three years preceding the cash loss periodand continuous cash loss during the subsequentperiod.

5.5.2 Weak Units

As per RBI Guidelines, 1993an SSI unit should be considered weak if it has:

- incurred cash loss in the previous accounting year and is likely to continue to incurcash loss in the current accounting yearand has an erosion of 50 per cent or moreof its net worth
- continuously defaulted in meeting fourconsecutive quarterly installments of interestor two half yearly installments of principalon term loans with persistent irregularitiesin the operation of its creditlimits with the bank.

Thus, it is a joint responsibility of the entrepreneur and the financing bank to monitor the performance of the MSME closely to identify any signal of the unit becoming weak (**Ojha, 1987**)¹⁵.

5.5.3 Reduction in Liquidity and imbalance in Financial Structure

As per RBI Guideline, 1978 “A unit may be considered sick if it has incurred cash losses for one year and, in the judgment of the Bank (RBI), it is likely to continue to incur cash losses for the current year as well as the following year and the unit has an imbalance in its financial structure such as current ratio of less than 1:1 and worsening debt equity ratio”.

Term lending institutions use the following signals to identify sickness in MSMEs:

- Continuous defaults in meeting four consecutive half-yearly installments of interest or principal of institutional loans
- Continuous cash losses for a period of two years or continued erosion in the net worth by 50 per cent or more
- Mounting arrears on account of statutory or other liabilities for a period of one or two years (Bidani and Mitra, 1983)².

Determining sickness on the basis of 50 percent erosion of net worth is more helpful in arresting infantile sickness (i.e. sickness arising in MSMEs in the initial period of operation) but not much effective in case of sickness in an established unit operating for a long time. A well-established business unit with a long operating period could have accumulated high reserves and surplus and a fairly sound equity base. Thus, by the time this unit reaches the level of 50 per cent erosion of its net worth, the process of sickness may have already reached fairly advanced stage. Any deterioration in the performance of the unit which goes beyond a previously defined normal range of business fluctuations should be subjected to careful scrutiny.

5.5.4 Scrutiny of Balance Sheet

A thorough scrutiny of the balance sheet of the MSME may be helpful in capturing sickness early. The balance sheet of a sick MSME would reveal the following signals

Balance Sheet of a Sick MSME

Sr. No.	Liabilities	Sr. No.	Assets
1	Current Liabilities	1	Current Assets
a.	High short term borrowings	a.	Depleting Current Assets
b.	High unpaid statutory liabilities lying unpaid for more than one year	b.	Dead and slow moving inventory

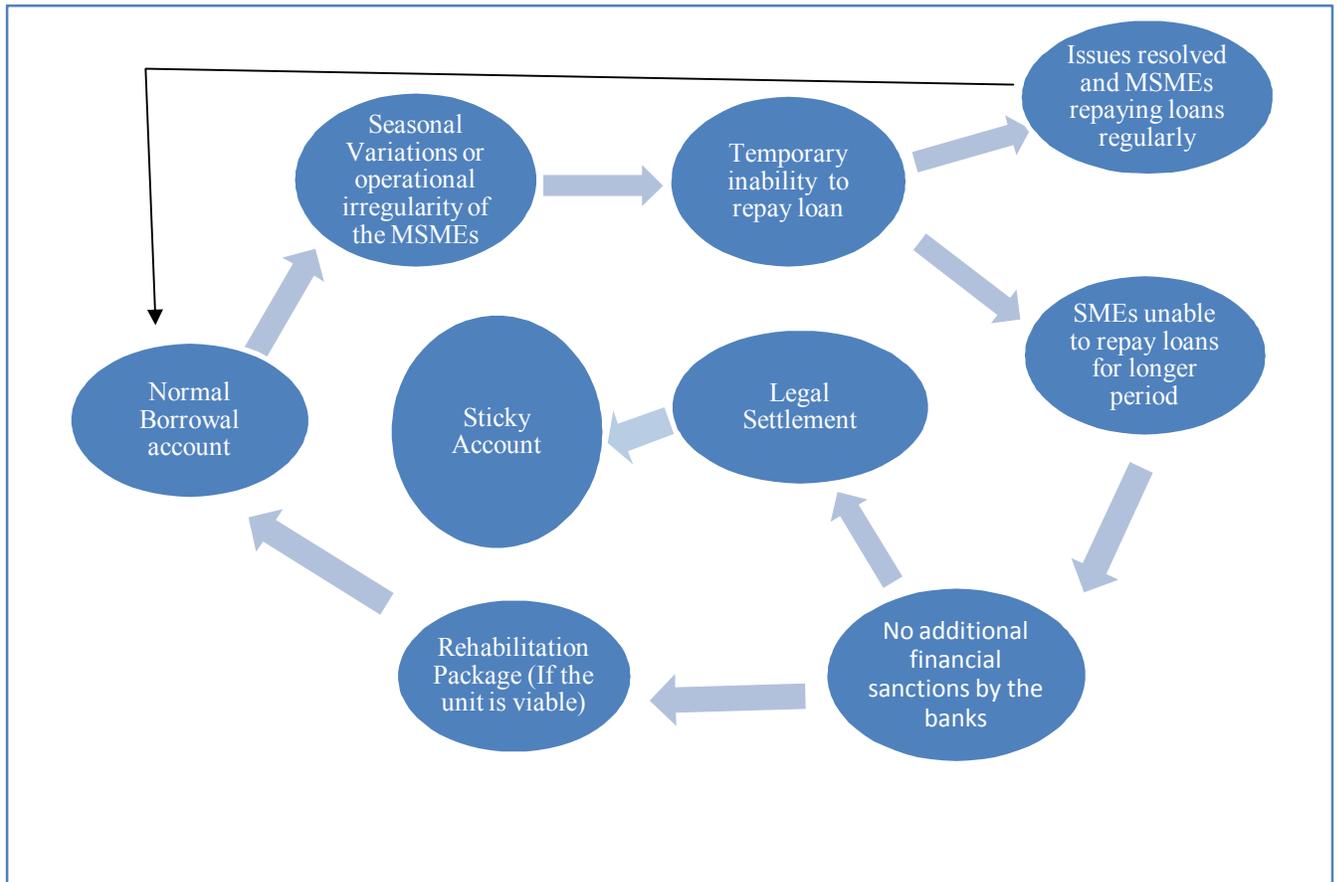
c.	Creditors for suppliers not paid for long time	c.	Debtors include significant amount of bad debts
d.	Considerable amount of contingent liabilities mostly due to non-compliance of law	d.	Less amount of cash at bank and at hand
2	Term Liabilities	2.	Fixed Assets
	Loan installments outstanding for more than one year		Inflated and non-realizable
3.	Equity	3.	Intangible Assets
	Gradually eroding equity; can even be negative		Huge amount of accumulated loss and capitalised expenses

Source: Kulkarni (2012)²⁴

5.5.5 Behaviour of borrowal account

It is interesting to study the behavior of borrowal accounts of the sick MSMEs. Initially, at the time of sanction of loan every borrowal account is regular and normal. Subsequently, due to seasonal variations or emergence of certain difficulties (scarcity of raw materials, lack of funds, inadequate power supply etc), the unit may temporarily fail to ensure regular repayment of loan. Once these problems are solved, majority of units maintain regular borrowal account. If such problems persist, the unit would be unable to repay loan for long period. Banks usually provide some time the unit to recover but do not sanction additional funds to the unit. After the expiry of reasonable period of time, such borrowal accounts are considered sick and the bank opt for legal settlement or sanctioning rehabilitation package if there is a good chance for the unit to recover. If rehabilitation package is granted, sick accounts may again become normal. But few accounts cannot be revived and such accounts are termed as sticky accounts. A close eye on the behavior of the borrowal account of the MSME unit can predict sickness early.

Fig 5.3: Behaviour of Borrowal Account of Incipient Sick MSME Unit



Source: Developed by the Researcher

5.5.6 Other Criteria

Table 5.3: Vital signals for identification of sick MSMEs

Financial	Operational	Market	Attitudinal	Others
Defaults in payment of interest/installments	Low inventory/stocks movement	Complaints regarding quality of goods/service	Dissension among directors/partners/promoters	Sudden/unfavourable changes in government policies
Irregularities in cash credit/overdraft accounts	Persistent labour problems	Loss of markets/key customers	Non/delayed submission of financial reports	Emergence of new technology/products

Lower credits/reduced turn over		Change in choice and preference of the customers		
Declining current ratio	Low activity levels in plant/place of business	Inability of the firm to supply goods in due time		
Declining profitability/operating losses/net losses/ Worsening credit ratings	Frequent return/rejection of finished goods	Emergence of new competitors		

Source: Lahiri, Rajib (2013)⁴

5.6 SICKNESS SCENARIO OF MSMEs IN INDIA

Sickness in MSMEs has taken a serious shape in India as the tendency of the MSMEs getting sick has increased during the post liberalisation period. However, there exists a difference in the sickness rate in different states. While Kerala shows the highest rate of MSME sickness, Punjab, Hariyana and Madhya Pradesh show comparatively lower rate of sickness. This might be due to difference in geographical advantage, raw material supply, infrastructural support and pro-business attitude of the state govt. As per the study results carried out by **T.A. Bhavani (2011)**¹ in 14 leading states in India, there exists a huge difference in technical efficiency in different states in India. The tables below show the rate of sickness in MSMEs in different states and the number of sick MSMEs in different industry groups in India.

Table 5.4: Top Ten States in terms of Sick / Incipient Sick Enterprises

States	Percentage of Sick MSMEs
Kerala	21.02%
Tamil Nadu	11.41%
Uttar Pradesh	8.67%
Maharashtra	8.34%
Karnataka	6.18%
Rajasthan	5.25%
West Bengal	4.89%
Punjab	3.93%
Andhra Pradesh	3.92%
Madhya Pradesh	3.05%
Total	76.66% of the total sick/incipient sick enterprises

Source: Final Report of Fourth All India Census of MSMEs 2006-07: Registered Sector¹⁸

Note: The above ten states account for 76.66 % of total sick/incipient sick MSMEs in India

Table 5.5: Sickness Position of MSMEs in India from 1999-2000 to 2010-2011

Year	Total MSME Units (Lakh)	Sick MSME units (lakh)	% of Sick Units in Total Units	Total investment (Rs. Crore)	Investment in sick MSME units (Rs. Crore)	% of Investment in Sick Units
1999-00	97.15	3.04	3.13	139982	4608.43	3.29
2000-01	101.1	2.49	2.46	146845	4505.54	3.07
2001-02	105.21	1.77	1.68	154349	4818.95	3.12
2002-03	109.49	1.67	1.53	162317	5706.35	3.52
2003-04	113.95	1.43	1.25	170219	5772.64	3.39
2004-05	118.59	1.38	1.16	178699	5380.13	3.01
2005-06	123.42	1.26	1.02	188113	4981.13	3.64
2006-07	261.01	1.14	0.43	500758	5266.65	1.05
2007-08	272.79	0.85	0.31	558190	3083	2.48

2008-09	285.16	1.02	0.36	621753	3308.00	0.54
2009-10	298.08	0.78	0.26	693835	5233.15	0.75
2010-11	311.52	0.90	0.29	773487	5211.25	0.67

Source: 1. Ministry of Micro, Small and Medium Enterprises, Annual Report, GOI, 2011-2012¹⁷. 2. Hand book of Statistics on Indian Economy, Reserve Bank of India, 2011-2012¹⁹.

Analysis: The above table shows that there are about 90,000 sick MSEs in the country as on 31.3.2011 in which a fund of Rs. 5211.25 crore has been blocked. However, the percentage of sick units in total units shows a continuously declining trend (except mild increase in 2008-09 and 2010-11). The percentage of sick MSMEs was 3.13 percent in 1999-00 which came down significantly to 0.29 percent in 2010-11. Similarly, the percentage of investment blocked in MSMEs came down to 0.67 percent in 2010-11 from 3.29 percent in 1999-2000.

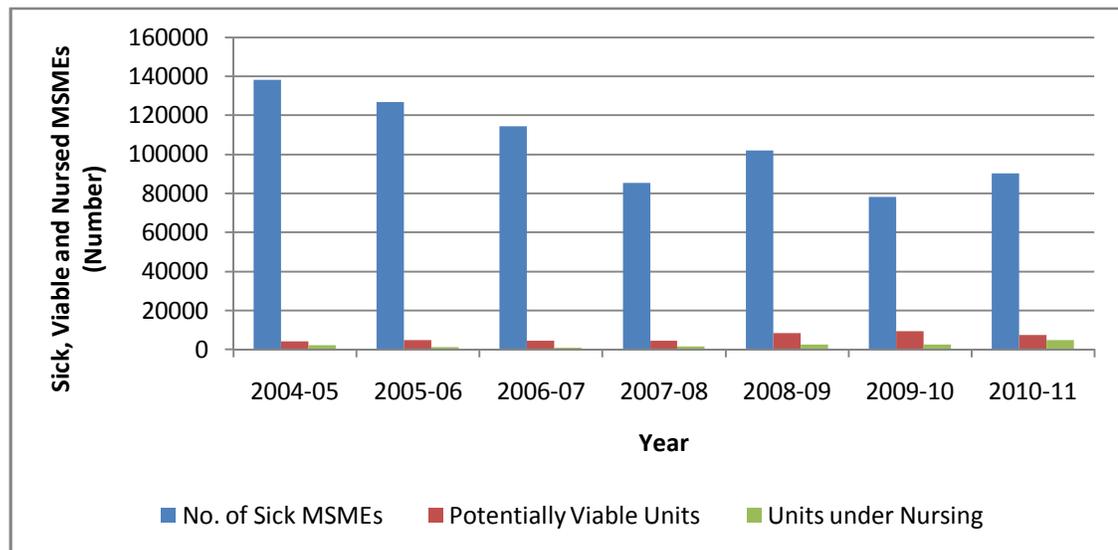
Table 5.6: Sick, Potentially Viable and Nursed MSMEs in India

As at the end of March	*Number of Sick MSMEs	Amount Outstanding (Rs. Crore)	*Number of Potentially Viable MSMEs	Amount Outstanding (Rs. Crore)	% of Viable Units	Units under Nursing	Amount Outstanding (Rs. Crore)	% of Viable unit Nursed
2005	1,38,041	5,380.13	3,922	434.67	2.84	2080	259.93	53.03
2006	1,26,824	4,981.13	4,594	498.16	3.62	915	233.77	19.92
2007	114132	5266.65	4,287	427.46	3.76	588	268.93	13.72
2008	85,187	308272	4,210	246.88	4.94	1262	126.92	29.98
2009	1,02,000	3308.00	8200	732.16	8.04	2330	424.26	28.41
2010	78,000	5233.15	9200	964.75	11.79	2360	478.84	25.65
2011	90,000	5211.25	7100	1112.98	7.89	4698	518.30	66.19

Source: 1) Lahiri, Rajib (2013)⁴ 2) Hand book of Statistics on Indian Economy, 2011-2012¹⁹

* These units include village industries as well.

Fig 5.4: Sick, Potentially Viable and Nursed MSMEs in India



Source: Same as Table 5.6

Analysis: The table 5.6 shows that the percentage of sick units considered viable by the banks is extremely low. In 2004-05, only 2.84 percent of sick units were potentially viable which increased to 7.89 percent in 2010-11. Though not sufficient, the percentage of sick unit considered viable shows an increasing trend over the study period (except 2010-11). From 2005-06 to 2009-10, the percentage of viable units put under nursing is very low (ranges from 13 percent to 26 percent) which increased to 66 percent as at the end of March, 2011. Though the sickness in MSMEs shows a declining trend during post reforms period, the rate of viability of sick units and the percentage of sick units put into nursing scheme is very low.

5.7 FINANCIAL DISTRESS MODELS

Sickness prediction models can be very useful to determine the financial position and any possibility of the firm getting sick in future. Such Financial Distress Models may be grouped under two major heads - Univariate Model and Multivariate Model. The major models falling under univariate model are Beaver's Model (1969), LC Gupta Model (1979) whereas the most vital model under Multivariate/Multiple Discriminate Model (MDA) is Altman's Model (1968).

Altman Model

In his model, Prof Altman combined five variables into an equation to calculate Z score and predict propensity of distress after surveying 33 bankrupt and 33 non-bankrupt firms from the same industry group with same asset size. Out of 22 studied ratios, he found the following ratios to be effective (Altman, 1968)¹¹.

X₁= Working Capital/Total Assets (Liquidity indicator)

X₂= Retained earnings/Total Assets (Cumulative Profitability indicator)

X₃= EBIT/Total Assets (Profitability Indicator)

X₄= Book value of Equity and Preference Shares/book value of total Liability (Financial Leverage Indicator)

X₅= Sales/Total Assets (Capital Turnover Ratio)

He developed a discriminant function combining the above variables as

Z= 0.012X₁+0.014X₂+0.033X₃+0.006X₄+0.999X₅ where z= Overall Index of Multiple Discriminant Function

Table 5.7: Interpretation of Altman Model

Situations	Discriminant Values of Z scores	Propensity of Distress
a)	If Z score >=3	The firm has a healthy financial position with no future threat of bankruptcy.
b)	If 1.81 <= Z score < 2.99	The firm is in Grey Area. It has the possibility of bankruptcy in future and needs further analysis to be sure of its financial position
c)	If Z score <1.81	The firm is in bankruptcy position

Source: Ghosh (2010)³

This model provides high level of accuracy (only 5 percentage error) when the data before one year of bankruptcy is used. However, the error percentage increases to as high as 71 percentages if the prediction is done four years before bankruptcy. This model only deals with bankruptcy; other sickness factors are not considered. The conclusion of the model is made based on small number of observations; it may not be applicable to all types of industries.

5.8 CASE STUDY IN HOWRAH AND COOCHBEHAR DISTRICT USING ALTMAN MODEL

Out of the 50 sample MSMEs chosen from Howrah and Cooch Behar district each (as discussed in Chapter 1), we have selected one unit each from the districts and applied Altman's Multiple Discriminate Model/ Z Score Model to analyse their sickness position. Both the firms belong to small enterprise category with almost same assets size and same industry (both are food processing industries). The study is based on data collected from the financial statement of the firms for two years (2010-11 and 2011-12).

Table 5.8: Financial Ratios and Z Score

Details	Howrah Sample Unit		Cooch Behar Sample Unit	
	2010-11(%)	2011-12 (%)	2010-11 (%)	2011-12 (%)
X ₁ = Working Capital/Total Assets	27	25	23	21
X ₂ = Retained Earnings/Total Assets	18	19	15	14
X ₃ = EBIT/Total Assets	25	23	22	21
X ₄ = Market Value of Equity/Book Value of Total Debt	121	113	110	108
X ₅ =Sales/Total Assets	1.53 Times	1.46 Times	1.43 Times	1.39 Times
Z Score	3.655	3.467	3.301	2.78

Source: Field Survey, 2013

Note: EBIT refers to Earnings before Interest and Tax

Analysis: The five financial ratios and the Z Score computed in the above table have been used to compare financial health of the sample firms in Howrah and Cooch Behar district.

The Working Capital to Total Assets ratio (X₁) gives an idea about the liquidity position and operational efficiency of a firm. Both the firms in our study shows declining and insufficient X₁ ratio. Both the companies should increase use of working capital to increase their volume of

operation and also to ensure that the firms do not suffer from liquid funds. The Retained Earnings to Total Assets ratio (X_2) is a measure of cumulative profitability and higher X_2 ratio usually indicates better position for the firm (Ray,2011). In our study, both the firms have significantly lower X_2 ratio which means that financing has not been done by reinvesting profit rather by increasing debt. The EBIT to Total Assets ratio (X_3) indicates the efficiency of a firm to use its assets to generate earnings before contractual payments and this ratio is a measure of true productivity of the firm's assets. Both the firms show below par performance in this ratio and it shows a declining trend during the study period. According to Altman, Market Value of Equity to Total Liabilities (X_4) ratio is a better predictor of long term solvency than the commonly used Net Worth to Book Debt ratio. This ratio shows good performance of the sample firms but decline in the ratio should be addressed. Net Sales to Total Assets ratio(X_5) indicates the ability of the firm to use its assets to generate sell. The firms with very high X_5 ratio has less possibility of becoming sick. The firms in our study shows reasonably high (though declining) X_5 ratio. However, compared to X_5 ratio X_3 is quite low. This might be due to high operating expenses of the firms. The firms must try to reduce operating expenses and may review the capital structure decision in case the debt capital is high compared to the earning potential and interest on debt is causing pressure on the firm.

Both the sample firms in Howrah and Cooch Behar show declining trend in all the five ratios (except X_2 in Howhah in 2011-12) during the study period but the Howrah firm shows better financial position. The Z Scores for Howrah firm in 2010-11 and 2011-12 are 3.655 and 3.467 respectively which are greater than (>2.99). Thus, the Howrah firm is in non-sick category though it needs improvement in several ratios. The Z Scores for Cooch Behar firm in 2010-11 and 2011-12 are 3.301 and 2.78 respectively. In the first year, Z Score is greater than (>2.99) but in the second year it falls within the Grey Area i.e. within the cut off range between 1.81 and 2.99. The firm falls into non-sick category in 2010-11 but in 2011-12 its financial performance deteriorates and it cannot be said whether the firm is going to be bankrupt or not in future. The firm must try to improve financial ratios and carry out further investigation to prevent financial distress.

Limitations of the study

The study is based on randomly selected two small enterprises from Howrah and Cooch Behar belonging to food processing industries. The data has been collected for two years (2010-11 and 2011-12) only. The study considers the firm oriented variables (profitability and coverage ratios) but the macro economic variables (Govt. policy, change in interest rate, political stability etc) have not been considered.

5.9 REHABILITATION OF SICK MSMEs

Viability of a sick MSME is dependent on its capacity to settle current debts along with previous restructured debts. Rehabilitation package to sick units cannot readily be provided by routine and casual manner. It must involve careful scrutiny and sensitivity analysis by the banks to know the quantum of risk associated with the rehabilitation package. Such package must not be available for the sick units without any possibility for revival and for the MSMEs getting sick due to willful mismanagement, willful default, misappropriation of funds, dispute among partners or promoters etc. **(Report of Working Group on Rehabilitation of SMEs, 2007)²³.**

5.9.1 Relief and Concessions to Potentially Viable Sick MSME Units under Rehabilitation

The following relief/ concessions may be allowed to MSME unit under Rehabilitation Package as per RBI Guidelines.

➤ Waiving Interest Dues on Cash Credit

If penal rates of interest or damages have been charged, such charges should be waived from the accounting year in which the unit has started incurring cash losses continuously and the date of the account becomes an NPA, whichever is earlier. Such unpaid interest should be separated from total liability of the unit. The interest due from the date of preparing the rehabilitation package and date of actual implementation of the package should be waived **(Report of Working Group on Rehabilitation of SMEs, 2007)²³.**

➤ Term Loans at Concessional Rate

The tiny sector units and other SSI units should be provided term loan at lower rate of interest. The Tiny units may get up to three percent and other SSI units up to two percent deduction in interest rate below the documented rate.

➤ Relief in Interest and Principal

The MSMEs, especially the micro and small firms find it really difficult to penetrate into the market and require sufficient time to make their presence felt in the market. As per the

recommendation of the **Working Group on the Sickness of the MSMEs (2007)**²³, the small enterprises should be allowed a moratorium of two years for repayment of principal and interest for six months after commencement of commercial production to ensure reduced financial burden on the MSMEs.

➤ **Working Capital Term Loan (WCTL)**

Any portion of the principal of the cash credit account may be considered irregular if it exceeds the normal drawing power of the unit. This “irregular” portion of the principal may be funded through Working Capital Term Loan (WCTL) which should be repaid for a maximum period of five years with interest rate ranging from 1.5 percent to 3 percent.

➤ **Financial Assistance for Cash Losses**

A unit may suffer from cash loss at the early stage of implementation of the rehabilitation policy till it reaches the break-even level. Such cash loss excluding interest should be financed by the bank or financial institute attached with the unit. The financial institutes may charge interest on the funded amount as per the rate specified by SIDBI under its scheme of rehabilitation. Future cash losses in this context refer to losses from the time of implementation of the package up to the point of cash break-even as projected. Future cash losses excluding interest may again be financed by the financial institutes.

➤ **Contingency Loan Assistance**

For meeting escalations in capital expenditure banks/financial institutions may provide additional financial assistance up to 15 per cent of the estimated cost of rehabilitation as contingency loan assistance at a concessional rate of interest.

➤ **Funds for Start-up Expenses and Margin for Working Capital**

The bank may provide the start-up expenses and the margin money may be obtained from SIDBI at a concessional rate of interest. However, continuance of such interest concession would be dependent on the performance of the MSMEs.

➤ **Promoters' Contribution**

As per the **RBI Guidelines, 2002** the promoter has to make a mandatory contribution of a minimum of 10 percent of the additional long-term requirements under the rehabilitation package in the case of tiny sector units and 20 per cent for other units. For Micro Level II Enterprises, a minimum of 10 percent, for Small Enterprises, a minimum of 20 percent, for medium

enterprises, a minimum of 30 percent and no specific mandatory contribution for Micro Level I Enterprises has been fixed for the promoters.

State Govt. Initiatives

The State Govt. must specifically identify the reliefs and concessions available to the MSMEs regarding power dues, sales tax and other statutory dues and adopt a Single Window Scheme for providing support to the potentially viable MSMEs. The Ministry of MSMEs should set up their cell in every state for rehabilitation of sick industries and settlement of dispute regarding sick industry policy measures between the state and central govt.

Central Govt. Initiatives

- **Different Committees**

Several committees [Nayak Committee (1991), Kapoor Committee (1997)] were set up by the Govt. to identify the reasons for sickness and to ensure revival and restructure of sick MSME units. The **Nayak Committee (1991)**²⁵ highlighted the problems of financing especially the adequacy and timeliness of credit to MSMEs. The committee recommended the modification of the definition of SSIs, reduction in the interest rate for rehabilitation, establishment of SSI cells in regional areas to take care of sick units etc (**Vijayarani, 2011**)¹⁰.

The Kapoor Committee (1997) found that the supply of credit to SSIs was inadequate and suggested reorientation of SIDBI, SFCs and commercial banks. SIDBI should co-ordinate, monitor the credit delivery system, and restructure the weak SFCs.

RBI formed another working group under the chair of S.S. Kohli (2002) which recommended change in criteria in identification and classification of sick small and medium enterprises.

Other Measures

- As per RBI Guidelines, the banks have classified their advances to MSMEs in four categories namely Standard, Substandard, Doubtful and Loss. If the advance to a MSME reaches to the 'Doubtful' category, the bank immediately reviews its financial position.
- The promoting agencies/ commercial banks should carry out viability studies and nursing activities within three months and six months respectively from the date of identification of the sick unit.
- RBI directed the banks to set up MSME consultancy cells in many regional areas and provide qualified staff to offer technical support to the SSI units as per the suggestions of Nayak committee.

- Industrial Reconstruction Corporation of India (IRCI) was set up in 1971 for industrial revival and rehabilitation of sick and closed industrial units. In March 1985, it was converted into a statutory corporation called Industrial Reconstruction Bank of India (IRBI). The corporation helps business units in equity subscription, working capital, equipment finance, short term non-project asset-backed financing and term loan assistance for project finance.
- Several schemes have been initiated to provide relief in excise arrears, interest rate on term loans and waiver of penalty applied to cash credit facility for MSMEs.

5.10 PREVENTING SICKNESS IN MSMEs

Prevention is always better than cure. MSMEs are more vulnerable to become sick than the large firms. The external causes are more responsible for such sickness. The external causes are mainly policy related and can hardly be controlled by the management. The following preventive measures may be helpful:

Strong Initial Screening

The Govt. has been consistently following the policy of encouraging the prospective MSME entrepreneurs by offering various promotional packages, cheaper finance etc. The policy has paid dividends and the MSMEs in quantitative term have increased significantly. However, the major loophole of this policy is that it only concentrates on quantitative growth without making any consideration to the efficiency of the new MSME projects. As a result, the industry gets overcrowded and the number of marginal and inefficient MSMEs has increased significantly which in turn has aggravated sickness. The Govt. must review its current policy on entry of MSMEs and impose strong appraisal and screening on and the project proposal. The target set for the banks to offer loans to the MSMEs should be realistic so that the banks can invest only in viable MSME projects.

Balanced Capital Structure

As per current policy, contribution of promoters of MSMEs has been kept minimum (about 15-25%) to ensure more participation of prospective entrepreneurs. This policy has made MSMEs more prone to sickness as it results in high debt capital and excessive interest burden on the capital structure of the MSMEs. Because of high operating and financial leverage in the initial stages, profitability of the MSMEs falls. Thus, the banks must not allow the debt equity ratio to

cross 3:1 and try to keep it at 2:1 (**Renu, 1995**) and increase equity base of the firm to ensure more commitment from the management. Moreover, the promoters must compulsorily set aside a specified amount for unforeseen contingencies.

Long Term Policy

MSMEs are highly sensitive in nature and less adaptable to frequent policy changes by the Govt. (**Ravulaparthi 2012**)²⁶. Industrial policies initiated by the Govt. must be consistent and changes, if any should be incorporated in gradual manner to allow MSME sector adequate time for adjustment.

Early Identification of sickness symptoms

Sickness, if detected early gives the MSME unit a good chance to revive. Infantile sickness may be detected by the cash loss criteria, 50 percent or more erosion of net worth in first three years of operation criteria and constant monitoring of borrowal accounts by the banks. The banks must not wait the MSME borrowal accounts to become sick or sticky rather seriously address any irregularity observed in such accounts. Early detection of sickness will ensure more viability of new MSME projects, preventing the draining out of public money for rehabilitation and reducing NPA for banks.

Institutional Credit Support: Traditionally, MSMEs are not a preferred field of investment for the banks and poor institutional credit support is a vital cause for sickness. However, the following steps may increase effectiveness of banks- ensuring steady supply of working capital, reducing legal formalities, offering loans to MSMEs at a concessional rate of interest by improving the operational efficiency of the banks, analyzing MSME proposals from both quantitative and qualitative angles and establishing good relation with the client MSMEs.

Managerial training for the prospective entrepreneurs

MSMEs, especially the micro firms are operated by the first generation entrepreneurs who lack qualification and business experience. Sickness in newly established units significantly high for the MSMEs managed by the first generation entrepreneurs and considerably low for the entrepreneurs with experience. However, this does not mean that the financial assistance should be provided only to the experienced entrepreneurs. Once the project is approved, the new entrepreneurs should be given adequate training before disbursement of finance by the financial institutions or District Industries Centres. The cost of such training should be recovered from the

entrepreneurs. This process would equip the prospective entrepreneurs with the basic management skills and reduce the start-up or infantile sickness (Renu, 1995)⁶.

Marketing Policy

MSMEs find it difficult to sale their products due to extreme competition in the market. They must formulate proper marketing mix, marketing strategy and take up market research activities on a regular basis to form clear idea about the competitors and consumers. The MSMEs must use new age technology based low cost advertisement techniques (sending SMS, emails, advertisement through websites, developing websites for the company etc) and the Govt. media like T.V. Channels, Radio should promote their products at subsidized rate. The distribution system can be improved by engaging Govt. sponsored marketing agencies or Govt. departments to purchase the MSME products up to a certain limit and sale them through their own selling machineries. The MSMEs must establish suitable links with large industries and act their ancillaries. This would facilitate the MSMEs to sale their products directly to the large industries and get marketing and managerial support from them.

Role of Industry Associations

MSME Associations can help industrial units by review of capacity utilization, growth trends and forming a First-Aid Cell consisting of technical and managerial experts to offer primary identification and treatment of sick units.

5.11 CONCLUSION

Sickness in MSMEs has taken a critical shape during the post liberalisation period. Though the sickness in MSMEs shows a declining trend during post reforms period, the percentage of non-viable MSMEs is continuously increasing. This might be due to late detection of sickness in MSMEs, unwillingness on the part of banks to offer rehabilitation package and legal complications. When sickness is identified at the advanced stages, the rehabilitation packages become more costly and less effective. The Govt. policy should concentrate more on prevention than on cure. The Govt. must carry on its current policy of promoting the MSMEs but it must also ensure that the sector does not get over crowded with less competent and marginal MSMEs. Growth of MSMEs should be based on productivity than that of increase in number of MSMEs. The Govt. policies must take a long term approach and concentrate on infrastructural development, hassle free credit to the MSMEs, technological advancement for effective prevention of sickness in MSMEs.

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CHAPTER 6

MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN WEST BENGAL

6.1 INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) are one of the most vibrant sectors in West Bengal economy because of significant contribution of the sector in employment generation, productivity, exportability of products and reduction of regional disparity. The sector employs about 25 lakh people in West Bengal which is about 9 percent of the total employment in the country and accounts for nearly 38 percent of the total export from the state (**Economic Review of West Bengal, 2011-12**)²¹. It enjoys the benefits of easy access of raw materials, comfortable weather condition, skilled and unskilled workers, reasonably good power conditions, geographical advantage, strong agricultural base, huge market, rich cultural heritage etc. As per the state-wise analysis undertaken by Associated Chambers of Commerce and Industry of India (ASSOCHAM) in 2012 regarding the number of SMEs assisted, utilisation of margin money and the estimated creation of employment, West Bengal tops the list registering Rs. 52.49 Crores Margin Money Utilisation and assisting about 5290 MSE Units to create 43,000 employment opportunity during April 2011 to February 2012 (**Economic Times, July 25, 2012**)²⁸.

West Bengal used to be the centre of major industrial activities of Eastern India during the pre independence period. The major industries were coal, jute, textile, tea, engineering and iron and steel. During 1946, West Bengal registered the maximum number of large scale industries and maximum number of workers employed therein ((**Roy, Thirthankar, 2011**)⁶. However, due to partition of Bengal, the business link between East and West of Bengal collapsed and the industries were adversely affected. Moreover, migration of people from erstwhile East Pakistan created a huge pressure on the economy of West Bengal. After independence, the ownership of the firms shifted from the British owners to the not so competent indigenous owners as majority of the firms in Bengal was British-controlled. This problem was not evident in other industrial belts of the country where most of the firms were controlled by the indigenous owners (**Bagchi, 1980**)¹.

In spite of some industrial initiatives, the economy of West Bengal was a pre-dominantly agriculture based economy for a long time. Due to industrial unrest, poor transportation facilities,

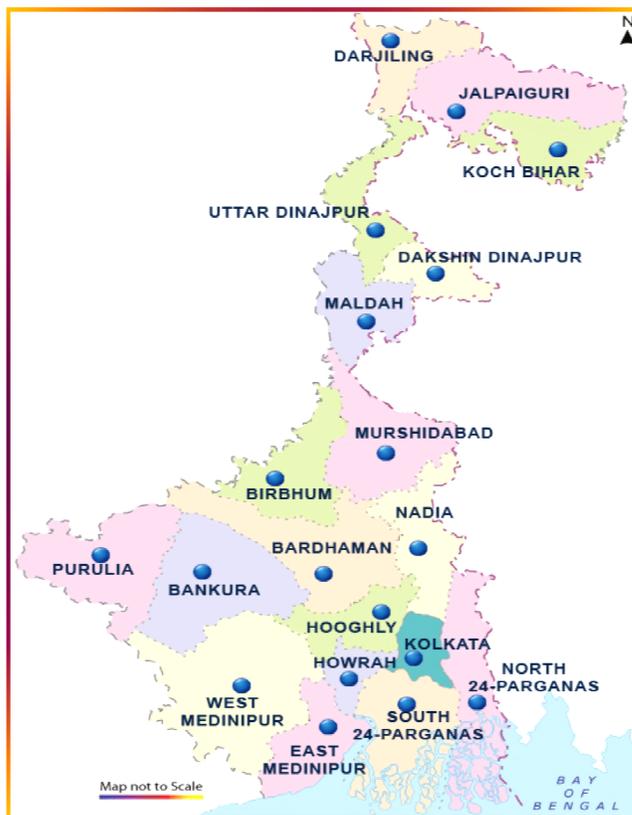
political instability, lack of pro-investment attitude of the Govt., controversial land acquisition policy West Bengal could not make significant progress in large scale industries. The MSMEs have immense potential in West Bengal and can be an effective way to reduce excessive pressure on agriculture. The current industrial policy of West Bengal also recognizes the importance of the sector and the MSMEs are likely to play a pivotal role in industrial development of the state.

6.2 BASIC INFORMATION ABOUT WEST BENGAL

Location

West Bengal is situated at the centre of the eastern region of India strategically positioned three international frontiers like Bangladesh, Nepal and Bhutan. It shares its borders with Jharkhand, Bihar, Orissa and Assam. It is about 700 km from the Bay of Bengal in the south and has the Himalayas in the north. It covers a total area of 88752 sq. km which is about 3 percent of total area of India and total population of 913.48 lakh with population density of 1029 per square kilometer (**Provisional figures of 2011 census**)³⁰.

Fig 6.1: West Bengal Map



Source: <http://www.msmedikolkata.gov.in/districtprofile.html>³¹

West Bengal Economy

West Bengal is the sixth largest economy in the country after Maharashtra, Uttar Pradesh, Tamil Nadu, Andhra Pradesh and Gujarat. During 2011-12, the growth rate of per capita income in the state was 6.21 percent. During 2011-12, the growth rate of industrial production in West Bengal is 1.8 percent compared to 2.8 percent growth rate at the national level and the growth rate of Net State Domestic Product (NSDP) in West Bengal is 6.66 percent against 6.48 percent growth of Gross Domestic Product (GDP) in India (**Economic Review of West Bengal, 2011-12**)²¹.

Policies for MSMEs

The Industrial Policy of West Bengal, 1994 was framed to achieve balanced economic growth through the active participation of private sector as per the concept of mixed economy. The major highlights of the policy were change in attitude towards the private sector and allowing the sector to invest into govt. projects on mutually advantageous terms and also permitting appropriate foreign technology and investment.

The Investment and Industrial Policy of West Bengal, 2013 is formulated to propel West Bengal into the uppermost orbit of the investment destinations in the country for investors and to enhance the share of industrial sector in the state's GDP, to make focused effort on sustainable development of MSMEs with special emphasis in food processing and agro, textiles & apparel, leather and handicrafts and tourism sectors which offer maximum linkage for employment generation, to promote private sector investment in green field projects, brown field projects and through Public Private Partnership (PPP) projects, to promote inclusive development by encouraging local entrepreneurship, especially among socially and economically disadvantaged groups and to create convergence of schemes for the growth of MSMEs and provide financial, technological and other supports to smaller enterprises of women, youth, minorities and first generation entrepreneurs (**Investment and Industrial Policy of West Bengal, 2013**)²².

In order to protect and promote small and medium scale enterprises, a number of investment and promotional policies have been adopted by the State Government. These include industrial extension services, institutional credit facilities, provision for construction of sheds and training facilities, supply of machinery on hire-purchase terms, assistance for domestic marketing and exports, special incentives for setting up enterprises in backward areas, technical consultancy and financial assistance for technological upgradation etc.

6.3 MAJOR MSMEs IN WEST BENGAL

Handlooms

The State is famous worldwide for its amazing handlooms. Tangail, Dhonekhali, Sanatipur and Begumpuri are the popular styles of Bengal handlooms but Jamdani is still considered the undisputed queen of the range. Its original version, known as the Dacca Jamdani is produced in Navdeep and Dhattigarm. One can distinguish this form of Jamdani by its fine texture that resembles muslin and its elaborate ornate workmanship. The Kantha embroidery designs of the state woven by the village woman on a single piece covered with intricate folk motifs is famous all over the globe. The skilled weavers of Shantipur, Phulia, Dhatigram produce finely woven textiles known as muslin the origin of which can be traced back during the Mughal rule (Gupta and Mukherjee, 2006)²⁹.

The cooperative concept was introduced in handloom sector to help the poor weavers to obtain raw material, credit support and training. With the introduction of reforms measure in Indian economy, this sector faces a tough competition in the market and suffers from high rate of industrial sickness because of infrastructural bottlenecks, poor financial support, inadequate marketing ability etc. It must ensure production of high quality fabric of contemporary design to survive in the market.

Table: 6.1 Handloom Industry in West Bengal

Particulars	Unit	2000-01	2001-02	2007-08	2008-09	2009-10	2010-11
Production of Handloom Cloths	Million Metres	679	650.00	921.20	902.78	893.76	862.08
Handlooms Co-operative Societies	Number	2203	2203	2199	2213	2214	2214
Sales Turnover of WBSHWCS**	Rs. Crores	50.65	48.89	31.00	40.00	49.00	53.30
Sales Turnover of WBH&PC***	Do	48.35	33.46	*	*	*	*

Source: 1) Directorate of Handloom and Textile, Govt. of West Bengal, 2011-12¹⁵ 2)

Economic Review, Govt. of West Bengal, 2011-12²¹

Notes: *Figures are not available as the organization is under liquidation

**WBSHWCS refers to West Bengal State Handlooms Weavers Co-operative Society Ltd.

***WBH&PC refers to West Bengal Handloom & Power loom Development Corporation

As Table 6.1 shows, Handloom sector has registered a production of 862.08 million Meters of handlooms cloth and sales turnover of Rs.53 crores in 2010-11. production of handloom cloths and Sales Turnover of West Bengal State Handlooms Weavers Co-operative Society Ltd.have registered a growth rate of about 27 percent and only 5 percent respectively from 2000-01 to 2010-11. There is no significant growth in Handlooms Co-operative Societies during the same period. West Bengal Handloom & Power loom Development Corporation was liquidated. Thus, the overall performance of West Bengal handloom sector is below par during the globalisation period.

The Govt. has introduced some of the vital schemes like Din Dayal Hathkargha Protsahan Yojana (DDHPY) and Development of Exportable Products and Marketing (DEPM) etc for betterment of the sector. Handloom Cluster Development Programme and Promotion of Silk Weaving and Production of Diversified Silk Fabrics are the few major projects taken up by the West Bengal Govt. to promote the sector.

6.3.2 Sericulture

The traditional silk industry is one of the most vital cottage industries in West Bengal. Four types of silk namely mulberry, tasar, eri and muga are produced in West Bengal. It requires less investment and can be grown three to four times a year in almost in all types of soils.

Table 6.2: Sericulture Industry in West Bengal

Particulars	1990-91	2000-01	2007-08	2008-09	2009-10	2010-11	2011-12 (Nov.11)
Production of Mulberry Silk (lakhkgs.)	8.29	10.50	16.60	17.59	17.90	18.85	8.05
Production of Tasar Silk (lakhkgs.)	0.16	0.15	0.30	0.31	0.36	0.41	0.23

Production of Eri Silk (lakhkgs.)	0.11	0.06	0.10	0.11	0.08	0.06	0.02
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Source: 1) Directorate of Sericulture, Government of West Bengal, 2011-12 ^{1/2}) Economic Review, Govt. of West Bengal, 2011-12²¹

West Bengal has registered 18.85 lakh kg production of Mulberry Silk, 0.41 lakh kg production of Tasar Silk and 0.06 lakh kg of Eri silk production in 2010-11. Production of Mulberry and Tasar shows an increasing trend from 2007-08 to 2010-11 while production of Eri silk shows a falling trend in 2009-10 and 2010-11.

The Govt. has taken several steps for Sericulture Industries like establishment of a separate directorate called Directorate of Sericulture for this sector, hybridization of mulberry seeds, cluster area development programmes for tasar, muga and eri types of silk, encouraging the production of rough-textured raw silk material as well as reviving the conventional silk production with the industrial resuscitation funds, providing raw technology and proper training to the workers etc (**Economic Review of West Bengal, 2009-10**)²⁰.

Leather Industry

West Bengal is a key player in leather industry in terms of production of value added leather products and export. The state has about 600 tanneries with capacity of 800 tonnes of materials per day. Kolkata, second most vital tanning centre (after Tamilnadu) accounts for around 25 percent of tanning in India. About 95 percent of the leather firms in West Bengal are micro and small enterprises. Raw materials for leather industry are easily available as the best quality of blue goat skin is widely available in West Bengal. Moreover, the state Govt. provides additional incentives and fiscal benefits for leather industries. West Bengal is the largest exporter of leather goods and leather gloves comprising of 53 percent and 89 percent of total export of the country (**WBIDC Report on Leather Industries, 2010-11**)²⁵.

One of the major steps taken by the state govt. is the establishment of Calcutta Leather Complex (CLC). It is situated at Bantala, 14 kilometers away from Kolkata covering more than 450 hectares having a capacity of more than 1000 tonnes of hides per day. This complex houses the leather industries at the same campus which were earlier decentralised. This park enables the firms to get the cluster benefits and also solves the pollution issues associated with the leather industries.

Financial incentives include capital investment subsidy, employment generation subsidy and reimbursement of stamp duty and registration fees. The leather units are given modern technology support through the Tannery Modernisation Scheme run by the state govt.

Electronic and IT Sector

Among the new generation entrepreneurs, IT sector has emerged as a popular section in West Bengal because of easy availability of computer parts, skilled workers, software development, increase in computer literacy among common people etc. To ensure easy operation of such industries, registration process has been simplified and DICs are allowed to make registration.

The state govt. has decided to build 26 IT parks in West Bengal by 2014 with an estimated investment of Rs.520 crores to generate 26,000 direct and 1,56,000 indirect employment (**Investment and Industrial Policy of West Bengal, 2013**)²².

Food Processing Industry

The main significance of the sector is its capacity to generate employment. The multiplier effect of investment in Food Processing Industry on employment generation is 2.5 times than in other industrial sectors. This sector has created 2.71 lakh employments in West Bengal and has registered a average growth of 21 percent in 2010-11 (**WBIDC Report, 2010-11**)²⁵. The major food parks are situated in Maldah, Sankrail, Chakgaria (South 24 Parganas), Shankarpur (PurbaMedinipur), Sultanpur (South 24 Parganas) etc. Cold-chaininfrastructure has been set up in North 24-Parganas, Howrah and PaschimMidnapore.

The state govt. encourages initiates from private sector, joint sector to set up food parks to ensure best utilisation of common required facilities like water and electricity supply, cold storage and godown facilities, quality control measures etc. However, the sector suffers from some major constraints like low productivity and high wastage, use of outdated technology in the production process, poor grading, branding and standardisation of products and inadequate supply of credit by banks and other financial institutions.

Handicrafts Industry

Traditionally, West Bengal has witnessed good concentration of handicraft industries and the products are in good demand in national and international markets. This has created a good employment opportunity for rural unemployed youth. Almost all the districts of the state produce some unique handicraft item. Darjeeling is known for its hill crafts and painting, Jalpaiguri for cane work, Cooch Behar for sitalpati, DakshinDinajpur for dokra, Uttar Dinajpur for terracotta,

Malda for brass and bell metal, Murshidabad for sandal-wood carving and Bankura for terracotta, stone carving, dokra, wood carving etc (Sau, Sachinanandan, 2005)³⁸.

6.4 PERFORMANCE OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN WEST BENGAL

The performance of MSMEs in West Bengal has been analysed with respect to two parameters (Number of registered units and employment) from 1990-91 to 2010-11. Average Growth Annual Rate (AAGR) has been used as the major statistical tool to appraise the performance. AAGR has been calculated with Excel worksheet using LOGEST Worksheet Function (Rumelt, 2000)³⁷.

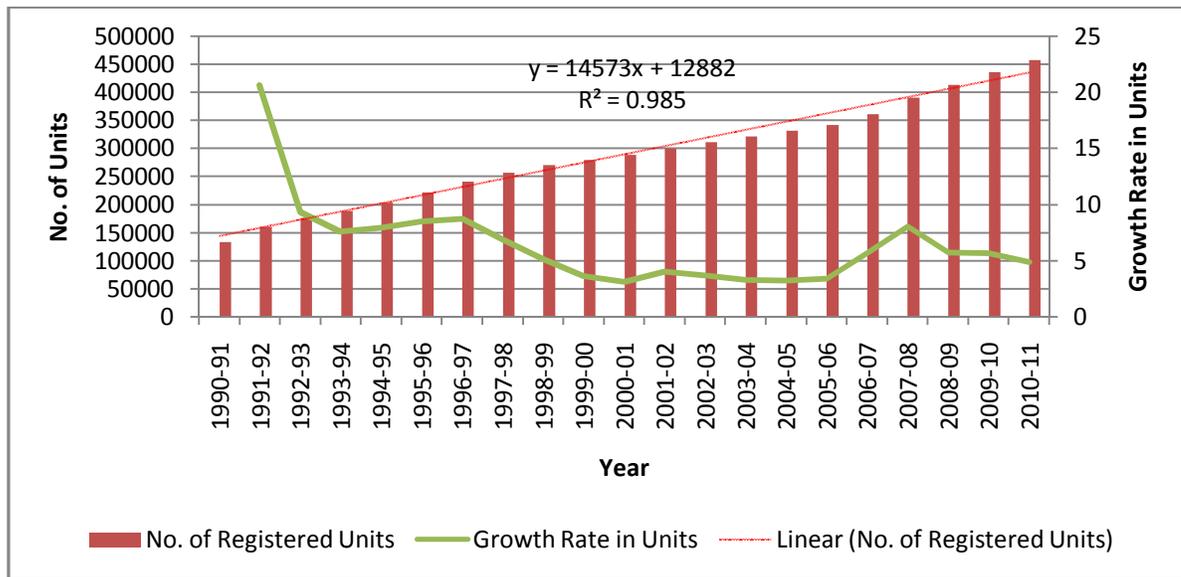
Table 6.3: Number of Registered MSMEs from 1990-91 to 2010-11

Year	Registered Units (Number)*	Growth Rate (%)
1990-91	132972	
1991-92	160406	20.63
1992-93	175329	9.30
1993-94	188546	7.54
1994-95	203492	7.93
1995-96	220738	8.48
1996-97	239984	8.72
1997-98	256343	6.82
1998-99	269499	5.13
1999-00	279219	3.61
2000-01	287823	3.08
2001-02	299256	3.97
2002-03	310195	3.66
2003-04	320309	3.26
2004-05	330543	3.19
2005-06	341737	3.39
2006-07+	361051	5.65
2007-08+	389968	8.00
2008-09+	412200	5.70
2009-10+	435356	5.62
2010-11+	456518	4.86
AAGR	5.49	

Source: 1) Statistical Handbook, Government of West Bengal, 2011²⁴ 2) Directorate of Micro & Small Scale Enterprises, Govt. of West Bengal, 2011-12¹⁶

Notes: 1) * Cumulative total 2) + Including both Entrepreneurship Memorandum (Proposed and Established) units from 2007 onward.

Fig 6.2: No. of MSME Units and Growth Rate from 1990-91 to 2010-11



Source: Same as Table 6.3

Analysis: The number of units registered from 1990-91 to 2010-11 shows an increasing trend in absolute figure. However, year wise growth rate shows a fluctuating trend from 1992-93 to 1998-99. From 1999-00 to 2005-06, the growth rate remained almost the same. From 2006-07, the growth rate is comparatively high due to including both proposed (EM-I) and established (EM II) units. The trend line slopes upward and the high value of R^2 (98%) depicts that the line has been properly fitted. The Average Annual Growth Rate over the period is 5.49 compared to 10.12 percent growth in India. Year Wise growth rate shows a declining trend. Thus, the performance of MSMEs in terms of number of units is not satisfactory during the post reforms period (Lahiri, Rajib 2014)¹¹.

Table: 6.4 Employment in Registered MSMEs from 1990-91 to 2010-11

Year	Employment *(Number)	Growth Rate (%)
1990-91	817862	-----
1991-92	968690	18.44
1992-93	1052561	8.66
1993-94	1128596	7.22
1994-95	1210001	7.21
1995-96	1312333	8.46
1996-97	1429350	8.92
1997-98	1528045	6.90
1998-99	1604678	5.02

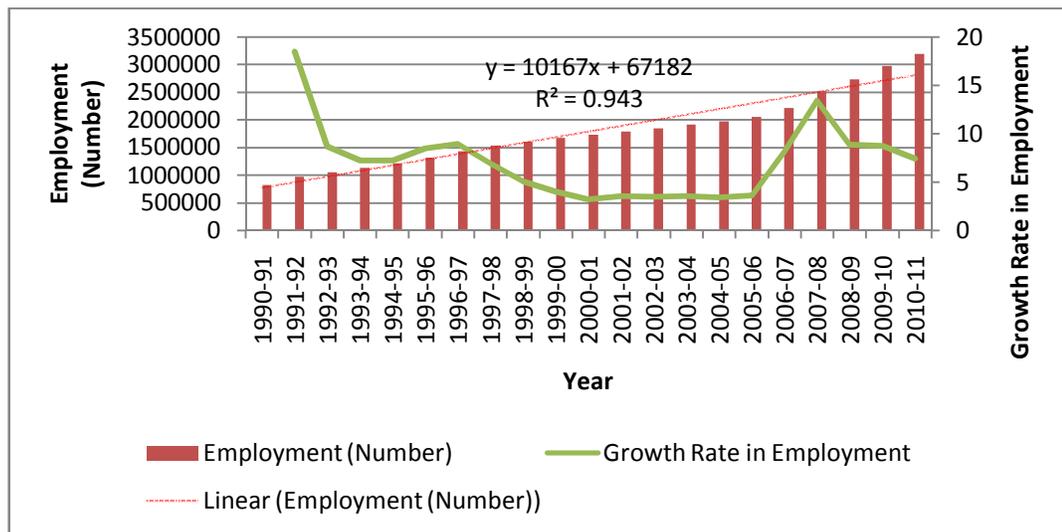
1999-00	1668831	3.99
2000-01	1722083	3.19
2001-02	1782736	3.52
2002-03	1844082	3.44
2003-04	1909216	3.53
2004-05	1973407	3.37
2005-06	2044629	3.61
2006-07+	2210959	8.13
2007-08+	2506208	13.35
2008-09+	2728235	8.86
2009-10+	2966260	8.72
2010-11+	3186051	7.41
AAGR	6.019	

Source: Same as Table 6.3

Notes: 1) * Cumulative total

2) + Including employment of EM I (proposed) and EM II (established) units from 2007 onwards

Fig 6.3: Employment and its Growth Rate in MSMEs from 1990-91 to 2010-11



Source: Same as Table 6.3

Analysis: The employment generated by the MSMEs from 1990-91 to 2010-11 shows an increasing trend in absolute figure. However, year wise growth rate shows declining trend from 1990-91 to 2000-01(except 1995-96 and 1996-97). From 2000-01 to 2005-06, the growth rate remains almost the same. In 2007-08, it is significantly high (13.35 percent) due to introduction of MSMED Act, 2006 and after that starts falling. From 2006-07 onwards, the employment figure includes both employment of proposed (EM I) and established (EM II) units. The trend

line slopes upward and the R^2 (94%) suggests that the trend line has explained the employment quite well. The Average Annual Growth Rate over the period is 6.019 compared to 9.81 percent growth in India. Thus, in terms of growth rate, the performance of West Bengal MSMEs in employment generation has not been satisfactory (Lahiri, Rajib 2014)¹¹.

Our Observation: Data on number of MSME units and employment published by the West Bengal Govt. creates some serious confusion as it includes data for both EM-1(Proposed) and EM-II (Established) units since 2006-07. Entrepreneurs Memorandum Part-I (EM-I) refers to the proposals received by the DIC_s from the prospective entrepreneurs and only a small percentage of such proposals can actually start real business operation within two years and submit Entrepreneurs Memorandum Part-II (EM-II). Thus, the number of units and employment for the units submitting EM-II is far less than the units submitted EM-I. EM-II, however, shows the real situation and should be included in official data. Inclusion of both EM-I and EM-II may result in double recording of number of units and employment. However, it artificially improves the statistics for MSMEs in West Bengal. The official data does not show the real scenario and the performance of MSMEs in West Bengal may be worse than revealed by the records.

Changes in Registration Process

With the introduction of Micro, Small and Medium Enterprise Development Act, 2006 system of registration of MSMEs has undergone some changes. As per the provisions of the Act, all MSMEs are required to file Entrepreneurs Memorandum Part-I (EM-I) at the respective District Industries Centres (DICs). If the proposed unit is able to start its operation within two years, it can submit EM-II and get registered.

Table 6.5: MSME Units registered (EM-II) and Corresponding Employment from 2006-07 to 2011-12

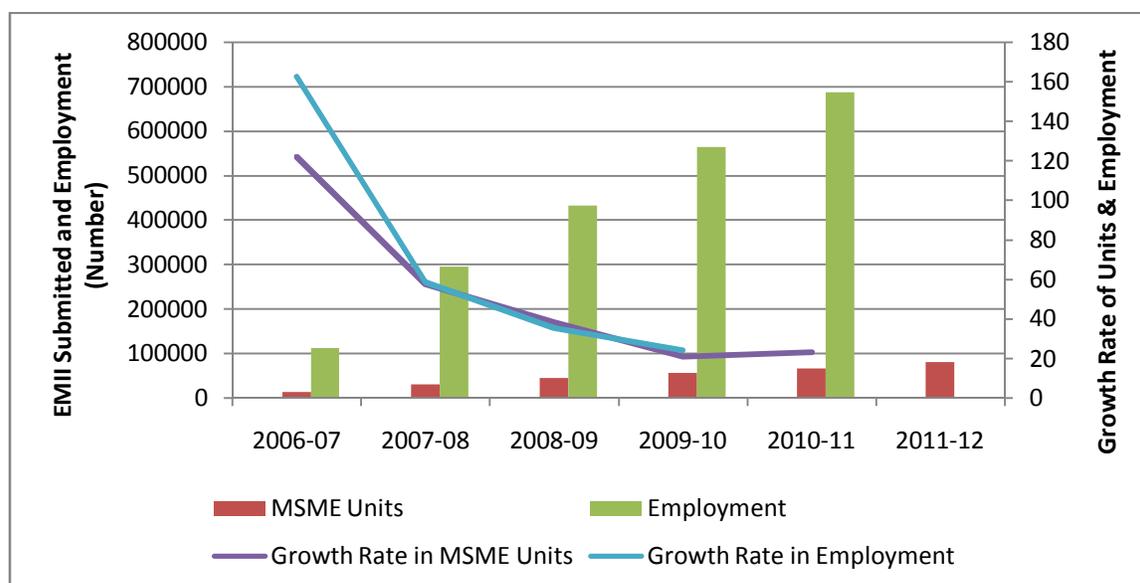
Year	Units Registered (EM-II) (Number)						Employment (Number)		
	Micro	Small	Medium	Total EM II during the year	Cumulative Total	Growth Rate (%)	Employment during the year	Cumulative Total	Growth Rate (%)
2006-07	NA	NA	NA	14454*	14454	-----	112790	112790	-----
2007-08	16510	1108	0	17618	32072	121.89	183329	296119	162.54
2008-09	12470	945	13	13428	45500	57.65	137150	433269	58.59
2009-10	10934	734	17	11685	57185	38.22	131669	564938	35.47
2010-11	9405	595	10	10109	67294	20.89	121944	686882	24.25
2011-12	12736	723	11	13470	80764	23.02	NA**	NA	NA
Total				80764			686882		

Source: Annual Report, Ministry of Micro, Small and Medium Enterprise, 2012-13¹⁸

Note: * Data regarding individual break up of Micro, Small and Medium is not available.

** Data on employment in 2011-12 is not available.

Fig 6.4: No. of MSME units, Employment and their Growth Rates



Source: Same as Table 6.5

Analysis: Figure 6.4 presents the position of MSMEs in West Bengal in terms of number of units, employment and their growth rates after the change in registration process initiated by the MSMED Act, 2006. Except 2007-08, growth rates for both number of MSME units and employment show a clear declining trend. Growth rate in 2007-08 is abnormally high because in 2006-07 the change in registration process was implemented. This poor performance of West Bengal MSMEs may be attributed to poor awareness about registration and existence of bigunorganised sector of micro and small enterprises. As per the Fourth All India Census of MSMEs in Unorganised sector 2006-07, West Bengal is in the second position (next to Uttar Pradesh) in India in terms of share of MSMEs in unorganised sector (10.47 percent). The units in unorganised sector must be motivated to get registered.

6.5 APPRAISAL OF PROMOTIONAL MEASURES FOR THE MSMEs

West Bengal Incentive Scheme (WBIS-2007)

With effect from 1.4.2007, the Govt. of West Bengal introduced a new policy package called West Bengal Incentive Scheme (WBIS-2007) to promote MSEs through subsidy in fixed capital investment in Plant & Machinery, interest subsidy, refund of stamp duty and registration, subsidy for the use of piped gas and incentive for patent registration. The MSMEs belonging to private sector, cooperative sector, joint sector as also companies/undertakings owned and managed by the State Government and the Industrial SHGs are covered by the scheme. However, such facilities would be available only to the registered MSMEs.

Quality Marking Scheme (QMS)

The Quality Marking Scheme (QMS) is a marketing support initiative for the small enterprises to ensure that the products of SSI units correspond to the quality and standardisation norms. The QMS cell acts as the inspecting authority to judge the quality of products through random inspection of member units and testing the samples and to monitor the value of QMS certified goods sold (www.mssewb.org)³².

Design Clinic Scheme under NMCP, Govt. of India

This scheme is introduced for providing design assistance under the Design Awareness Programmes for small industries and handicraft sectors during 11th Five Year Plan (www.dsmsme.gov.in)³⁹. The National Institute of Design (NID) under the Ministry of Commerce & Industries acts as the nodal agency for carrying out the scheme. As per the scheme proposal, 75%

of the proposed designing expenses are borne by the Govt. of India and the State Govt. has to bear the balance 25% of the amount ([www. mssewb.org](http://www.mssewb.org))³².

Filing E-Return Scheme

West Bengal Govt. has introduced electronic submission of sales tax returns by the small and medium enterprises in 2011 to help the MSEs to obtain the online refund of Value Added Tax (VAT) via the electronic clearing schemes and ensure hassle free submission of return (**The Hindu, 25 July, 2011**)³⁴

Micro and Small Enterprises Cluster Development Programme (MSE-CDP)

The programme involves schemes for technology upgradation in clusters for a group of MSE units jointly organized by Micro, Small and Medium Enterprises Development Institute (MSME-DI) and the Government of West Bengal. This programme has been implemented in Kolkata cluster in the industries like leather gloves, rubber molded items, fan manufacturing and hosiery products.

Credit Linked Capital Subsidy Scheme (CLCSS)

The Scheme was started in October, 2000 for technology upgradation of MSMEs by installing new machinery and equipment for increasing productivity and quality of output. This is a Central Govt. controlled scheme and initiated by Small Industries Development Institute (SIDO) in West Bengal in leather products, IT, electronic industry and auto parts etc. The scheme provides 12 percent capital subsidy for introduction of proven technology in MSMEs ([www. mssewb.org](http://www.mssewb.org))³².

Scheme of Fund for Regeneration of Traditional Industries (SFURTI)

This scheme was initiated by the Ministry of MSMEs for promotion of traditional industries like khadi, village industries and coir through Khadi and Village Industries Commission (KVIC) and Coir Board since 2005-06. The traditional industries were benefitted through several sub-schemes like ‘Strengthening Infrastructure of Existing Weak Khadi Institutions and Assistance for Marketing Infrastructure’, ‘Work shed Scheme for Khadi Artisans’ and ‘Khadi Karigar Janashree BimaYojana’ besides a comprehensive ‘Khadi Reform and Development Programme’ implemented by KVIC as also the scheme of ‘Rejuvenation, Modernisation and Technological Upgradation of Coir Industry’ implemented by Coir Board. Rs.104 lakh, Rs. 86.09 lakh, Rs. 57.02 lakh and Rs. 19.03 lakhs have been provided to West Bengal for five industrial clusters (two khadi clusters, two village industries clusters and one coir industry cluster) in 2008-09, 2009-10, 2010-11 and 2011-12 respectively ([www. mssewb.org](http://www.mssewb.org))³².

6.6 MAJOR THREATS OF MSMEs IN WEST BENGAL

Lack of Institutional Credit

The MSMEs, especially the micro firms are not the most coveted field of investment for the banks and other financial institutes because of poor repayment record of the MSMEs, lack of collateral securities, improper maintenance of accounts, risky nature of operation, and high possibility of Non-performing Assets (NPA) etc (Lahiri, Rajib 2012)¹². This has become almost a legal formality for the banks to finance MSMEs. Poor credit availability reduces the capacity of the MSMEs in arranging working capital, investing in newer technologies or improving existing infrastructure. Organised financing is dependent on compliance of proper financial documenting like regular auditing, maintaining a balance sheet and having a good financial track record etc. Many small firms in West Bengal do not have a well developed accounting system. Also, Kolkata being a slow market, the gestation period between investing in technology and reaping returns from it is longer (Mukherjee, Prodipto, 2008)³⁶. As a result, businesses face problems in repaying the loan amount, which further reduces their scope for institutional borrowing.

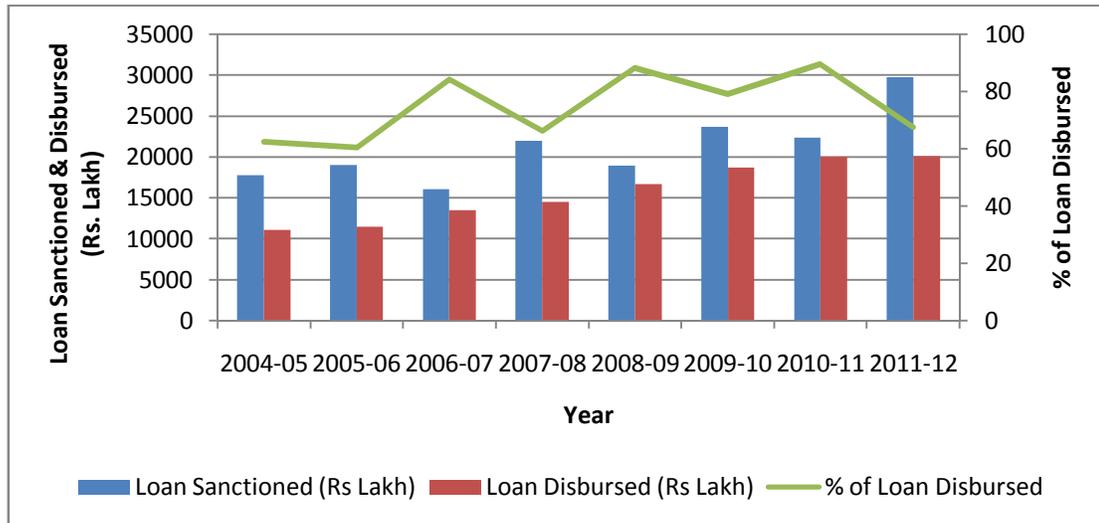
West Bengal finance corporation (WBFC) is a premier financial institution in West Bengal to cater the financial needs of the MSMEs. Since its establishment in 1954 as per State Financial Corporation Act, 1951, WBFC has been working in close coordination with the Government of West Bengal, the union government, the banks, and other financial institutions in the state and the central level. The following table shows the performance of WBFC in terms of sanction and disbursement of loan to the MSMEs.

Table 6.6: Performance of West Bengal Finance Corporation

Year	Loan Sanctioned (Rs Lakh)	Loan Disbursed (Rs Lakh)	% of Loan Disbursed
2004-05	17803	11098	62.34
2005-06	18996	11472	60.39
2006-07	16067	13525	84.18
2007-08	21955	14537	66.21
2008-09	18920	16668	88.09
2009-10	23637	18688	79.06
2010-11	22367	20022	89.52
2011-12	29761	20082	67.48

Source: Annual Report, West Bengal Financial corporation, Govt. of West Bengal, 2012-13¹⁹

Fig 6.5: Loan Sanctioned and Disbursed by West Bengal Finance Corporation



Source: Same as Table 6.6

The table 6.6 shows the performance analysis of West Bengal Finance Corporation from 2004-05 to 2011-12 in terms of loan sanctioned and loan disbursed. The loan sanctioned statistic in absolute figure shows an increasing trend except in 2006-07, 2008-09 and in 2010-11 while the loan disbursed shows an increasing trend throughout the period. The percentage of loan disbursed out of the sanctioned loans shows a fluctuating trend but it remains more than 60 percent every year. The average percentage of loan disbursed from 2004-05 to 2011-12 is about 74 percent. The above figure gives an impression that the loan sanctioned (Rs) is not sufficient though the percentage of loan disbursed is encouraging. The corporation must increase loan sanction both in number and value and maintain a high disbursement rate.

Marketability Problems

Marketing is probably the most neglected and less explored problem for micro and small firms. Most of them do not have any well formulated marketing strategy, market research programmes, and innovative advertisement techniques. They do not have adequate monetary support to develop marketing section and many are not aware of modern low-cost marketing techniques (blogging, sending mails, developing website for the company). Many MSMEs are not even aware of the fact that they have been suffering from marketing problems (Jha&Agarwal, 2010)⁹. Small enterprises require organised market infrastructure, exhibition of products at international level, efficient system of supply chain management, creation of brand equity and brand promotion and standardization of products (Pooja,2009)⁴. Successful marketing should be

based on determination of appropriate marketing mix and proper alignment of market in relation to target segment (Sengupta and Chottapadhyay, 2006)¹⁴. The MSMEs in West Bengal are deficient in these areas.

Concentration of MSMEs in urban areas

MSMEs especially the micro units can easily be located at the remote and industrially backward areas and play a vital role in reduction of regional disparity and promotion of balanced economic growth throughout the country. However, majority of MSMEs in West Bengal is located in urban area rather than being dispersed in the economically backward areas due to poor infrastructure and lack of business promotional facilities in rural and backward areas (Dutta, 2002)⁸.

Poor Entrepreneurship qualities

Entrepreneurship development is an essential component for strengthening MSMEs (Khanka, 1999)¹⁰. Barring some exceptions, Bengalis are not natural entrepreneurs. Usually they are risk averters. Given a choice, they would always prefer to do a job rather than doing a business. The service holders enjoy more social status than the businessmen in West Bengal. This social perspective acts as a burden in developing future business leaders. Moreover, training facilities, Finishing Schools for managers and Business Development Services are not adequately available in West Bengal (Awasthi and Pal, 2000)⁷.

Lack of skilled workers

West Bengal has ample supply of human resources but the proportion of skilled workers is significantly low. The skilled workers are high in demand and the big companies entice them with fat compensation package. The MSMEs have to operate with mediocre or unskilled workers which adversely affect their production quality and managerial ability. Traditionally, formal education is given more importance in West Bengal than technical education. The formal education is degree oriented and unable to satisfy needs of the industrial sector. The number of ITIs and other training schools are not in sufficient number in West Bengal (Biswas, Pradip, 2011)³.

Lack of Investment

Industrial development of a state is very much dependent on the pro-business attitude of the Govt. and creation of favourable and stable environment for industrial progress. This is one of the major reasons why some states make significant industrial progress while the others lag behind (**Kohli, 2006**)³⁵. West Bengal has not been the preferred destination for the big industrialists. Excessive political interference, failure of few major projects due to controversial land acquisition policy wrong message to the prospective investors and thwarted the industrial movement of the state (**Nielson, 2010**)¹³.

There have been several arguments from different corners regarding land acquisition policy. Given the fact that the density of population in West Bengal is the highest among the states in India (1029 per sq. kilometers as per the **provisional figures of 2011 census**)³⁰ and majority of people is dependent on agriculture, industrialisation is absolutely necessary. Given the scarcity of land in the state, the question of land for setting up new industries has naturally become a very debatable issue. Besides new industries, land is also required for urbanisation and diversification into different forms of non-agricultural economic activity. Some economists believe that the Govt. must not acquire the fertile land rather should form a land bank identifying non-fertile lands (**Nielson, 2010**)¹³. Some others are of the view that the land provided to the industrialists for setting up new companies must have good connectivity, markets, supply of labour etc. As the competition among the different states regarding attracting investment has increased considerably, the choice of Govt. regarding supply of land to industrialists is very limited. Thus, the issue has taken a very complicated shape. The Govt. must come out with a clear land policy and take strong position to prevent political interference, undue influence of trade unions, corruption.

Use of outdated technology

Majority of MSMEs, especially the micro units use outdated technology which reduces quality and quantity of production and generates low income jobs by the MSMEs. Technological upgradation would enable the small firms to create quality employment improving remuneration, duration and skill. This structural shift may reduce the rate of employment generation in the short run but would ensure high-income employment generation in the long run (**Bhavani, 2011**)². However, for infusion of advanced technology, it is important to determine the extent of new

technology the firm can handle as most of the workers do not have sufficient knowledge of using advanced technology.

6.7 CONCLUSION

Developing economy with dynamic MSME sector requires innovative strategies relating to credit delivery mechanisms, sufficient infrastructural facilities, adequate supply of raw materials and skilled human resources. The performance of MSMEs in West Bengal is not satisfactory during post liberalisation period as Average Annual Growth Rate (AAGR) of selected parameters shows poor results during post liberalisation period. The comparative performance analysis of West Bengal with the major industrially developed states like Maharashtra, Gujarat etc shows that the industrial downfall of West Bengal started after the economic reforms due to failure of the state to capitalise the opportunities and combat the challenges of globalisation properly (**Chakrabarti and Bose, 2009**)²⁷. However, the Govt. has given due importance to the MSMEs in its industrial policy and the sector has been identified as the strategic or key area for industrial development in West Bengal. Adequate infrastructural facilities like power, water, transport and communication services, research and technological facilities, political and economic stability, pro-business attitude of the Govt. and proper execution promotional policies will ensure long term growth for MSMEs in West Bengal.

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CHAPTER 7

EMPIRICAL STUDY ON THE MSMEs IN COOCH BEHAR DISTRICT

This chapter is an attempt to bring out the industrial scenario of Cooch Behar district in West Bengal. The chapter is divided into two sections. The first section carries out a comparative performance appraisal of the MSMEs in Cooch Behar during pre and post liberalisation period considering number of MSMEs and employment as the major parameters based on secondary data collected from the various issues of Annual Reports of West Bengal Govt. The second section is based on primary data collected from the sample MSMEs, District Industries Centre (DIC) and the banks which supply credit to the MSMEs in Cooch Behar. The period of study is from 2005-06 to 2011-12. The parameters namely average investment, average turnover and average employment have been considered to analyse the position of the MSMEs in Cooch Behar

SECTION I

7.1 HISTORICAL BACKGROUND

Cooch Behar, one of the districts of West Bengal, has a sound historical base. History reveals that the ancient territory of Kamrup played a role in the development of the present region of Cooch Behar. The Allahabad Pillar Inscription of the famous Gupta Emperor Samudragupta mentioned about the existence of the Kamrup territory in the 4th century AD. During the 15th century AD, the western part of Kamrup came under the control of the 'Khen' dynasty to usher a new kingdom there known as 'Kamta'. The present Cooch Behar owes its origin from this 'Kamta' land. The 'Khen' dynasty is noted for the kings of Niladhvaja, the founder of the dynasty, his son Chakradhvaja and grandson Nilambar (1473-98/99 AD). Some historians believe that the 'Koch' dynasty followed the lineage of Nilambar but the most widely accepted view holds that king Maharaja Viswa Singha established the independent 'Koch' kingdom in 1510 AD or 1530 AD (**Amanatulla,1936**)¹.

In the beginning, the capital of this kingdom was not static and became stable only when the same was shifted to Cooch Behar. The territory of Cooch Behar was known as 'Kamta' even during the period of Maharaja Viswa Singha and his son Maharaja Nara-Narayan. The Mughal

forces grabbed certain portion of the 'Kamta' kingdom in the middle of the 17th century AD which was ascribed as Cooch Behar in Badshanama, Shah-Jaha-nama and the Alamgirnama (Amanatulla,1936)¹. It seems that the 'Koch' kingdom was known as 'Kamta' even during the middle of the 17th century AD when the Koch kings like Maharaja Viswa Singh, Maharaja Nara Narayan and Maharaja Pran Narayan used the title 'Kamteswar' for themselves (Nath, 1989)⁴.

Before 28th August 1949, Cooch Behar was a Princely State ruled by the king of Cooch Behar, who had been a feudatory ruler under British Government. By an agreement dated 28th August, 1949 the king of Cooch Behar ceded full and extensive authority, jurisdiction and power of the state to the Dominion Government of India. Cooch Behar emerged as a new District of West Bengal with effect from 19th January, 1950 (Dakua, 2005)².

7.2 BRIEF PROFILE OF COOCH BEHAR DISTRICT

Cooch-Behar is one of the five districts of Jalpaiguri Division with an irregular triangle shape. The district lies between 25°57'40" and 26° 32'2" North latitude and between 88° 47'40" and 89° 54'3" East longitude. It occupies 12th position in the State in respect of its size covering a geographical area of 3387 square kilo-meters which contributes 3.82 percent of the land mass of West Bengal. The district is surrounded by Jalpaiguri District in the North, Goalpara District of Assam and Rangpur district of Bangladesh in the East and international boundary of Bangladesh in South and West. The main rivers of the district are Teesta, Torsa, Jaldhaka, Dharla, Mansai, Kaljani, Raidhak, Gadadhar and Sankosh. The climate of Cooch Behar is characterised by highly humid atmosphere and huge rainfall (annual average rainfall of 5348.8 mm). The forest of the district is an admixture of deciduous and evergreen trees with ample availability of hard and soft stem trees (Brief Industrial Profile of Cooch Behar, Ministry of MSME, 2012)¹².

Cooch Behar is one of the industrially backward districts in West Bengal. However, with the establishment of industrial park at Chakchaka and Haldia Down Stream Projects, some significant industrial activities have taken place in recent years. The district has rich heritage of handicraft industries and can acquire an excellent blend of traditional and modern industries.

Table 7.1:Cooch Behar District at a Glance

Geographical Area	3387 Sq. K.M.
Administrative Blocks	
Subdivision	05 Nos.
Panchayet Samities	12 Nos.
Nagar Palika	06 Nos.
Gram Panchayet	128 Nos.
Revenue Villages	1202 Nos.
Population	
Male	1453590 Nos. (2011)
Female	1369190 Nos. (2011)
Rural population	2533480 Nos. (2011)
Land	
Total Agricultural Area	250611 Hactor (2010-11)
Total Forest Cover	4256 Hactor (2010-11)
Non-Agricultural Land	69431 Hactor (2010-11)
Cultivable Barren Land	286 Hactor (2010-11)
Transport	
Railways	122 KM (2010-11)
National Highway	65 KM (2010-11)
State Highway	131 KM (2010-11)
Main District Highway	803 KM (2010-11)
Other district rural roads	376 KM (2010-11)
Banks	
Commercial Banks	127 Nos.
Co-operative Banks	04 Nos.
PLDB Branches	03 Nos.

Source: District Statistical Handbook of BAES & Economic Review, 2011-12,
Govt. of W.B.⁷

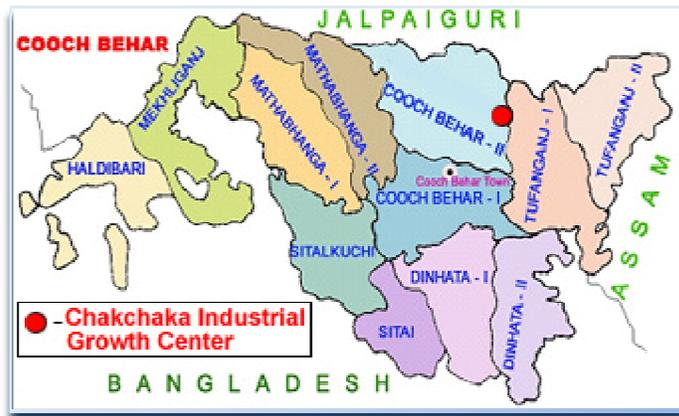
7.3 OVERVIEW OF MSMEs

The economy of Cooch Behar is based on agriculture. The area is industrially backward and agro-based food processing industries like jam, jelly, sauce & chips (supplemented mainly by the production of potato and tomato) etc. have very good prospects. Most of the MSMEs are micro enterprises and engaged in production of food, wood, metal, paper products etc. The latest servicing enterprises like cyber cafe, repairing and servicing of mobile phone, computers, TV, motor bike and the hospitality services viz. hotels, restaurants, nursing home, etc. are functioning well in the district and sub-divisional towns.

7.3.1 Industrial Park at Chakchaka

West Bengal Industrial Infrastructure Development Corporation (WBIIDC) has acquired 131 acres of land at Chakchaka at a distance of 4 KMs from the district town. The area is given a shape of industrial hub and is facilitated by uninterrupted power and water supply, integrated network of surface drainage, good telecommunication and good connectivity to market.

Fig 7.1: Cooch Behar Map



Source: [http:// www.coochbehar.nic.in](http://www.coochbehar.nic.in)¹⁴

The major industries present in the growth center are canned pineapple, flavored fruit juice, milk shake, fruit syrup, mustard oil mill, soya nuggets, bread and biscuits along with mosquito net cloth, pet bottle, electrical casing, conduit pipes, herbal oil, fertilizer and potato cold store. Most of the units have good market demand in North Eastern states mainly Assam because of good connectivity of Cooch Behar with lower Assam (<http:// www.coochbehar.nic.in>)¹⁴.

7.3.2 Handicrafts industries

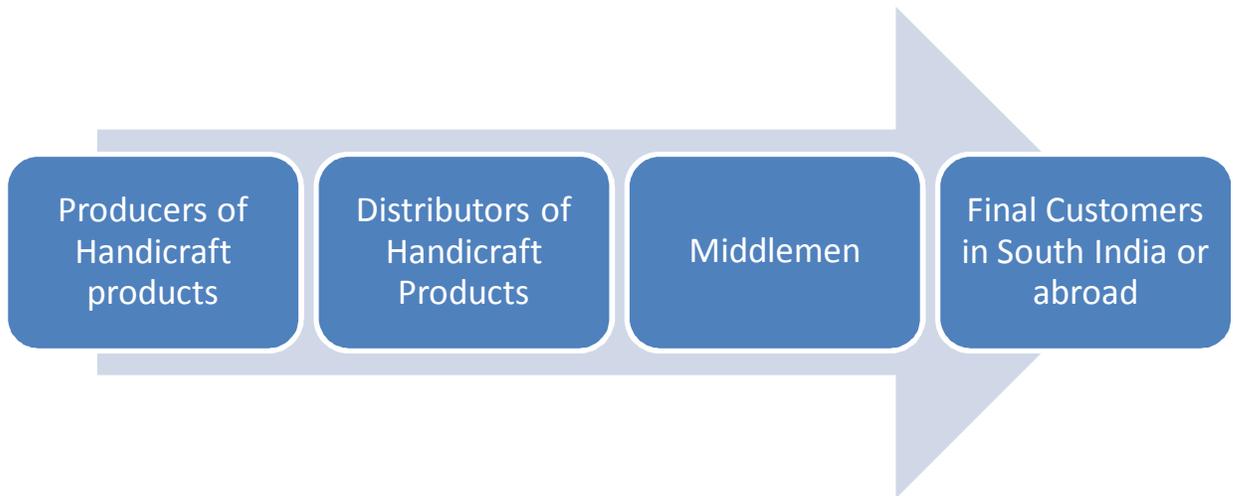
Cooch Behar is famous for handicrafts industries. Sitalpati, a kind of mat, is perhaps the most notable and popular product among the handicrafts. The word 'Sital-pati' means cool-mat. Sitalpati mats render a feeling of coolness (thus rendering the name 'Sital' or 'Sheetal') to the person sitting or sleeping on it and are intimately linked with everyday rural life (<http://www.coochbehar.nic.in>)¹⁴. Unlike other kinds of mat woven in Bengal, Sitalpati is more expensive. Barokodali, Ghughumari and Tufangunge in Cooch Behar district are the most important centers of Sitalpati. The green cane is kept soaking in water before it is slashed or sliced into thin strips for making the pati. Then the fine strips are woven by skillfully joining and interlacing to shape into beautiful mats. The quality of the Sitalpati mat is judged by its glossiness, smoothness and fineness of texture. It is said that the best kind of Sitalpati is so smooth that even a snake cannot glide over it (<http://www.coochbehar.nic.in>)¹⁴. The aesthetic appeal and utilitarian value of these mats have made them increasingly visible in large towns, metropolitan cities and even in USA and UK. However, the pati industry is facing tough competition due to rapid growth of plastic mats (**Cluster Observatory, Cooch Behar Sital Pati**)¹⁶.

Among the numerous different varieties of mats woven and used, the Madur, mat made from the "MadurKathi" reed that grows in the swampy area is another widely used household item. Many varieties of bamboo as well as cane are available in Cooch Behar. These are extensively used as handicrafts apart from building thatched houses in the rural areas. The cane is heated over a charcoal fire and then coiled together by the expert craftsmen giving the required shape, after which it is smoked carefully to make it insect and waterproof (<http://www.coochbehar.nic.in>)¹⁴. The other major products produced using pati are ladies bag, purse, wall hanging, sandals, mobile cover, make-up box etc.

The role of women workers is very significant in handicrafts industry as 90 percent of workers in Sheetal pati and Madur industry are female workers (**Sarkar, 2012**)⁵. The role of male workers is limited to supplying raw materials and taking the final product to the 'local pati hat' for selling. On average, a good quality pati requires seven to ten days to weave. The work involves a high degree of skill, concentration and perseverance. A majority of women workers engaged in pati industry suffer from back pain, eye problems and spondilites.

The distribution and marketing system of handicraft products are in extremely bad shape. There are three categories of people associated with pati industries. The first category includes the producers of handicraft products with comparatively low financial strength. The second category consists of the distributors of handicraft products. They have comparatively more financial strength. The third player in the system is the middlemen with huge financial capacity. The first category people i.e. the producers sell handicraft products to the second category i.e. the distributors at a very low price. The distributors take the products to the 'local pati hat' to sell those to the middlemen. The middlemen then sell the products at a high price in South India and even in foreign countries. Thus, the entire system benefits the middlemen who make huge profit with nominal investment. As revealed from the field survey, an average quality pati is sold by the producer to the distributor at Rs. 350 who sells it to the middlemen at Rs. 500. The middlemen sell those at an average price of Rs. 2000 or more in South India.

Fig 7.2: Marketing Channel of Handicraft Industries in Cooch Behar



Source: Prepared by the Researcher on the basis of Field Survey, 2013

7.4 PERFORMANCE ANALYSIS OF REGISTERED MSMEs IN COOCH BEHAR DISTRICT

A performance appraisal of the MSMEs in Cooch Behar has been conducted on the basis of number of registered MSMEs and employment generated by the MSMEs during the year from 1977-78 to 2011-12 using secondary data from the relevant issues of Economic Review and Statistical Abstracts published by the Govt. of West Bengal (**Lahiri, Rajib 2012**)³. The study is based on number of MSMEs registered and employment during the year as reliable information regarding district wise cumulative figures of registered MSMEs and employment was not available. The entire study period (1977-78 to 2011-12) has been divided into two parts; from 1977-78 to 1989-90 has been identified as pre liberalisation period and from 1990-91 to 2011-12 as post liberalisation period. The post liberalisation period is divided into two parts i.e. from 1990-91 to 2005-06 (period before introduction of Micro, Small and Medium Enterprises Development Act, 2006) and from 2006-07 to 2011-12 (period after introduction of MSME Act, 2006).

Table 7.2: Number of Registered SSI Units in Cooch Behar District from 1977-78 to 2005-06

Pre-Liberalisation Period			Post Liberalisation Period		
Year	*No. of Units	#Percentage Change	Year	*No. of Units	#Percentage Change
1977-78	302		1990-91	444	-1.55
1978-79	168	-44.37	1991-92	499	12.39
1979-80	341	102.98	1992-93	185	-62.93
1980-81	270	-20.82	1993-94	93	-49.73
1981-82	190	-29.63	1994-95	117	25.81
1982-83	242	27.37	1995-96	140	19.66
1983-84	241	-0.41	1996-97	247	76.43
1984-85	260	7.88	1997-98	245	-0.81
1985-86	349	34.23	1998-99	186	-24.08
1986-87	273	-21.78	1999-00	248	33.33
1987-88	504	84.62	2000-01	199	-19.76

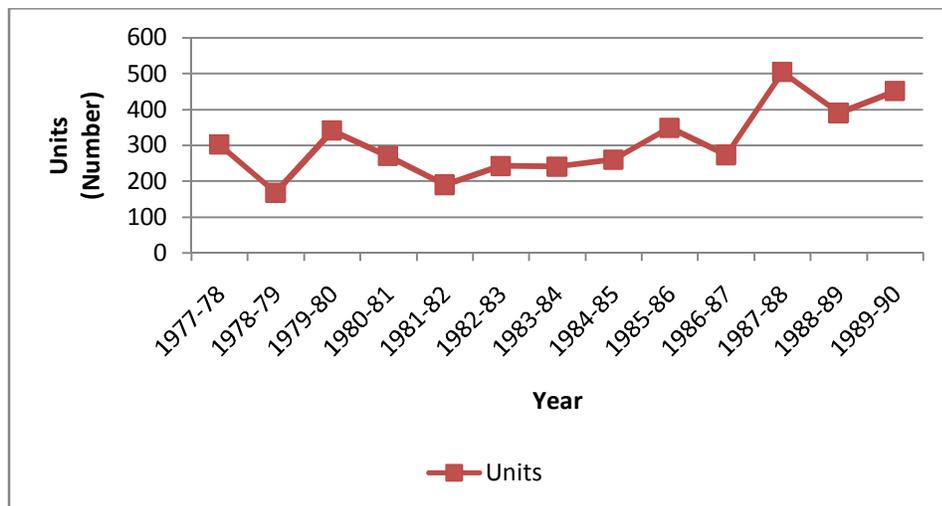
1988-89	390	-22.62	2001-02	183	-8.04
1989-90	451	15.64	2002-03	200	9.29
			2003-04	311	55.5
			2004-05	332	6.75
			2005-06	278	-16.27

Source: Statistical Abstract, Bureau of Applied Economics and Statistics, Govt. of West Bengal, 2005¹⁰

Note:

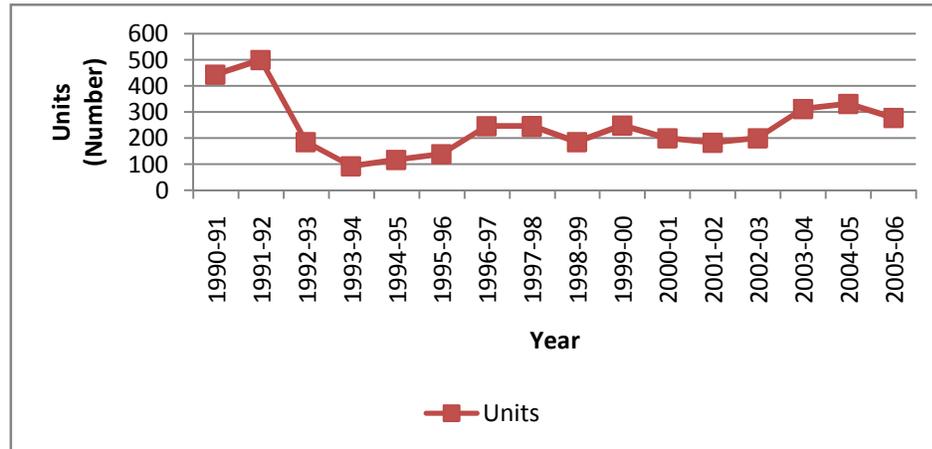
- 1)* No. of units refer to units registered during the year. The cumulative total of number of units was not available.
- 2) The data for the period up to 2005-06 is regarding Small Scale Industries (SSI). Subsequent to 2005-06, data with reference to Micro, Small and Medium Enterprises are compiled.
- 3) # Percentage change refers to change over the previous year

Figure 7.3: No. of Registered SSIs from 1977-78 to 1989-90



Source: Same as Table 7.2 Notes: Same as Table 7.2

Figure 7.4: No. of Registered SSIs from 1990-91 to 2005-06



Source: Same as Table 7.2 Notes: Same as Table 7.2

Analysis: The number of units registered during the year showed a fluctuating trend from 1977-78 to 1989-90. During post liberalization period, SSIs registered during the year showed a drastic fall from 1990-91 to 1993-94 (except 1991-92). After that, it showed an increasing trend except in 1997-98, 1998-99, 2000-01 and 2005-06.

Table 7.3: Employment in Registered SSIs in Cooch Behar District from 1977-78 to 2005-06

Pre-Liberalisation Period			Post Liberalisation Period		
Year	*Employment	#Percentage Change	Year	*Employment	#Percentage Change
1977-78	1072		1990-91	2003	-9.04
1978-79	595	-44.5	1991-92	1961	-2.1
1979-80	1289	116.64	1992-93	756	-61.45
1980-81	1562	21.18	1993-94	423	-44.05
1981-82	1041	-33.35	1994-95	375	-11.35
1982-83	2338	124.59	1995-96	628	67.47
1983-84	2219	-5.09	1996-97	1343	113.85
1984-85	1599	-27.94	1997-98	1210	-9.9
1985-86	1922	20.2	1998-99	1123	-7.19
1986-87	1289	-32.93	1999-00	1363	21.37

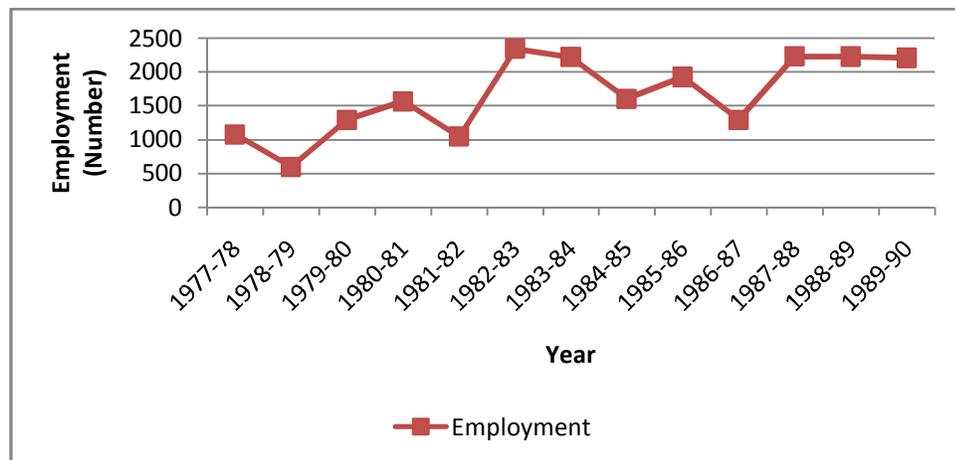
1987-88	2223	72.46	2000-01	1448	6.24
1988-89	2222	-0.04	2001-02	902	-37.71
1989-90	2202	-0.9	2002-03	1310	45.23
			2003-04	1992	52.06
			2004-05	1746	-12.35
			2005-06	1694	-2.98

Source: Statistical Abstract, Bureau of Applied Economics and Statistics, Govt. of West Bengal, 2005¹⁰

Note:

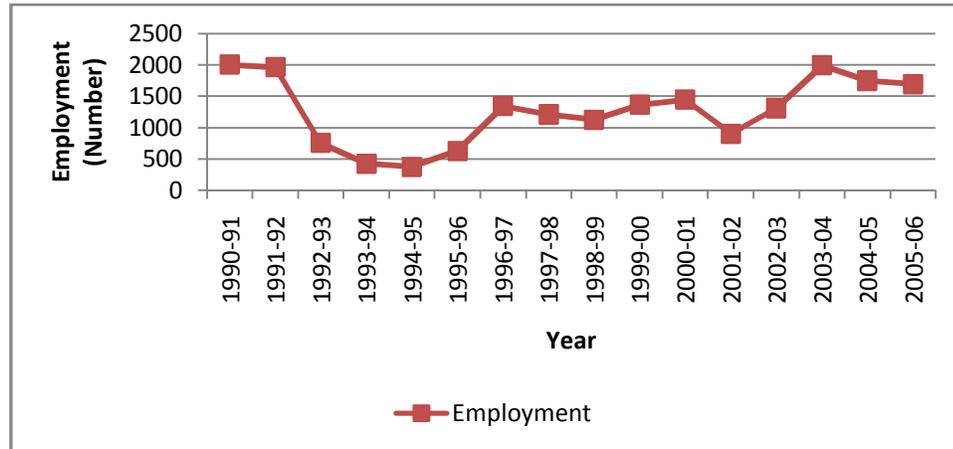
- 1)* Employment refers to employment generated by the MSMEs during the year. The cumulative total of number of units was not available.
- 2) The data for the period up to 2005-06 is Small Scale Industries (SSI). Subsequent to 2005-06, data with reference to Micro, Small and Medium Enterprises are compiled.
- 3) # Percentage change refers to change over the previous year

Figure 7.5: Employment in SSIs from 1977-78 to 1989-90



Source: Same as Table 7.3, Notes: Same as Table 7.3

Figure 7.6: Employment in SSIs from 1990-91 to 2005-06



Source: Same as Table 7.3, Notes: Same as Table 7.3

Analysis: Employment generation per year showed a declining trend from 1990-91 to 1994-95. This again indicates poor performance of SSIs during globalised regime. Except high growth rate in 1995-96, 1996-97, 2002-03 and 2003-04, it showed a declining trend in almost all other years. Thus, employment generation during the year in post reforms period is also not satisfactory.

Table 7.4: MSME Units registered (EM-II) and Corresponding Employment in Cooch Behar District from 2006-07 to 2010-11

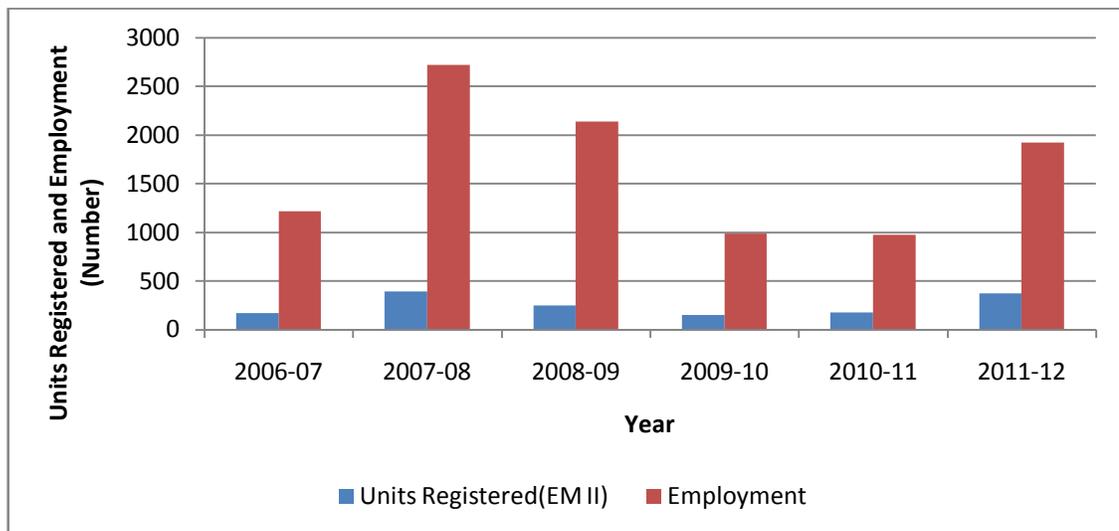
Year	Units Registered (EM-II***)				Employment
	Micro	Small	Medium	Total**	**Total
2006-07	NA	NA	NA	167*	1217
2007-08	384	6	0	390	2717
2008-09	243	5	0	248	2138
2009-10	151	1	0	152	986
2010-11	177	2	0	179	976
2011-12	366	4	0	370	1924
TOTAL				1506	9958

Source: Directorate of Micro & Small Scale Enterprises, Govt. of West Bengal, 2012-13⁹

Notes:

- 1) *Break up of MSMEs in Micro, Small and Medium Enterprises in 2006-07 is not available.
- 2) **Total number of units registered and total employment refer to registration during the year and employment generated by the MSMEs during the year.
- 3) *** EM stands for Entrepreneurship Memorandum.

Fig 7.7: Units Registered and Employment in Cooch Behar from 2006-07 to 2011-12



Source: Same as Table 7.4

The registration procedure of MSMEs was simplified with the introduction of Micro, Small and Medium Enterprises Development Act, 2006 (Discussed in Chapter 6). MSMEs finally registered i.e. submitted EM-II and employment generated by these from 2006-07 to 2011-12 show a fluctuating trend and from 2007-08 to 2009-10 show a diminishing trend. This might be due to lack of awareness about the new registration procedure introduced by the MSMED Act, 2006. However, from 2010-11 number of units registered and in 2011-12 employment generation shows a significant increase. This may be an indication that the entrepreneurs are getting more conscious about the importance of registration.

SECTION II

7.5 METHODOLOGY AND DATA SOURCE

This section tries to analyse the industrial scenario in Cooch Behar through collection of primary data from the sample MSMEs with the help of a well-structured questionnaire. To facilitate systematic performance appraisal of MSMEs, we have restricted to collection of data relating to three parameters namely Investment, Turnover and Employment of the sample MSMEs from 2005-06 to 2011-12. To analyse the financial scenario, two parameters namely percentage of sample MSMEs getting credit support from banks and percentage of their funds financed through bank credit have been considered. Henery Garrett's raking technique has been used to assign ranks of ten pre-determined problems faced by the MSMEs in Cooch Behar.

7.6 POPULATION AND SAMPLING

As per the data available from Cooch Behar DIC, 2012 there are about 1506 registered MSMEs. The list of such MSMEs is collected from Cooch Behar DIC. There are two segments of MSMEs viz. modern MSMEs consisting of micro and small units and handicraft industries consisting of mainly pati and shola industries. There is no medium scale industry in Cooch Behar as per the list of MSMEs supplied by DIC. It is evident from the list of industries that the modern MSMEs exist in the industrial park situated at Chackchaka, 4 K.M. away from district town and in Mathabhanga sub division. The other segment of industry, the handicrafts sector mainly centre on in Dhaluabari, Tufanguange, Nakkati Pushnadanga, Bhataguri etc. in Cooch Behar district. As it is not possible to survey each and every unit, it is decided to select 50 units of MSMEs using simple random sampling method consisting of 20 micro, 12 small and 18 handicrafts industries. The researcher has carried out the survey personally to all the selected samples to collect information regarding investment, production, sales, problems etc from the MSMEs.

7.7 PERIOD AND COVERAGE OF THE STUDY

The total span of the study is from 2005-06 to 2011-12 i.e. seven years. The survey has been conducted in two phases. In the first phase, the pilot survey was conducted during July 2012 and August 2012 to form preliminary idea about the industrial scenario in Cooch Behar. Based on the experience from the pilot survey, some modifications were made in the questionnaire to make the final survey more informative. The final survey was conducted in April 2013 and May 2013.

The study is restricted to only the units (Both MSMEs and Handicrafts) registered with Cooch Behar DIC.

7.8 PROFILE OF THE SAMPLE MSMEs

7.8.1 Education background, Gender and Age of the Sample MSME Entrepreneurs

As the table 7.5 shows, 62 percent of the sample entrepreneurs are graduate while 14 percent are senior secondary and 6 percent are secondary educated. The percentage of educated entrepreneurs is significantly high in Cooch Behar though none of sample entrepreneurs have any technical or managerial qualification.

The study shows significantly lower contribution of the women entrepreneurs as only 4 percent of the entrepreneurs are women. The women entrepreneurs and women workers are found only in food production industries and in handicraft sectors like sheetal pati, shola work etc.

Table 7.5: Education background, Gender and Age of the Sample MSME Entrepreneurs

SL No.	Basis	Educational Standards	No. of Entrepreneurs	Percentage
1	Education	Illiterate	05	10
		Primary	03	06
		Secondary	03	06
		Sr. Secondary	07	14
		Graduation	31	62
		Masters	01	02
		Total	50	100
2	Gender	Male	48	96
		Female	02	04
		Total	50	100
3	Age (in years)	20-30	05	10
		30-40	13	26
		40-50	22	44
		Above 50	10	20
		Total	50	100

Source: Field Survey, 2013

Majority of sample entrepreneurs (44 percent) are in the age group of 40-50 years followed by 26 percent and 20 percent in the age group of 30-40 and above 50 years. Thus, the socio-economic profile of MSME entrepreneurs shows that the majority of the entrepreneurs has good background of formal education and belongs to matured age group.

7.8.2 Category-wise distribution of the sample MSMEs

As per the data supplied by District Industries Centre (DIC), there are 1506 MSMEs in Cooch Behar out of which 582 are micro enterprises, 24 are small concerns and 900 are handicraft industries. However, the accurate number of handicraft units is not available. We have used the approximate figures of handicraft industries as suggested by Cooch Behar, DIC. As per DIC records, 2012 there is no medium scale industry in Cooch Behar. However, the field study shows that there are a few 'big' small firms which are on the verge medium enterprises.

Table 7.6: Category-wise distribution of the sample MSMEs

SL No.	Category	Total No. of MSMEs in Cooch Behar	No. of samples
1	Micro	582	20
	Small	24	12
2	Handicrafts	900	18
	TOTAL	1506	50

Source: 1) DIC, Cooch Behar, 2012 2) Field Survey, 2013

7.8.3 Period of Establishment of sample MSMEs

Most of the MSMEs in Cooch Behar (44 percent) are in operation for 5 to 10 years. Only 6 percent of industries have been operating for 15 to 20 years. 30 percent of industries are in existence for more than 20 years. All of those sample units are in handicraft sector mainly associated with sheetal pati industries. There are a few plywood industries those have been operating for more than 15 years. Thus, the micro and small enterprises are the recent endeavor with the establishment of Chackchaka Growth Centre.

Table 7.7: Period of Establishment of sample MSMEs

SL No.	Years	No. of Units	Percentage
1	Less than 5 Years	05	10
2	5-10 Years	22	44
3	10-15 Years	05	10
4	15-20 Years	03	06
5	More than 20 Years	15	30
	TOTAL	50	100

Source: Field Survey, 2013

7.8.4 Nature of operation of sample MSMEs

84 percent of sample MSMEs in Cooch Behar are sole proprietorship business and 16 percent is operated on partnership basis. There is no joint stock company or corporation.

Table 7.8: Nature of operation of sample MSMEs

SL No.	Nature of operation	No. of Units	Percentage
1	Sole Proprietorship	42	84
2	Partnership	08	16
3	Joint Stock Companies	NIL	NIL
4	Corporation	NIL	NIL
	TOTAL	50	100

Source: Field Survey, 2013

7.8.5 Types of sample MSMEs

The sample units are mostly food processing industries (34 percent) and handicraft industries (36 percent) followed by plywood industries (12 percent), chemical industries (12 percent) and paper industries (6 percent). As Cooch Behar is an agriculture based district, food processing industries have good prospect here and mostly situated at Chackchaka Growth Centre, Mathabhanga and Dinhata subdivision. Due to availability of forest resources, plywood industries have flourished in Mathabhanga subdivision. Cooch Behar has rich heritage of handicraft industries. These are situated mainly at Dhaluabari, Tufanguange, Dinhata etc.

Table 7.9: Types of sample MSMEs

SL No.	Types	No. of units	Percentage
1	Food Processing Industries	17	34
2	Plywood Industries	06	12
3	Paper Industries	03	6
4	Chemical Industries	06	12
5	Handicraft Industries	18	36
	TOTAL	50	100

Source: Field Survey, 2013

7.9 AVERAGE INVESTMENT AND AVERAGE EMPLOYMENT IN SAMPLE MICRO ENTERPRISES

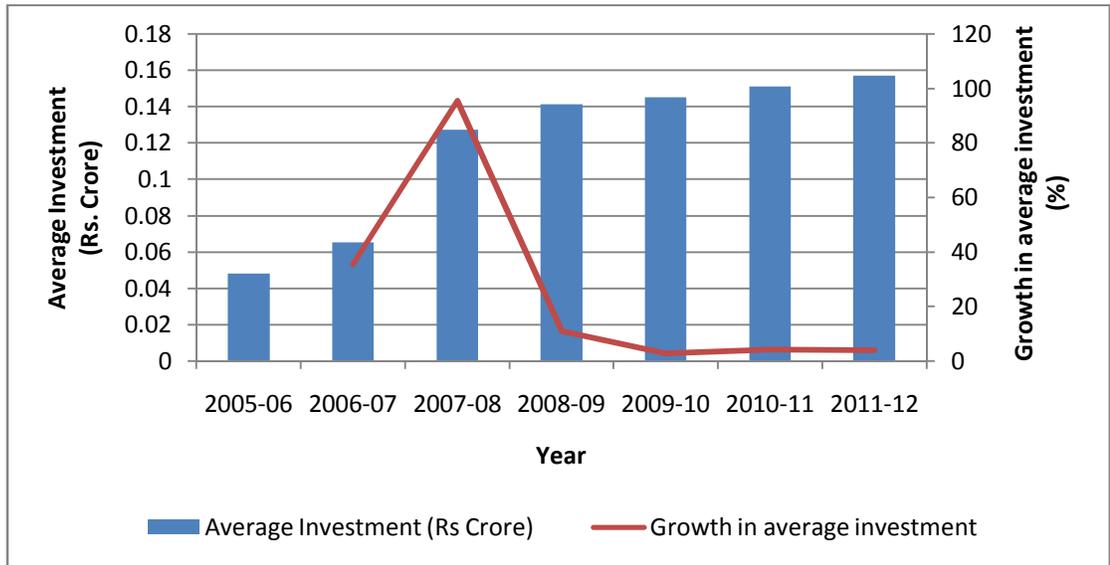
Table 7.10: Average Investment (Rs. Crore) and Average Employment (Number) in Sample Micro Enterprises

Year	Average Investment	Average Employment
2005-06	0.048	2
2006-07	0.065 (35.42)	2 (Nil)
2007-08	0.127 (95.38)	3 (50)
2008-09	0.141(11.02)	5 (66.67)
2009-10	0.145 (2.84)	6 (20)
2010-11	0.151(4.14)	6 (Nil)
2011-12	0.157 (3.97)	6 (Nil)

Source: Field Survey, 2013

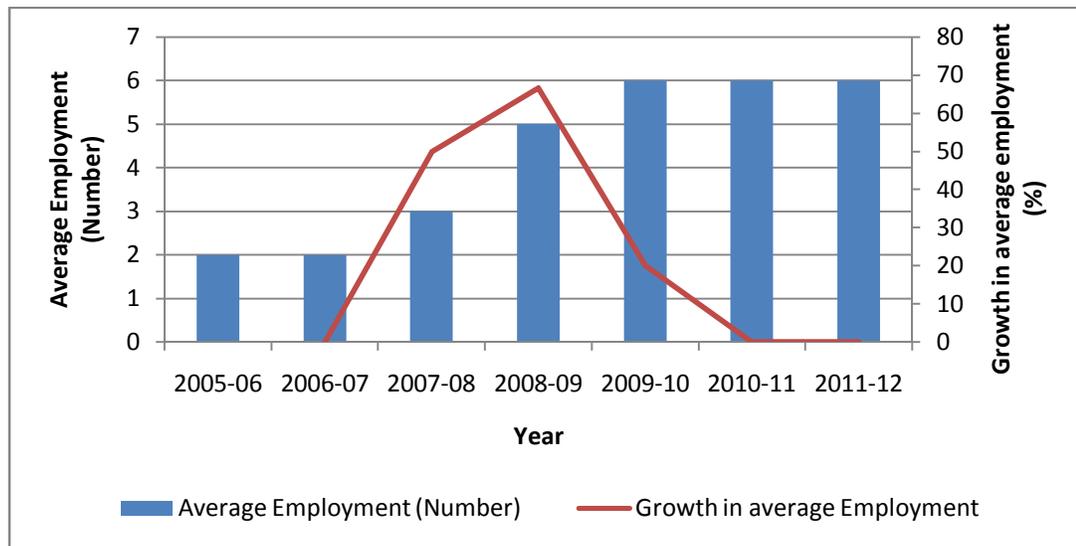
Note:1) Figures in parenthesis show percentage growth over the last year 2) Average Investment and Average Employment have been calculated on the basis of 20 sample micro, 12 sample small and 18 sample handicraft units.

Fig 7.8: Average Investment and Growth Rate in Investment in sample Micro Enterprises



Source: Field Survey, 2013

Fig 7.9: Average Employment and Growth Rate in Employment in sample Micro Enterprises



Source: Field Survey, 2013

Growth rate in average investment in micro units during 2005-06 to 2011-12 shows a fluctuating trend. The highest growth rate was observed in 2007-08 (95.38 percent) and the lowest in 2009-10 (2.84). Average investment in micro units has grown from Rs.0.048 crore in 2005-06 to 0.157 crore in 2011-12 i.e. 227 times. The growth trend in investment shows an increasing trend except in 2008-09, 2009-10 and 2011-12. Growth rate in average employment in micro units (calculated in terms of percentage over the last year) in Cooch Behar during 2005-06 to 2009-10 shows an increasing trend and after that, it remains the same. The highest growth rate was observed in 2008-09 (66.67 percent). Average employment has grown from 2005-06 to 2011-12 at a growth rate of 200 percent.

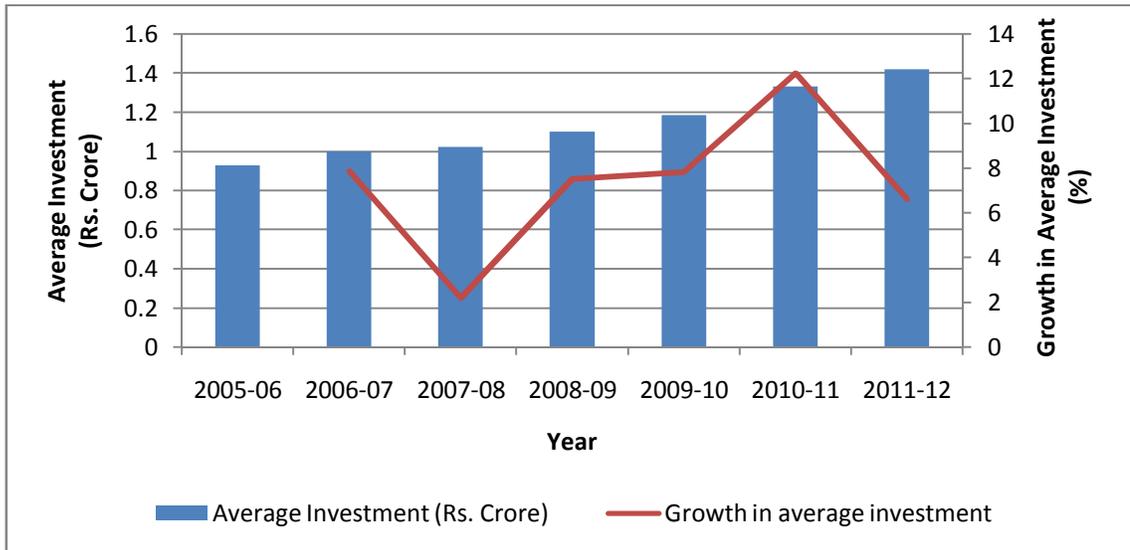
7.10 AVERAGE INVESTMENT AND AVERAGE EMPLOYMENT IN SAMPLE SMALL ENTERPRISES

Table 7.11: Average Investment (Rs. Crore) and Average Employment (Number) in sample Small Enterprises

Category	Average Investment	Average Employment
2005-06	0.927	25
2006-07	1.000 (7.87)	32 (28)
2007-08	1.022 (2.2)	34 (6.25)
2008-09	1.099 (7.53)	37 (8.82)
2009-10	1.185 (7.83)	37 (Nil)
2010-11	1.33 (12.24)	38 (2.70)
2011-12	1.418 (6.62)	38(Nil)

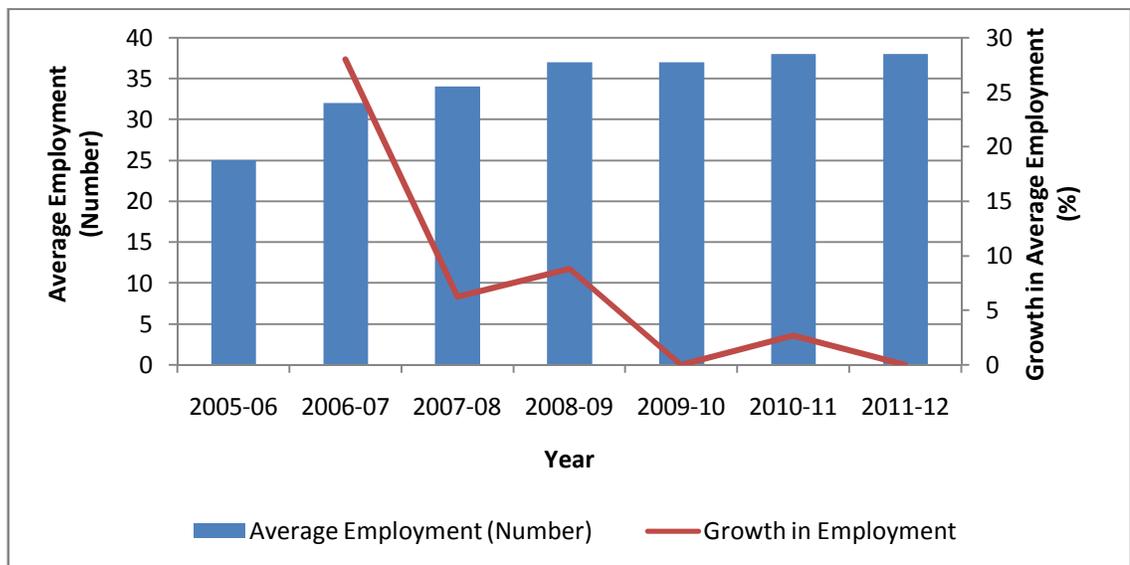
Source: Field Survey, 2013 Note: Same as Table 7.10

Fig 7.10: Average Investment and Growth Rate in Investment in sample Small Enterprises



Source: Field Survey, 2013

Fig 7.11: Average Employment and Growth Rate in Employment in sample Small Enterprises



Source: Field Survey, 2013

Growth rate in average investment in small enterprises shows an increasing trend except 2007-08 and 2011-12. The average investment increases from Rs.0.927 crore in 2005-06 to Rs. 1.418 Crore in 2011-12 resulting in overall growth rate of 52.96 percent during the study period. This

is considerably low compared to the overall growth rate of average investment in micro firms. It shows a growth rate of 7.53 percent in 2008-09, 7.83 percent in 2009-10 and 12.24 percent in 2010-11. However, the growth rate falls to 6.62 percent in 2011-12. Average employment in small units shows an increasing trend in absolute figure and no specific trend in terms of year wise growth rate.

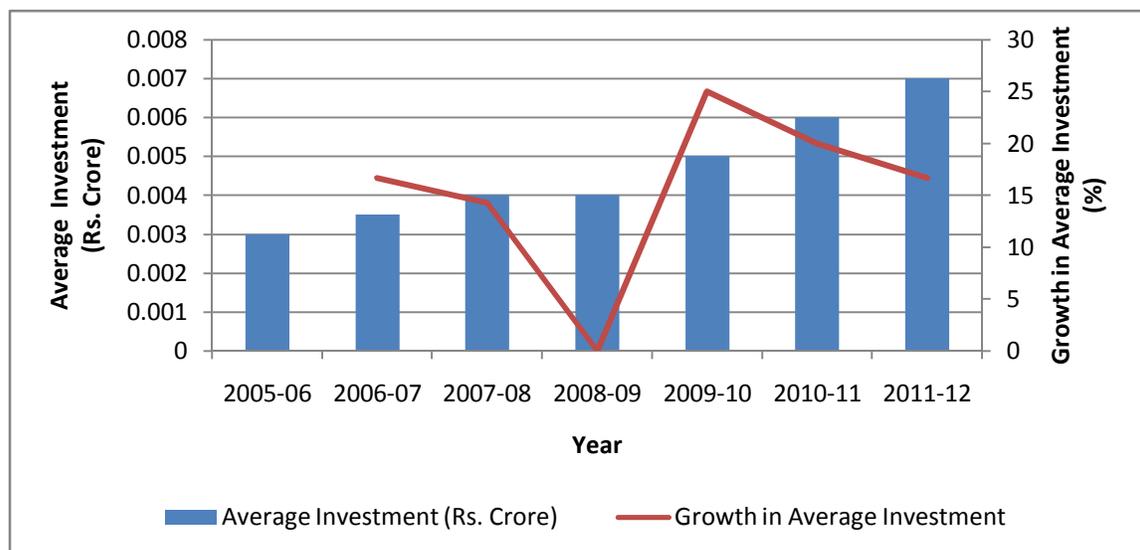
7.11 AVERAGE INVESTMENT AND AVERAGE EMPLOYMENT IN SAMPLE HANDICRAFTS ENTERPRISES

Table 7.12: Average Investment (Rs. Crore) and Average Employment (Number) in Sample Handicrafts

Year	Average Investment	Average Employment
2005-06	0.003	3
2006-07	0.0035 (16.67)	4 (33.33)
2007-08	0.004 (14.29)	4 (Nil)
2008-09	0.004 (Nil)	6 (50)
2009-10	0.005 (25)	6 (Nil)
2010-11	0.006 (20)	6 (Nil)
2011-12	0.007 (16.67)	7 (16.67)

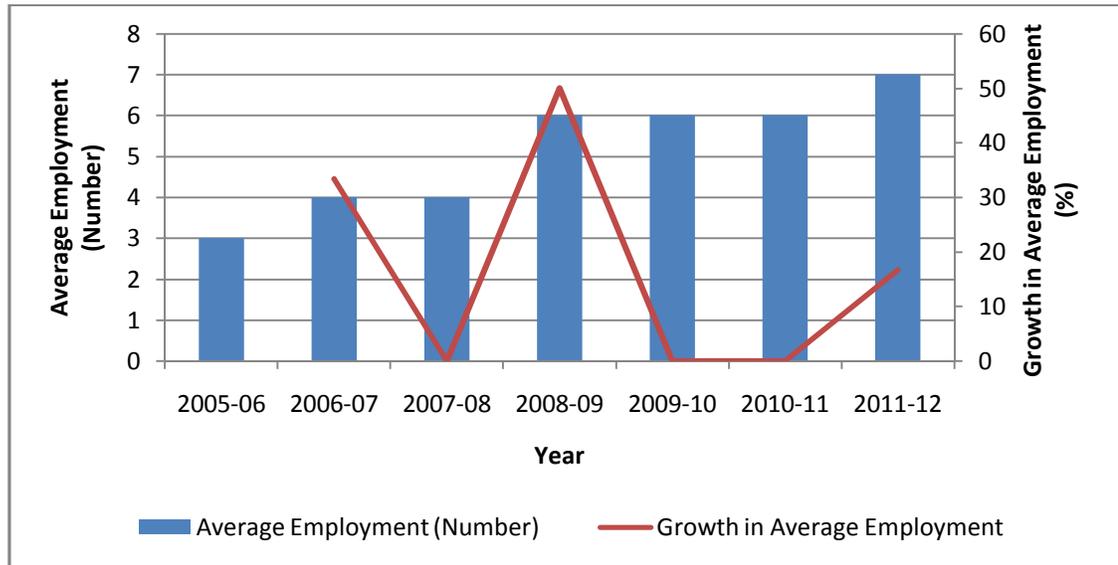
Source: Field Survey, 2013 Note: Same as Table 7.10

Fig 7.12: Average Investment and Growth Rate in Investment in sample Handicrafts



Source: Field Survey, 2013

Fig 7.13 Average Employment and Growth Rate in Employment in sample Handicrafts Enterprises



Source: Field Survey, 2013

The average investment in handicraft industries shows an increasing trend in absolute figures but shows a declining trend in terms of year-on-year growth rate except in 2009-10. The overall growth rate of investment from 2005-06 to 2011-12 is about 133 percent.

Average employment generated by the handicrafts sector shows a mild upward trend in terms of absolute figures. The field survey reveals that most of the workers in handicraft industries are the family members of the entrepreneurs who are engaged in the sector from generation to generation. We have found many instances where the family members do not have adequate expertise and interest for handicrafts but still attached with it due to lack of alternative employment opportunities. The number of hired workers is extremely limited. Thus, even if the employment figures show increasing trend, possibility of 'Disguised Unemployment' may be high in Cooch Behar handicraft industries.

Employment generated by micro and small enterprises in Cooch Behar is not significant. The micro units employ two to three workers and small enterprises 7 to 8 workers on average. A few food processing industries in Chackchaka Industrial Park employ 30 to 40 workers. Two plywood industries in Mathabhanga subdivision create employment opportunities of about 300 workers each. Except a few small enterprises, most of the employees are contractual and unskilled. The average wage paid to them is Rs. 150 to Rs.200 per day. The unskilled workers are hired by the enterprises through contractors who supply workers as per requirement. The

contribution of women workers in Chachchaka industrial area and in Mathabhanga manufacturing industries is negligible except a few food processing industries and handicraft industries where the majority of workers are female. The number of skilled workers employed in MSMEs is extremely low which adversely affects the quality of products, turnover and profitability of the MSMEs.

The profit margin of most of the firm is very low due to considerably low turnover and high cost of selling. They sell their products mostly in local market and in nearby states (except a few plywood and food product industries which have all India market and even export their products) through middlemen. The field study reveals that the entrepreneurs believe that their product has substantial demand in the market and they seem to be satisfied with their present position. Many of them do not have any plan to expand their market, increase volume of production. They are risk averter in nature. The value of turnover (except very few plywood and agro industries) is considerably low. The industrial environment in Cooch Behar seems stagnant and immediately requires a big push. The MSMEs must employ well formulated marketing strategy and smart advertising techniques to increase their turnover and profitability.

7.12 FINANCING SCENARIO OF MSMEs IN COOCH BEHAR

To analyse the financial scenario, we have considered two aspects namely percentage of MSMEs obtained loan from banks and the percentage of total funds of these unit financed through the bank credit. Field survey data reveals that 75 percent of the sample micro units, 83 percent of the sample small units and only 33 percent of the sample handicraft industries have obtained institutional credit support which shows good financial support except handicrafts industries.

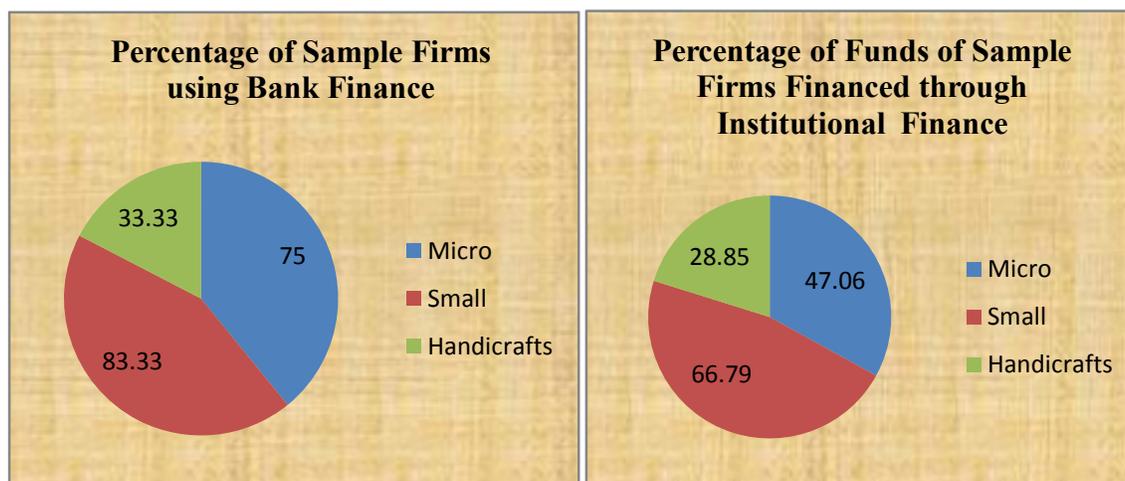
Table 7.13: Financing Scenario of Sample MSMEs in Cooch Behar

SL	Industry Type	No. of Samples	No. of firms using bank loan	% of firms availed of institutional finance	% of total funds financed through institutional finance
1	Micro	20	15	75	47
2	Small	12	10	83	67
3	Handicrafts	18	06	33	29

Source: Field Survey, 2013

However, only 47 percent of the funds of the sample micro units and 29 percent of the funds of the handicraft industries are financed by the banks. This suggests that even if the number of micro firms obtained loans from banks may be high, the volume of loan obtained by them is insufficient. The situation is comparatively better in case of small firms as they have more financial strength and more acceptable to banks. About 67 percent of the total funds of the small units are financed by the banks.

Fig 7.14: Financing Scenario of MSMEs in Cooch Behar



Source: Field Survey, 2013

Table 7.14: Problems faced in securing loans from financial institutions

SL	Details of problems faced	No. of respondents	Percentage
1	Demand for collateral security	36	72
2	Delay in loan sanction	32	64
3	High rate of interest	08	16
4	Huge paper work	20	40

Source: Field Survey, 2013

Majority of the sample entrepreneurs (72 percent) are of the opinion that the banks demand high collateral security which is difficult for them to arrange. This problem is, however, only prominent among the handicraft sector and some micro units. 64 percent of the entrepreneurs believe that the banks unnecessarily take long time to sanction loans and 40 percent feels that bank loan sanctioning system is very cumbersome and involves unending paper works. However,

the MSMEs do not seem to be much worried about the rate of interest on loan as only 16 percent of the respondents believe that the interest rate is high.

Table 7.15: Demand for loan Vs loan sanctioned by the financial institutions

SL	Loan sanctioned as percentage on loan demanded	No. of respondents	Percentage
1	100	08	16
2	75	06	12
3	50	09	18
4	25	15	30
	Total	38	76

Source: Field Survey, 2013

Note: 12 (24 percent) sample MSMEs did not get credit from banks.

Interaction with the MSME entrepreneurs reveals that only 16 percent of the sample MSMEs has been sanctioned 100 percent of loan requirement. This section includes only big plywood and agro industries. Majority of the entrepreneurs (30 percent) consisting of and handicraft industries got merely twenty five percent of their loan requirement sanctioned by the bank. About 18 percent of the respondents (consisting of mainly the handicraft industries) got 50 percent of their loan requirement. 24 percent of sample units mainly consisting of handicraft industries did not get any loan from banks.

The micro enterprises and handicraft industries are in serious dearth of capital. They have very few sources of collection of funds. They get little support from the organized sector like banks and other financial institutions and have to rely on own sources or unorganized sectors. The small enterprises get comparatively more options of collecting funds. However, the small firms with less financial capacity often face difficulty in raising funds. It is evident that the banks prefer small enterprises with strong financial capacity. The micro and handicraft industries are not in their list of preferred customers. This has created a vicious circle where the banks try to ensure security of their funds by investing in strong MSMEs and majority of the MSMEs have to suffer due to lack of funds.

There may be two ways of solving the problem. The banks have to be lenient and considerate in their approach of sanctioning loans as suggested by the RBI in several guidelines. The RBI has

issued several guidelines and several committees have been formed to address the issue. The Govt. must ensure proper implementation of the RBI guidelines and committee recommendations to increase credit flow to the MSMEs.

The creditworthiness of Cooch Behar MSMEs must be increased by maintaining proper accounting procedure, credit rating etc and MSMEs must be responsible borrowers ensuring good loan repayment record.

7.13 AWARENESS AMONG THE MSMEs

The awareness about the policy changes / policy initiatives is low among the MSMEs in Cooch Behar. The situation is worse in micro and handicraft sector. Only 33 percent of the sample small firms have heard about Reservation Policy while none of the sample micro and handicraft units knows about it. None of the sample micro and handicraft industries use any advertising techniques while 50 percent of the small firms use advertisement.

Table 7.16: Awareness among MSME Entrepreneurs regarding vital issues in MSMEs

SL No.	Issues	*No. of Respondents aware of issues			Percentage of Respondents aware
		Micro	Small	Handicrafts	
1	Reservation Policy	0	4	0	0%(M), 33%(S), 0%(H)
2	MSMED Act, 2006	2	7	0	10%(M), 58%(S), 0%(H)
3	Proper maintenance of accounts	8	12	2	40%(M), 100%(S), 11%(H)
4	Impact of Liberalisation on the firm	6	10	0	30%(M), 83%(S), 0%(H)
5	Advertisement / Marketing Strategy	0	6	0	0%(M), 50%(S), 0%(H)
6	Credit Facility Schemes	5	7	2	25%(M), 58%(S), 11%(M)

Source: Field Survey, 2013

Note: 1) M=Micro, S=Small and H=Handicrafts 2) *Total Samples: Micro =20 units, Small =12 units and Handicrafts =18 units.

58 percent of small units and 10 percent of the micro units know about MSME Act, 2006 but the sample handicraft units do not have any idea about it. However, all the sample small units, 40 percent of the micro units and 11 percent of handicraft industries maintain proper books of accounts. The MSMEs have low degree of awareness about Govt. policies, change in economy and challenges of globalisation. Only 25 percent of micro units and 11 percent of handicraft industries have idea about the different credit facility schemes introduced by the Govt. It seems that the policy initiatives for the MSMEs have not been properly promoted. Awareness and counseling programmes must be organized on a regular basis. Most of the MSME entrepreneurs are extremely weak in English language and fail to understand the Govt. policies, promotional packages etc. written in English. Moreover, most of the Govt. policies, promotional schemes are available in websites. The field study suggests that more than 60 percent of the MSME entrepreneurs are not computer literate and more than 80 percent of the firms do not have any internet facility. Thus, the MSMEs do not have easy access to such documents. The Govt. departments must circulate booklets containing policy initiatives, promotional schemes etc written in Bengali to the MSME entrepreneurs.

7.14 RANKING OF MAJOR PROBLEMS OF MSMEs AS PER HENRY GARRETT'S RANKING TECHNIQUE

Ten vital aspects (financial, infrastructural, marketing, labour, managerial, poor technology, power shortage, irregular supply of raw materials, tough market competition and Govt. policy) regarding the problems faced by the MSMEs have been identified. The entire sample MSMEs were asked to assign ranks to the given problems as per the magnitude of the problem i.e. the most vital problem as per the consideration of the respondent is given the first rank and so on. We have used Garrett's Ranking method to find out the degree of importance of different problems faced by the MSMEs. It is calculated as percentage score and the scale value is obtained by employing Scale Conversion Table given by Henry Garrett.

$$\text{Percent Score} = \frac{100(R_{ij} - 0.5)}{N_j}$$

Where R_{ij} is Rank given for i th item j th individual and N_j is Number of items ranked by j th individual.

The percentage score for each rank from 1 to 10 are calculated and converted into scale values using Scale Conversion Table given by Henry Garrett. The scale values (x) for first rank to tenth rank are 81, 70, 63, 57, 52, 47, 42, 36, 29 and 18 respectively. The score value (fx) is calculated for each factor by multiplying the number of respondents (f) with respective scale values(x)(Vishnuvarthani and Selvaraj, 2012)⁶. The mean score is then calculated to know the order of preference given by the respondents for the factors. Based on the mean score, the overall ranks are assigned for each variable.

Table 7.17: Ranking of Problems faced by the MSMEs in Cooch Behar as per Garrett's Ranking Technique

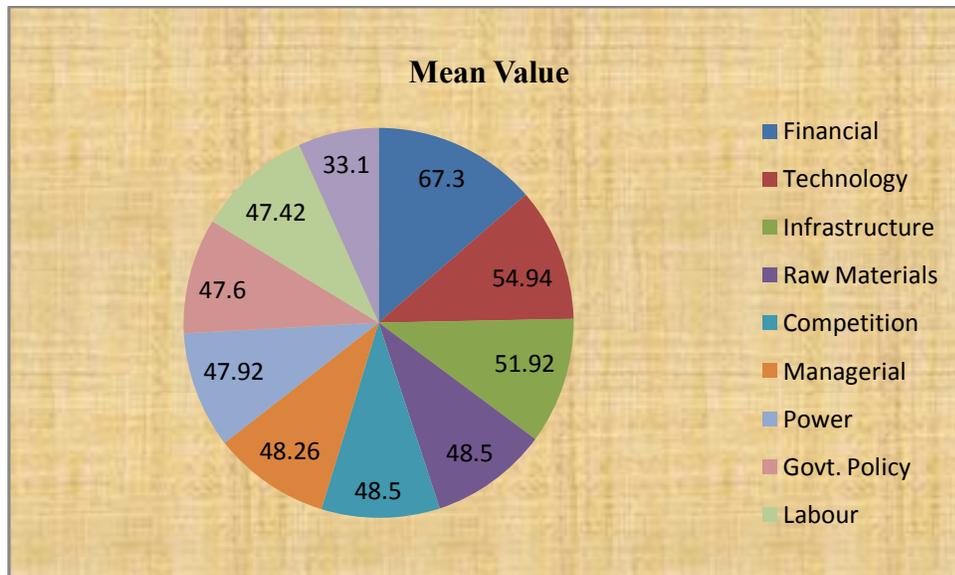
Rank	I	II	III	IV	V	VI	VII	VIII	IX	X	Total	Total Score	Mean Value	Garrett's Rank
Scale	81	70	63	57	52	47	42	36	29	18				
Factors														
Financial Problems														
f	25	08	03	03	02	01	01	05	01	01	50			
fx	2025	560	189	171	104	47	42	180	29	18		3365	67.3	1
Infrastructural problems														
f	02	05	06	08	08	05	08	06	01	01	50			
fx	162	350	378	456	416	235	336	216	29	18		2596	51.92	3
Marketing problems														
f	02	02	04	01	01	02	03	03	08	24	50			
fx	162	140	252	57	52	94	126	108	232	432		1655	33.1	10
Labour problems														
f	10	04	05	03	02	01	02	02	10	11	50			
fx	810	280	315	171	104	47	84	72	290	198		2371	47.42	9
Managerial inefficiency														
f	02	04	06	05	06	07	03	10	05	02	50			
fx	162	280	378	285	312	329	126	360	145	36		2413	48.26	6
Poor Technology														
f	03	12	05	07	08	04	03	03	02	03	50			
fx	243	840	315	399	416	188	126	108	58	54		2747	54.94	2
Power Shortage														
f	01	05	03	05	04	10	10	08	03	01	50			
fx	81	350	189	285	208	470	420	288	87	18		2396	47.92	7
Non-availability of raw materials														
f	02	03	05	05	03	08	11	10	02	01	50			
fx	162	210	315	285	156	376	462	360	58	18		2425	48.5	4

Competition	02	05	06	06	04	07	07	01	10	02	50			
f	162	350	378	342	208	329	294	36	290	36		2425	48.5	4
fx														
Govt. policy														
f	01	02	07	07	12	05	02	02	08	04	50			
fx	81	140	441	399	624	235	84	72	232	72		2380	47.6	8
Total	50	50	50	50	50	50	50	50	50	50				

Source: 1) Field Survey, 2013 2) Vishnuvarthani and Selvaraj, 2012⁶ 3) Ahmad, Fayaz (2012)¹¹

Note: x =Scale Value, f=No. of units, fx = Score

Figure 7.15: Ranking of problems of Cooch Behar MSMEs as per Garrett’s method



As we can see from figure 7.15, the MSME Entrepreneurs in Cooch Behar believe that financing problem is the most vital problem (mean value 67.3) followed by poor technology (54.94), infrastructural problems (51.92), poor availability of raw materials and tough competition (both 48.5), managerial inefficiency (48.26), power shortage (47.92), Govt. policy (47.6), labour problems (47.42) and marketing problems (47.42).

7.15 MAJOR PROBLEMS FACED BY THE MSMEs

Poor Institutional Credit Support

Cooch Behar has a good network of banks but supply of credit to the MSMEs, especially the micro and handicrafts sector is not adequate. This problem is not much prevalent for the financially strong firms as the banks treat these as preferred customers. However, the firms complain that credit flow is not satisfactory due to time taking cumbersome loan sanction procedure, bank's tendency to overemphasize quantitative information, demand for collateral securities etc.

Poor Technology

The MSMEs especially the micro and handicraft industries use outdated technology. The field study reveals that about 30 percent of the sample entrepreneurs are not aware of the modern technologies while the majority others do not have the financial capacity to install modern machineries. Poor technology is seriously affecting their production both in terms of quality and quantity and their competitiveness in the market.

Inadequate Infrastructural Facilities

The transport and communication facilities are not much developed in Cooch Behar. The rivers lack navigability, railway tracks are inadequate and road conditions are miserable. Roads connecting Cooch Behar with Siliguri, Kolkata and Assam are in extremely bad condition.

Lack of Competitiveness

The market of the MSMEs in Cooch Behar is mostly confined to the local area. 90 percent of the sample firms believe that they face competition only from the similar firms while a few prominent small firms compete with the national level companies and MNCs. However, only 30 percent of the sample MSMEs has clear idea about their competitors. The handicrafts industries are not at all aware of competitiveness because they sell their products to the local middlemen at a predetermined price. Thus, the MSMEs in Cooch Behar severely lack competitiveness.

Irregular supply of raw materials

Being an agriculture based district, Cooch Behar has good supply of agricultural products. Still the food processing industries have to suffer from inadequate supply of raw materials because of poor distribution and conservation system in the district. The cold storages in the district are not in sufficient number. Moreover, the handicraft industries especially the sital pati industries face

shortage of raw materials due to restriction in cultivation of Mothra (**Cluster Observatory, Cooch Behar Sital Pati**)¹⁶.

Managerial inefficiency

Most of the MSMEs are sole proprietorship business with an average of 3 to 4 workers. The proprietor plays the role of manager. Though the rate of formal education among the entrepreneurs is high, they do not have managerial training. The scope of management training or education is extremely limited in Cooch Behar. The firms cannot retain trained managers due to their inability to offer competitive pay package. The overall managerial efficiency of MSMEs in Cooch Behar is very low.

Power Shortage

The MSMEs in Cooch Behar do not have the financial capacity to set up own power supplying unit and have to depend on irregular power supply from electricity boards. However, the power supply condition has considerably improved in Cooch Behar town. The Chackchaka Growth Centre has been declared as 24 Hours Electricity Supply Zone to facilitate uninterrupted industrial activity. However, the electricity supply is quite irregular in the village interiors and subdivisions.

Lack of skilled workers

A significant portion of educated workforce of Cooch Behar has settled in Siliguri or Kolkata because of poor employment opportunities in Cooch Behar. The training institutions are not in sufficient numbers. The MSMEs have to operate with mediocre or unskilled workers which adversely affect their production quality and managerial ability.

Marketability Problems

Marketing is probably the most neglected and less explored problem for micro and small firms. Most of the firms do not have any well formulated marketing strategy, market research programmes and innovative advertisement techniques. They do not have adequate monetary support to develop marketing section and many are not aware of modern low-cost marketing techniques (blogging, sending mails, developing website for the company).

7.16 LIMITATION OF THE SURVEY

The following are the major limitations of the study:

Lack and accuracy of information seem to be the major problem for the sector. Many industries are found to be not in operation though they figure in the DIC's list of industries. Thus, there is enough doubt about the accurate number of MSMEs operating in Cooch Behar.

Most of the handicrafts and micro industries do not maintain proper books of accounts. Collection of data for last seven years from these units was really difficult. In many cases, it seemed that the entrepreneurs themselves were not sure about information of their unit. We have based our study on the information the entrepreneurs have supplied. No unit wise data is maintained by the DIC. Thus, we find it difficult to verify the authenticity of the field data. We requested all the sample units to provide us their audited accounts for last seven years which was not supplied by any of the MSMEs.

We faced difficulties in convincing the MSME entrepreneurs about the objectives of the study. Many were reluctant to reveal information about investment, sales, productivity etc. However, we got full co-operation from Cooch Behar DIC.

The registration of the MSMEs is optional. Therefore, there are many units in Cooch Behar (especially the micro and handicraft industries) which are not registered. The current study is limited to only the MSMEs registered with the DIC.

The survey was conducted by the researcher alone with limited physical and financial capacity. Thus, the study period and the number of samples are limited to seven years and fifty units respectively.

7.17 CONCLUSION

The performance appraisal of MSMEs in Cooch Behar District shows poor performance of MSMEs during post liberalization in terms of number of registered units and employment during the year. The district is yet to have a strong industrial base especially in the area of medium and large sector which can provide ancillary status to the small scale industries. The district is basically agrarian but modern agricultural techniques have not been adopted on a large scale. Agricultural marketing needs to be improved with proper infrastructural development. Although the district has a well knit banking network with all major commercial banks operating in the district, credit facilities are not smoothly available to the MSE sector (**Brief Industrial Profile**

of Cooch Behar, Ministry of MSME, 2012)¹².Improvement in infrastructural facilities, development in entrepreneurship qualities, adequate institutional credit support and use of modern technology in both agriculture and industry would ensure long term growth of MSMEs in Cooch Behar district.

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CHAPTER 8

EMPIRICAL STUDY ON THE MSMEs IN HOWRAH DISTRICT

This chapter tries to capture a snapshot of MSMEs in Howrah district using both primary and secondary data. The chapter is divided into two sections. The first section provides a brief review of the major industrial clusters and industrial estates in Howrah and analyses the performance of the MSMEs in terms of number of registered MSMEs and employment during pre and post liberalization period. The second section is based on primary data from 2005-06 to 2011-12 collected from sample MSMEs with regard to investment, turnover, employment, credit availability etc.

SECTION I

8.1 INTRODUCTION

Located on the west bank of the Hoogli River, Howrah is a twin city of Kolkata. It is the second largest city of West Bengal in terms of area and population and 9th largest district of the state in respect of size. It lies between 22°-48' and 22°-12' North latitude and between 88°-50' East longitude. Howrah is bounded by the Hooghly River and the North 24 Parganas and South 24 Parganas districts on the east, on the north by the Hooghly district (Arambagh and Shrirampur sub-divisions), and on the south by Midnapore East district (Tamluk sub-division). On the west the district is bordered by the Ghatal sub-division of Midnapore West district, and partly by the Arambagh sub-division of Hooghly district to the north-west, and the Tamluk sub-division of Midnapore East district to the south-west (http://en.wikipedia.org/wiki/Howrah_district)²².

Howrah is one of the pioneer districts in West Bengal showing maximum concentration of MSMEs. The city is well connected with Kolkata through Howrah Bridge (Rabindra Setu), Second Hoogly Bridge (Vidyasagar Setu) and Vivekananda Setu. Moreover, the proximity of Howrah station, good connection with other parts of the country through Eastern and South Eastern Railway and NH-2 and NH-6, improved electricity supply system, easy availability of trained workers, steady supply of raw material is available from Kolkata, Assonsol and Raniguange belt are the major reasons for industrial growth. With a view to increasing competitiveness of the MSMEs and increasing their access to advanced technology, modern testing centres have also been set up in the district. However, the district has witnessed several

problems like lack of demand, poor infrastructure, strikes, consumer's diversification of products, shifting of different industries to other states etc. The pro-industrial stance taken up by the state Govt. through establishment of several industrial parks and industrial estates and favourable policy framework would encourage industrial sector of the district (**Progress Report of DIC Howrah, 2011-12**)¹⁷.

8.2 DISTRICT AT A GLANCE

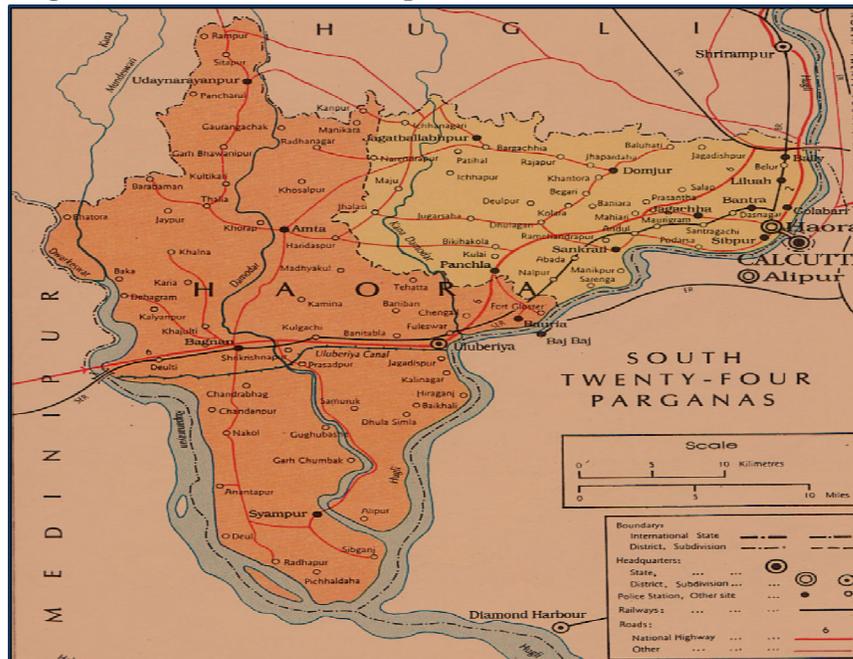
Table 8.1: Howrah District at a Glance

Geographical Area	1467 Sq. K.M.
Administrative Blocks	
Subdivision	02 Nos
Panchayet Samities	14 Nos
Nagar Palika	11 Nos
Gram Panchayet	157 Nos
Revenue Villages	2245 Nos
Population	
Male	2502453 Nos (2011)
Female	2339185 Nos (2011)
Rural population	1776970 Nos (2011)
Land	
Total Agricultural Area	70413 Hactor (2010-11)
Total Forest Cover	NIL (2010-11)
Non-Agricultural Land	53115 Hactor (2010-11)
Cultivable Barren Land	54 Hactor (2010-11)
Transport	
Railways	162.49 KM (2010-11)
National Highway	63.43 KM (2010-11)
State Highway	211 KM (2010-11)
Main District Highway	1038.72 KM (2010-11)
Other district rural roads	948.68 KM (2010-11)

Banks	
Commercial Banks	280 Nos.
Co-operative Banks	NIL
PLDB Branches	12 Nos.
Rural Bank Products	36 Nos

Source: District Statistical Handbook of BAES & Economic Review, 2011-12, Govt. of W.B.¹⁰

Fig 8.1: Howrah District Map



Source: http://www.mssewb.org/images/dic_map/howrah_1.jpg²⁴

8.3 MAJOR INDUSTRIES

Traditionally, metal and engineering industries have a strong base in Howrah. The major industries include basic metal products, machinery and spares, electrical and electronics machines and parts, hosiery and garments, rubber and plastics, paper and paper products, food processing industries, leather products, computer hardware and software products etc.

Howrah has an enriched handicrafts sector which produce wood carving, batik and tie-dye, clay modeling, needlework, cane and bamboo products, brass metal products, bead work, sea shell and coconut shell products etc. The products are high in demand in both domestic and international market (**Progress Report of DIC Howrah, 2011-12**)¹⁷.

Table 8.2: Industrial Growth Centres/ Industrial Complex at Howrah

SL No	Growth Centre/Industrial Park	Area	No. of Industrial Plot/Unit/Shed	Developed by
1	WBIIDC Growth Centre	160.43 acres/108 SDF Flats	58 units	WBIIDC
2	Baltikuri Industrial Estate	28 acres	76 Sheds & 18 Plots	WBSIDCL
3	Howrah Maidan Industrial Complex	57279 sq.ft.	28 Units	WBSIDCL
4	Jalan Industrial Complex, Jangalpur, Domjur	1200 acres	Around 250 units	Private Promoter
5	Jalan Industrial Park, Jaladhulagori, Sankrail	600 acres	Around 50 units	Private Promoter
6	Bauria Industrial Estate	21.34 acre	7 Units & 10 Plots	WBSIDCL

Source: Progress Report of DIC, Howrah, 2011-12¹⁷

Note: 1) WBIIDC refers to West Bengal Industrial Infrastructure Development Corporation

2) WBSIDCL refers to West Bengal Small Industries Development Corporation

8.4 MAJOR CLUSTERS

One major feature of Howrah micro and small enterprises (mostly micro enterprises) is the existence of natural clusters. Some areas of the district have advantages in manufacture and sale of some specific products and eventually form clusters. There are about ten identifiable clusters in the district.

Metal and Spare Parts Cluster at Bargachia

The Metal and Spare Parts Cluster is spread over four villages namely Hantal, Sadatpur, Bargachia, Patihal under Jagatbhallavpur block in Howrah district and situated at a distance of about 30 K.M. from Howrah district head quarter. The cluster is in existence for more than 50 years and many micro units here are engaged in manufacture of metal parts from generation to generation. There are about 900 registered units in the cluster and all these units are micro units. The cluster generates employment of more than 5000 people and average yearly turnover of Rs. 60 crore (DIC, Howrah, 2012)²¹. The contribution of female workforce is negligible in the cluster none of the micro units is owned by the female entrepreneurs. The cluster manufactures

ferrous and non-ferrous metal parts like nut, bolts, screw, pin, socket, washer, connector, pad lock, furniture lock, lock accessories etc. The raw materials (like metal sheet, angles, brass, brass rod, cold rolled coil, hot rolled coil etc) are mainly procured from the local suppliers and Kolkata market (**Kumar, Anjani, 2012**)¹³. The units have the expertise to manufacture any engineering spare parts as per requirement. Use of traditional technology, tough competition from the large firms, irregular power supply, lack of direct selling, poor internal connectivity within the cluster etc are the major problems for the cluster. The cluster also needs qualitative development. The rate of school drop outs is high as a significant number of entrepreneurs engage their wards in their units without sending them to school (**Field Survey, 2013**).

Rubber Moulding Cluster at Raghudevur, Howrah

The rubber moulding cluster centres on Raghudevur Village at Uluberia-II Tehsil in Howrah District situated at 30 km from Howrah city on NH-6. The cluster mainly covers seven villages namely Raghudevur, Basudevur, Ghosalchak, Shibramchak, Santoshpur, Balarampota and Paramanandrachak. The products produced by the firms include ring, bush, oil seal, bonded seal, bucket, washer, expansion joints, pads and sheets, rubberized cork sheets etc. There are about 275 micro units in the cluster out of which 25 firms are controlled by the women entrepreneurs. The cluster has generated a direct employment of 3025 people and registered an average annual turnover of Rs. 168 crore in 2012 (**DIC, Howrah, 2012**)²¹. The cluster suffers due to irregular electricity supply, poor laboratory and testing facilities and frequent fluctuations in raw material price (**Singh, Jitendra, 2010**)⁸.

Re-Rolling Mill Cluster, Liluah

The cluster is famous for producing rounds, flats, squares, rod, angles, channels, TMT bars, ribbed bars etc. As per the data available from the report of MSME-DI, 2012, there are about 180 units operating in the cluster. The average investment in plant and machinery is Rs. 6 crore and the cluster generates employment for 36,000 people and annual turnover of about 12 crore. The market is mainly limited to the local market of West Bengal and North-East. The major constraints are poor availability of raw materials, power crisis, lack of trained workers, modern testing laboratories, use of traditional technology, poor product quality and lack of customer's satisfaction etc (**Gangapadhyay, 2008**)¹⁵.

Metal Casting Foundry

The history of foundry industry in and around Howrah dates back to the second half of 19th century. The main reason for emergence of the industry was to produce the spare parts needed for jute and cotton industries. Eventually, the industry became the means of living for a section of workers and got its momentum due to progress in railways, transport, and communication. Easy availability of raw materials, fuel, good transport and availability of man power gifted with 'learn-by-sight' sense of engineering workmanship are the main reasons for development of foundry industry at Howrah (http://msmefoundation.org/DSR_temp/)²³.

There are about 320 units functioning in the cluster which generate employment of 40,000 people and annual turnover of 3,000 crore and annual export of about 800 crore (**Brief Industrial profile of Howrah District, 2012**)²¹. Majority of the industries in the cluster are small scale industries. Poor marketing, lack of steady supply of raw materials, inadequate credit supply, use of traditional technology etc are the major problems of the cluster. The cluster urgently requires electric melting furnace, value added products through graded casting and good testing facilities (**Mitra, 2000**)⁵.

Embroidery and Garment Manufacturing Cluster, Pipulan

This cluster consists of about 350 units which specialize in Embroidery and Garment Manufacturing. Majority of the units here are micro units with an average investment of Rs. 500,000. The cluster generates about 10,000 employments but most of such workers are indirect workers (**Howrah DIC, 2012**)²¹. The vital problems of the cluster include poor branding and packaging, lack of capacity utilization, inadequate credit supply, poor technology and quality control. The cluster needs updated information regarding change in fashion trends, market information and cost comparison, raw material bank, testing facilities, new design development etc.

Zari Embroidery Cluster, Sankrail

Over the year, the zari sector has shown supreme expertise by the artisans and expanded its market to entire West Bengal, Rajasthan, Uttar Pradesh, Gujarat and even the Middle East countries. However, the sector was highly unorganized in nature. The state Govt. with the help of West Bengal Industrial Development Corporation Limited (WBIDC), took the project of zari hub and a three storied building beside the food park at Sankrail was constructed and identified as the proposed zari hub centre (**Field Survey, 2013**). The cluster was operational from 2012 consisting of about 250 firms generating employment for 800 workers and turnover of 136 million in 2012

(DIC, Howrah, 2012)²¹. The major products are Sari, Salwar Kameez, Lahenga / Ghagra, Punjabi (Kurta), Churidar, Scarves, Rakh etc. Lack of knowledge about the modern design, traditional technology, poor standardization and quality control, purchasing raw materials through middlemen at a higher cost, absence of modern marketing techniques etc are the main problems for the cluster.

Gems and Jewellery Cluster and Imitation Ornaments Cluster, Domjur

Situated at Domjur, Howrah, the gems and Jewellery cluster holds 3000 units, mostly micro in nature and generates employment for 24,000 workers **(DIC, Howrah, 2012)²¹**. The major products are gem studded gold ornaments, gold chain, gold ball etc. The cluster has good demand for their products in West Bengal, Rajasthan and in different European and Middle East countries.

Domjur has another cluster for imitation ornaments which has approximately 1100 units generating 8000 employment opportunities with annual turnover of 926 million **(DIC, Howrah, 2012)²¹**. Apart from domestic market, products are sold in USA, UK, Japan, Germany, Middle-East countries.

Lack of sophisticated technology, lack of direct marketing, poor branding and packaging, need for high working capital, migration of jewellery artisans to the other states, unavailability of testing centres to judge the quality of raw materials, poor idea about the modern designs etc are the major problems for the clusters **(Field Survey, 2013)**.

Optical Lens Cluster, Munshirhat

There are about 355 firms in this cluster which employ 2100 people and generate annual turnover of Rs. 80 million **(DIC, Howrah, 2012)²¹**. All the units here are micro enterprises and produce cylindrical and spherical lens. The products are mainly sold in Kolkata and surroundings. The units are still using the first generation technology whereas the fourth generation technology is available and widely used in manufacturing optical lens. Most of the workers are illiterate or have nominal educational qualification and find it difficult to handle sophisticated technology **(Field Survey, 2013)**.

The involvement of women workers is negligible as the job involves high degree of physical strain and long working hour. The cluster is situated in densely populated area and working conditions are unhygienic **(Field Survey, 2013)**. The cluster must establish linkage with technical institutions to ensure adequate research, employee training and use of modern technology **(Field Survey, 2013)**.

Shuttle Cock Manufacturing Cluster, Uluberia

The Uluberia Shuttlecock Cluster is situated about 35 kms from Howrah Railway station, 2 kms from Uluberia Railway station and less than 1 km from the NH-6. There are about 100 firms in the cluster producing shuttle cock used for badminton games and generate employment for 6000 workers (**Howrah DIC, 2012**)²¹. Apart from Jalandhar in Punjab, this is the most prominent cluster of shuttle cock in India and supplies 65 percent of the shuttle cocks produced in India (**WEBCON's Diagnostic Study Report-Shuttle Cock Cluster in Uluberia, 2005**)²³. However, it has lost a lot of its sheen in recent times as the number of sick units in the cluster has increased significantly in recent years due to the severe shortage of duck feather which is the major raw material for shuttle cock industries. The population of duck - one of the most common species of birds found in the Indian countryside - is dwindling rapidly as water bodies get filled to promote real estate (**Economic Times, December 28, 2012**)²⁰. This has resulted in unprecedented hike in price of duck feathers which in turn increases cost of production. The feather of white duck is used for best quality cocks but the units are forced to use black duck feather and ghee feathers compromising with quality (**Field Survey, 2013**). The units lack awareness about modern technology, brand building, exposure to international market etc (**Mehra, 2013**)²⁵. Moreover, popularity and easy availability of machine made superior quality cocks of Chinese, Taiwanese companies, lack of bank finance, poor research and development activities and poor productivity and quality control hamper the growth of the sector. The cluster is almost at the dire stage and needs urgent Govt. intervention.

8.5 PERFORMANCE ANALYSIS OF REGISTERED MSMEs IN HOWRAH DISTRICT

A performance appraisal of the MSMEs in Howrah has been conducted on the basis of number of registered MSMEs and employment generated by the MSMEs during the year from 1977-78 to 2011-12 using secondary data from the relevant issues of Economic Review and Statistical Abstracts published by the Govt. of West Bengal. The study is based on number of MSMEs registered and employment during the year as reliable information regarding district wise cumulative figures of registered MSMEs and employment was not available. The entire study period (1977-78 to 2011-12) has been divided into two parts; from 1977-78 to 1989-90 has been identified as pre liberalisation period and from 1990-91 to 2011-12 as post liberalisation period. The post liberalisation period is divided into two parts i.e. from 1990-91 to 2005-06 (period before introduction of Micro, Small and Medium

Enterprises Development Act, 2006) and from 2006-07 to 2011-12 (period after introduction of MSMED Act, 2006).

Table 8.3: Number of Registered MSEs in Howrah from 1977-78 to 2005-06

Pre-Liberalisation Period			Post Liberalisation Period		
Year	*No. of units	#Percentage Change	Year	*No. of units	#Percentage Change
1977-78	1132		1990-91	2338	-4.53
1978-79	1335	17.93	1991-92	2321	-0.73
1979-80	1851	38.65	1992-93	1512	-34.86
1980-81	1198	-35.28	1993-94	1371	-9.33
1981-82	1121	-6.43	1994-95	1694	23.56
1982-83	1219	8.74	1995-96	1669	-1.48
1983-84	1411	15.75	1996-97	1761	5.51
1984-85	2374	68.25	1997-98	1822	3.46
1985-86	2665	12.26	1998-99	1496	-17.89
1986-87	2850	6.94	1999-00	995	-33.49
1987-88	2973	4.32	2000-01	539	-45.83
1988-89	2851	-4.1	2001-02	608	12.8
1989-90	2449	-14.1	2002-03	568	-6.58
			2003-04	922	62.32
			2004-05	1140	23.64
			2005-06	1095	-3.95

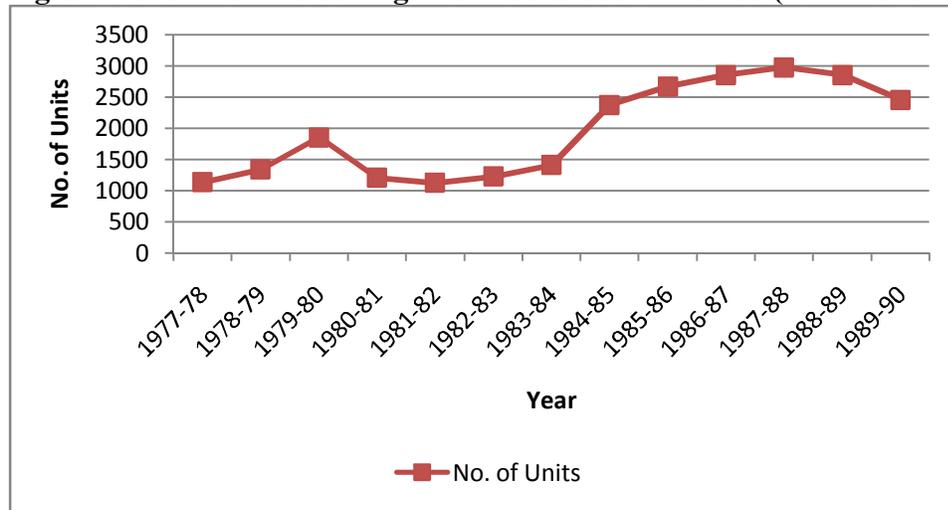
Source: Statistical Abstract, Bureau of Applied Economics and Statistics, Govt. of West Bengal, 2005¹⁸

Notes: 1)* No. of units refer to units registered during the year. The cumulative total of number of units was not available.

2) The data for the period up to 2005-06 is Small Scale Industries (SSI). Subsequent to 2005-06, data with reference to Micro, Small and Medium Enterprises are compiled.

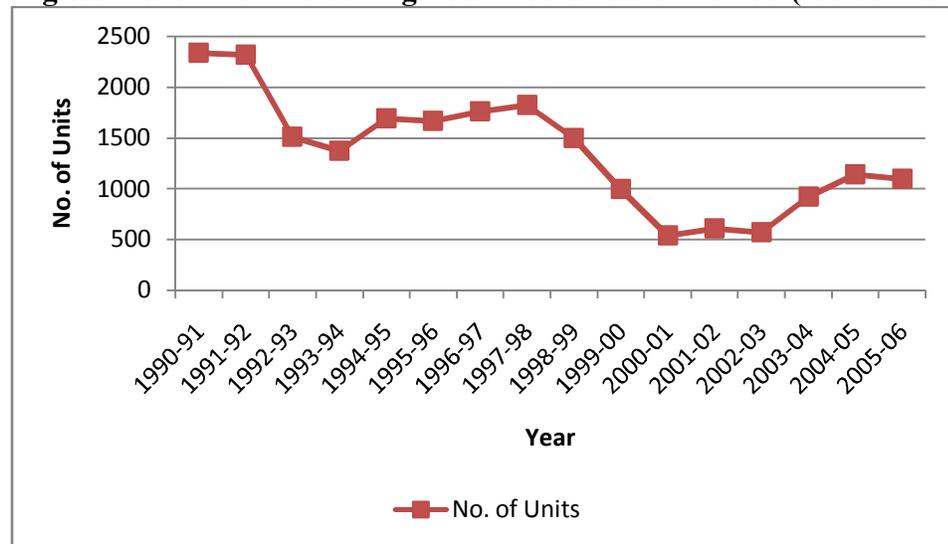
3) # Percentage change refers to change over the previous year

Fig 8.2:No. of MSMEs during Pre-Liberalisation Period (1977-78 to 1989-90)



Source: Same as Table 8.3 Notes: Same as Table 8.3

Fig 8.3:No. of MSMEs during Post-Liberalisation Period (1990-91 to 2005-06)



Source: Same as Table 8.3 Notes: Same as Table 8.3

Analysis: The number of units registered during the year showed an increasing trend from 1977-78 to 1979-80 and from 1983-84 to 1987-88. From 1980-81 to 1981-82 and from 1988-89 to 1989-90, it showed a decreasing trend. Therefore, in most of the years of pre-liberalisation period, number of registered units showed an increasing trend. During the post liberalization period, except 1994-95, 1996-97, 1997-98, 2001-02, 2003-04 and 2004-05, declining trend was observed.

Poor growth rate of number of registered SSIs during the year in post liberalisation period might be due to inability of the SSIs to adjust with the volatile economic environment and tough competition in the market. Moreover, there exists a huge unorganised SSI sector in Howrah. If such firms are motivated to get registered, the story might change.

Table 8.4: Employment in Registered MSEs in Howrah District from 1977-78 to 2005-06

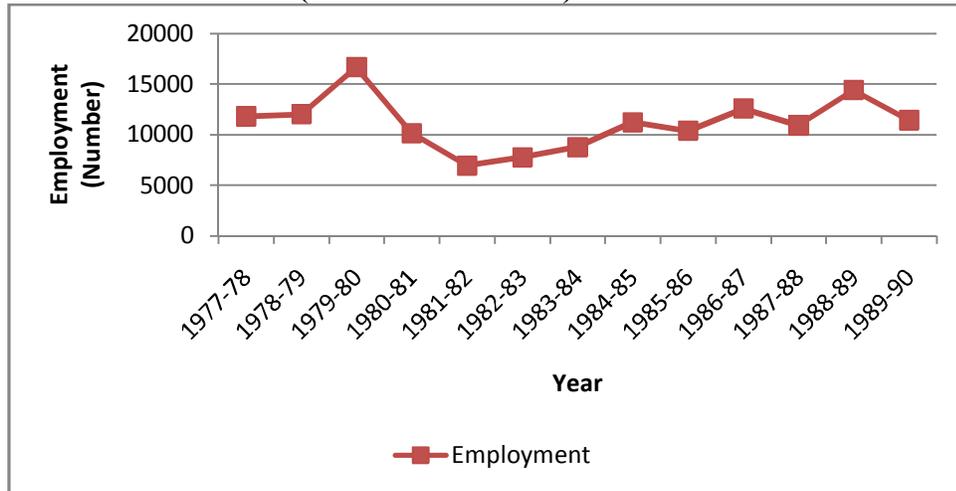
Pre-Liberalisation Period			Post Liberalisation Period		
Year	*Employment	#Percentage Change	Year	*Employment	#Percentage Change
1977-78	11803		1990-91	10097	-11.67
1978-79	12015	1.80	1991-92	7712	-23.62
1979-80	16659	38.65	1992-93	6607	-14.33
1980-81	10163	-38.99	1993-94	6498	-1.65
1981-82	6950	-31.61	1994-95	9184	41.34
1982-83	7777	11.9	1995-96	9010	-1.89
1983-84	8762	12.67	1996-97	9435	4.72
1984-85	11227	28.13	1997-98	8745	-7.31
1985-86	10371	-7.62	1998-99	7815	-10.63
1986-87	12575	21.25	1999-00	6565	-15.99
1987-88	10923	-13.14	2000-01	3243	-50.6
1988-89	14401	31.84	2001-02	3065	-5.49
1989-90	11431	-20.62	2002-03	2980	-2.77
			2003-04	4505	51.17
			2004-05	4981	10.57
			2005-06	5798	16.4

Source: Statistical Abstract, Bureau of Applied Economics and Statistics, Govt. of West Bengal, 2005¹⁸

Notes:

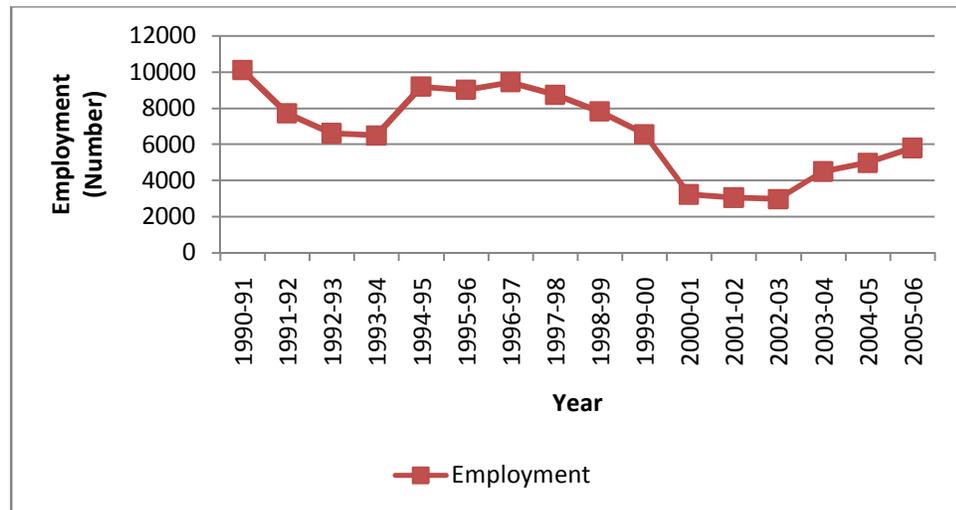
- 1)* Employment refers to employment generated by the MSMEs during the year. The cumulative total of number of units was not available.
- 2) The data for the period up to 2005-06 is Small Scale Industries (SSI). Subsequent to 2005-06, data with reference to Micro, Small and Medium Enterprises are compiled.
- 3)# Percentage change refers to change over the previous year.

Fig 8.4: Employment Generated by MSMEs during Pre-Liberalisation Period (1977-78 to 1989-90)



Source: Same as Table 8.4 Notes: Same as Table 8.4

Fig 8.5: Employment Generated by MSMEs during Post-Liberalisation Period (1990-91 to 2005-06)



Source: Same as Table 8.4 Notes: Same as Table 8.4

Analysis: Employment generation (year wise) showed a fluctuating trend during pre liberalization period. During post liberalization period, except 1994-95, 1996-97, 2003-04, 2004-05 and 2005-06 growth rate in all other years show declining trend.

Table 8.5: MSME Units registered (EM-II) and Corresponding Employment from 2006-07 to 2011-12

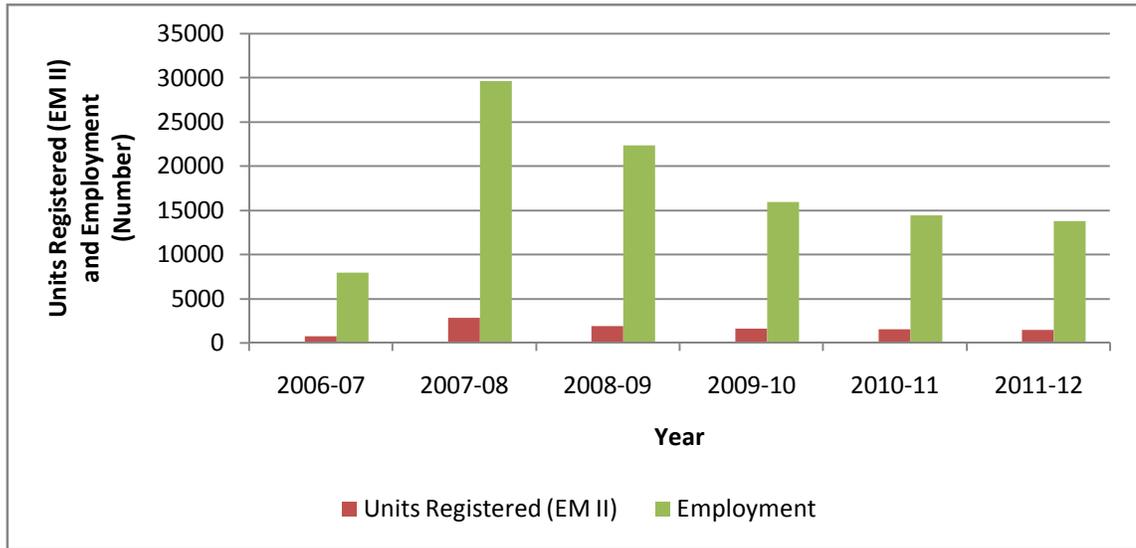
Year	Units Registered (EM-II)***				Employment
	Micro	Small	Medium	**Total	**Total
2006-07	NA	NA	NA	725*	7944
2007-08	2555	233	0	2788	29589
2008-09	1683	210	3	1896	22306
2009-10	1417	184	4	1605	15880
2010-11	1413	97	2	1512	14410
2011-12	1280	138	1	1419	13778
TOTAL				9935	103907

Source: Directorate of Micro & Small Scale Enterprises, Govt. of West Bengal, 2012-13¹².

Notes:

- 1) *Individual break up of registration among Micro, Small and Medium is not available in 2006-07.
- 2) **Total number of units registered and total employment refer to registration during the year and employment generated by the MSMEs during the year.
- 3) ***EM refers to Entrepreneurship Memorandum

Fig 8.6: Units Registered and Employment in Howrah from 2006-07 to 2011-12



Source: Same as Table 8.5

The registration procedure of MSMEs was simplified with the introduction of Micro, Small and Medium Enterprises Development Act, 2006(Discussed in Chapter 6, Section 6.4). The year wise MSME registration and employment generation shows a clear declining trend as except high growth in 2007-08. This might be due to lack of awareness about the new registration procedure introduced by the MSMED Act, 2006. In 2007-08 when awareness about the new system increased, MSME registration and employment increased significantly resulting in high growth rate in registration and employment generation. However, in the subsequent years, registration and employment generation fell down considerably. There exists a large unorganized MSME sector in Howrah and awareness about the importance of registration is low.

SECTION II

8.6 METHODOLOGY AND DATA SOURCE

This section tries to bring out the ground level reality of Howrah MSMEs by collecting primary data from the sample MSMEs through a well-structured questionnaire. To carry out a comparative performance analysis of MSMEs in Cooch Behar and Howrah, we used the same parameters (investment, employment and turnover) for the same period (2005-06 to 2011-12) in Howrah as we did in the survey of Cooch Behar MSMEs. Two parameters namely percentage of

MSMEs obtaining credit from banks and percentage of their funds financed through bank credit were used to understand the situation of institutional financing to MSMEs in Howrah. We have also used Garrett's Technique to rank the major problems faced by the MSMEs in Howrah.

8.7 POPULATION AND SAMPLING

As per the Progress Report of DIC Howrah, 2011-12, there are about 15,400 registered MSMEs in Howrah. However, we could not collect any definite information regarding the individual number of micro, small and medium enterprises. The micro and few small units centre around the major clusters in Howrah (already discussed in Section I of this chapter) while the small and medium enterprises are found in major industrial parks/estates like Jalan Industrial Complex, Baltikuri Industrial Estate, and Howrah Maidan Industrial Park etc. As the industrial periphery of Howrah district is huge, collection of sample MSMEs was difficult. Keeping in mind the physical and financial constraints, it was decided to select 30 micro units from major clusters, 14 small units and 6 medium industries from Jalan Industrial Complex. Thus, the total number of MSMEs surveyed in Howrah was 50. The list of registered MSMEs is available from the DIC and the units were selected using random sampling method.

8.8 PERIOD AND COVERAGE OF THE STUDY

The total span of the study is from 2005-06 to 2011-12 i.e. seven years. The survey has been conducted in two phases. In the first phase the pilot survey was conducted during November 2012 and December 2012 and the final survey in August 2013 and September 2013.

8.9 PROFILE OF THE SAMPLE MSMEs

8.9.1 Educational background, Gender and Age of the Sample MSME Entrepreneurs

As the table shows, 24 percent of the sample entrepreneurs are graduates while 16 percent are senior secondary, 16 percent are secondary educated and 16 percent of the sample entrepreneurs have professional qualification like engineering, MBA etc.

The study shows significantly lower contribution of the women entrepreneurs as only 5 percent of the entrepreneurs are women. Women entrepreneurs are less in number in the major clusters like spare parts, foundry, re-rolling, optical lens etc. However, they have shown comparatively more contribution in zari and food processing industries.

Majority of sample entrepreneurs (36 percent) are in the age group of 40-50 years followed by 28 percent and 22 percent in the age group of above 50 and 30-40 years respectively. Thus, the socio-economic profile of MSME entrepreneurs shows good formal and technical educational background of the entrepreneurs with good experience in business activities.

Table 8.6: Educational background, Gender and Age of the Sample MSME Entrepreneurs

SL No.	Basis	Educational Standards	No. of Entrepreneurs	Percentage
1	Education	Illiterate	07	14
		Primary	03	06
		Secondary	08	16
		Sr. Secondary	10	20
		Graduation	12	24
		Masters	02	04
		Professional	08	16
		Total	50	100
2	Gender	Male	45	90
		Female	05	10
		Total	50	100
3	Age (in years)	20-30	07	14
		30-40	11	22
		40-50	18	36
		Above 50	14	28
		Total	50	100

Source: Field Survey, 2013

8.9.2 Category-wise distribution of the sample MSMEs

The exact number of micro, small and medium enterprises in Howrah could not be collected. As per the Progress Report of Howrah District Industries Centre (DIC), 2011-12, there are about 15,400 registered MSMEs in Howrah. We have used random sampling method to select 30 micro

units, 14 small units and 6 medium scale units out of the list of registered MSMEs supplied by the Howrah DIC.

Table: 8.7: Category-wise distribution of the sample MSMEs

SL No.	Category	Total No. of MSMEs in Howrah	No. of samples
1	Micro	NA	30
	Small	NA	14
2	Medium	NA	06
	TOTAL	15,400	50

Source: 1) Field Survey, 2013 2) Progress Report of Howrah District Industries Centre (DIC), 2011-12¹⁷

Note: NA refers to Not Available

8.9.3 Period of Establishment of sample MSMEs

Majority of the sample MSMEs (40 percent) are in operation for 15-20 years followed by 30 percent of entrepreneurs operating for 10-15 years and 14 percent for more than 20 years. This suggests that the MSMEs have good experience in business activities.

Table 8.8: Period of Establishment of sample MSMEs

SL No.	Years	No. of Units	Percentage
1	Less than 5 Years	04	08
2	5-10 Years	04	08
3	10-15 Years	15	30
4	15-20 Years	20	40
5	More than 20 Years	07	14
	TOTAL	50	100

Source: Field Survey, 2013

8.9.4 Types of sample MSMEs

We have tried to cover major clusters and industrial parks while collecting sample. Sample micro and a few small units were collected from major clusters (as discussed in Section I of this chapter) while the other small and medium industries from Jalan Industrial Complex.

Table 8.9: Types of sample MSMEs

SL No.	Types	No. of units	Percentage
1	Metal Spare Parts Industries	08	16
2	Re-rolling and Foundry Industries	12	24
3	Rubber Molding Industries	06	12
4	Zari Industries	05	10
5	Optical Lens Industries	03	06
6	Shuttle Cock Industries	03	06
7	Food Processing Industries	07	14
8	Engineering Industries	06	12
	TOTAL	50	100

Source: Field Survey, 2013

8.10 AVERAGE INVESTMENT AND AVERAGE EMPLOYMENT IN SAMPLE MICRO ENTERPRISES

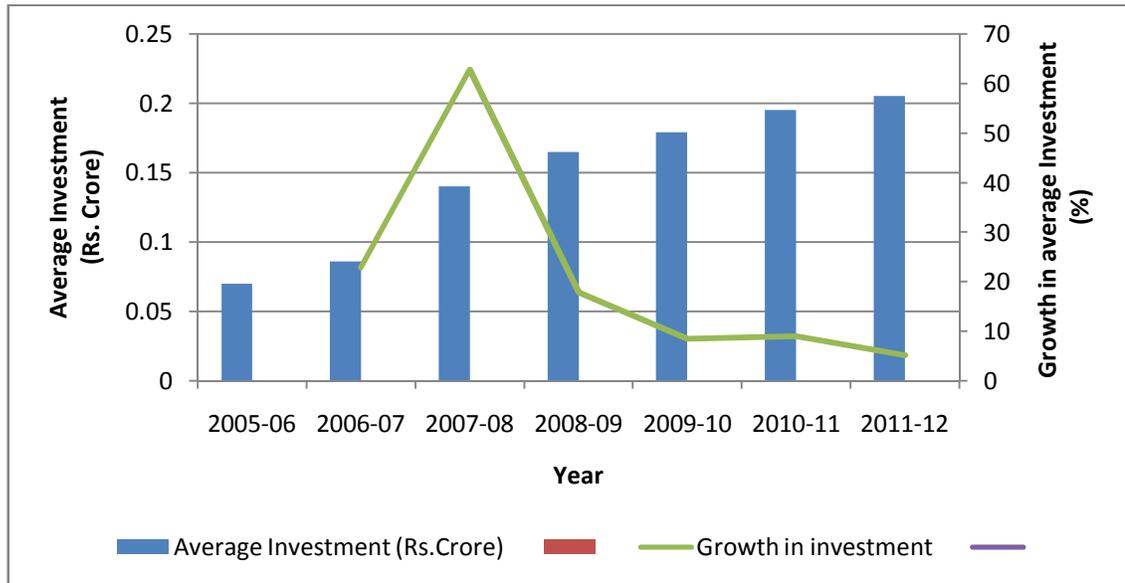
Table 8.10: Average Investment (Rs. Crore) and Average Employment (Number) of Sample Micro Enterprises in Howrah from 2005-06 to 2011-12

ITEM	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Investment	0.07	0.086 (22.86)	0.140 (62.79)	0.165 (17.86)	0.179 (8.49)	0.195 (8.94)	0.205 (5.13)
Employment	4	5(25)	5(Nil)	8(60)	8(Nil)	8(Nil)	8(Nil)

Source: Field Survey, 2013

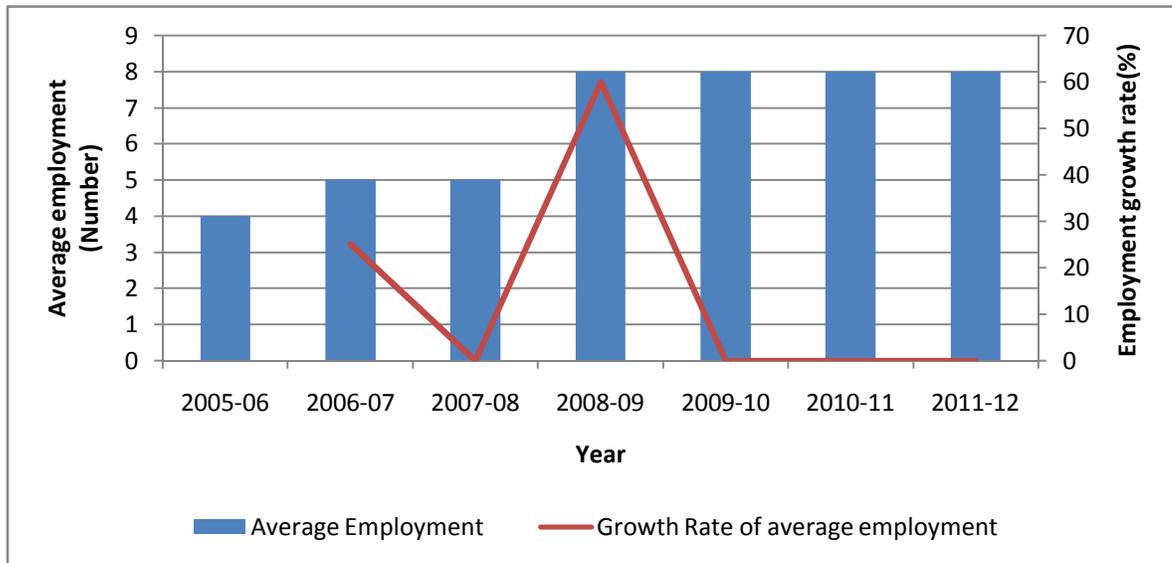
Note:1) Figures in parenthesis show percentage growth over the last year 2) Average Investment and average employment for MSMEs in Howrah have been calculated on the basis of 30 sample micro enterprises, 14 small units and 6 medium industries.

Fig 8.7: Average Investment and growth rate in Average Investment in sample Micro Enterprises



Source: Field Survey, 2013

Fig 8.8: Average Employment and growth rate in sample Micro Enterprises



Source: Field Survey, 2013

Average Investment in micro enterprises from 2005-06 to 2011-12 shows an increasing trend in terms of absolute figures. However, if we consider the growth rate, it shows a fluctuating trend. The overall growth rate in average employment in sample micro units from 2005-06 to 2011-12 is 100 percent. The growth rate shows an increasing trend from 2006-07 to 2008-09 and

after that remain the same upto 2011-12. The field survey, 2013 in ten clusters in Howrah reveals that majority of micro enterprises employ their family members as the workers and transfer their skills from generation to generation. The proportion of skilled hired workers is very low in microenterprises. Employment generated by the sample micro enterprises show that except in 2008-09, it remains almost the same during the study period.

8.11 AVERAGE INVESTMENT AND AVERAGE EMPLOYMENT IN SAMPLE SMALL ENTERPRISES

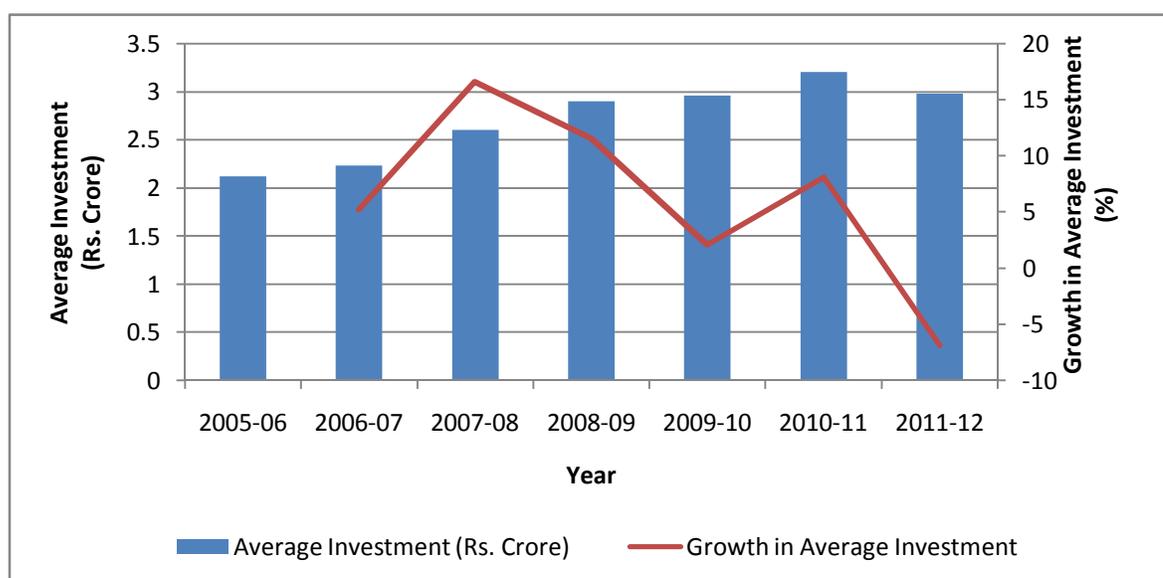
Table 8.11: Average Investment (Rs. Crore) and Average Employment (Number) of Sample Small Enterprises

ITEM	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Investment	2.12	2.23 (5.19)	2.60 (16.59)	2.90 (11.54)	2.96 (2.07)	3.20 (8.11)	2.98 (-6.88)
Employment	30	35 (16.67)	38 (8.57)	38 (NIL)	40 (5.26)	40 (NIL)	40 (NIL)

Source: Field Survey, 2013

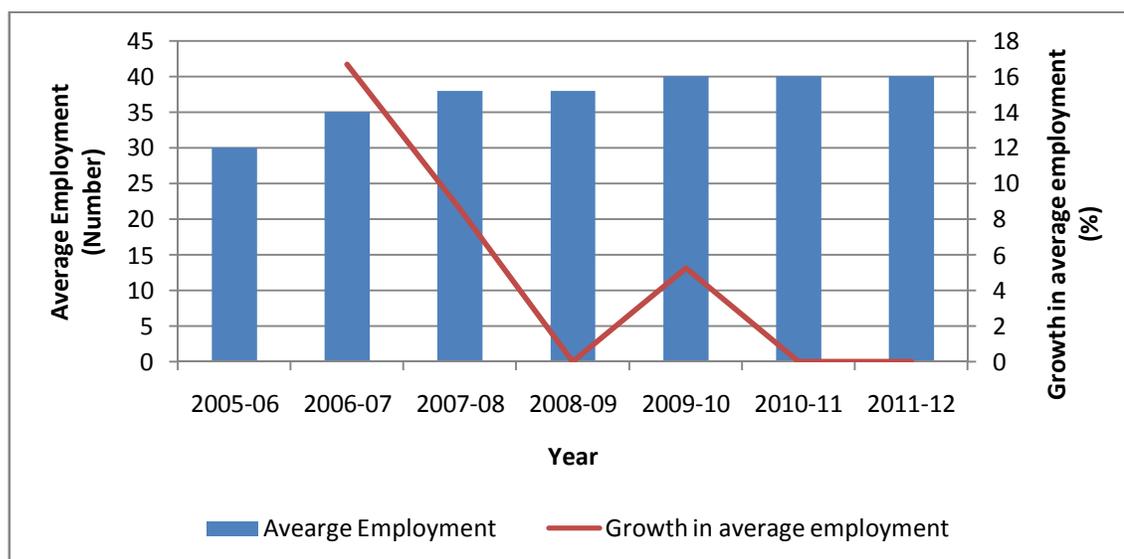
Note: Same as Table 8.10

Fig 8.9: Average Investment and growth rates in Average Investment in sample Small Enterprises



Source: Field Survey, 2013

Fig 8.10: Average Employment and employment growth rate in sample Small Enterprises



Source: Field Survey, 2013

The average investment in small enterprises shows an increasing trend in absolute figures (except 2011-12) and the year wise growth rate reveals a fluctuating trend. The average employment in small enterprises does not show any significant change during the study period. The overall growth rate from 2005-06 to 2011-12 is about 33 percent. From 2009-10 to 2011-12 the average employment has remained the same.

8.12 AVERAGE INVESTMENT AND AVERAGE EMPLOYMENT IN SAMPLE MEDIUM ENTERPRISES

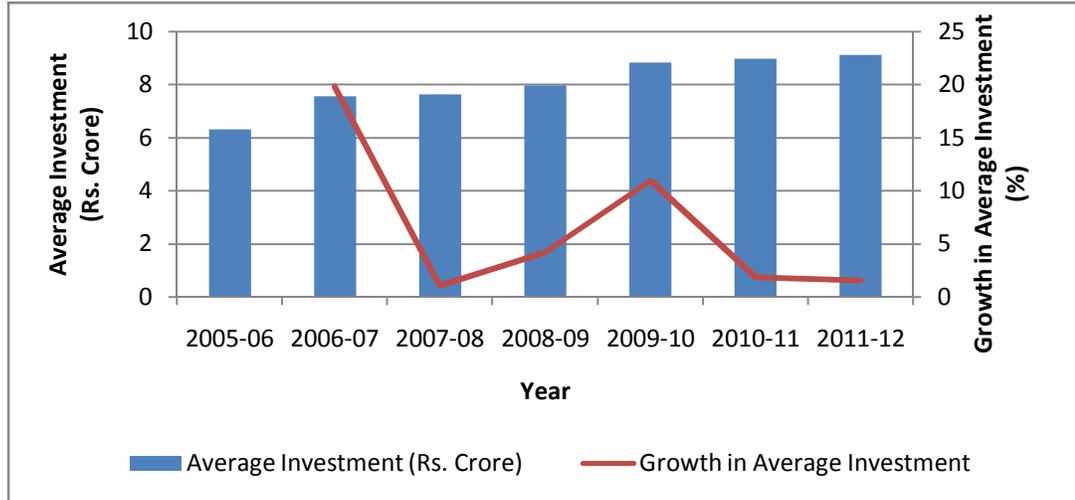
Table 8.12: Average Investment (Rs. Crore) and Average Employment (Number) of Sample Medium Enterprises

ITEM	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Investment	6.30	7.55 (19.84)	7.63 (1.06)	7.95 (4.19)	8.82 (10.94)	8.98 (1.81)	9.12 (1.56)
Employment	20	22 (10)	26 (18.18)	32 (23.08)	36 (12.5)	35 (-2.78)	36 (2.86)

Source: Field Survey, 2013

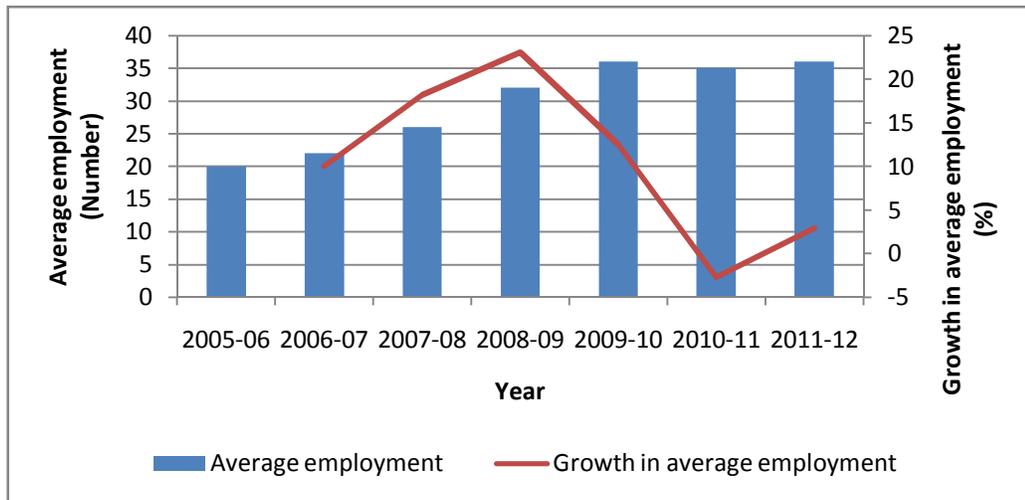
Note: Same as Table 8.10

Fig 8.11: Average Investment and growth rates in sample Medium Enterprises



Source: Field Survey, 2013

Fig 8.12: Average Employment and employment growth rate in sample Medium Enterprises



Source: Field Survey, 2013

The average investment in medium enterprises shows an increasing trend but the year on year growth rates are fluctuating. The overall growth rate from 2005-06 to 2011-12 is about 45 percent. The average employment shows an increasing trend except 2010-11. The growth rates show an increasing trend from 2005-06 to 2008-09 and falling trend in 2009-10 and 2010-11. The overall growth rate for the entire period is 80 percent.

8.13 FINANCING SCENARIO OF MSMEs IN HOWRAH

Table 8.13: Financing Scenario of Sample MSMEs

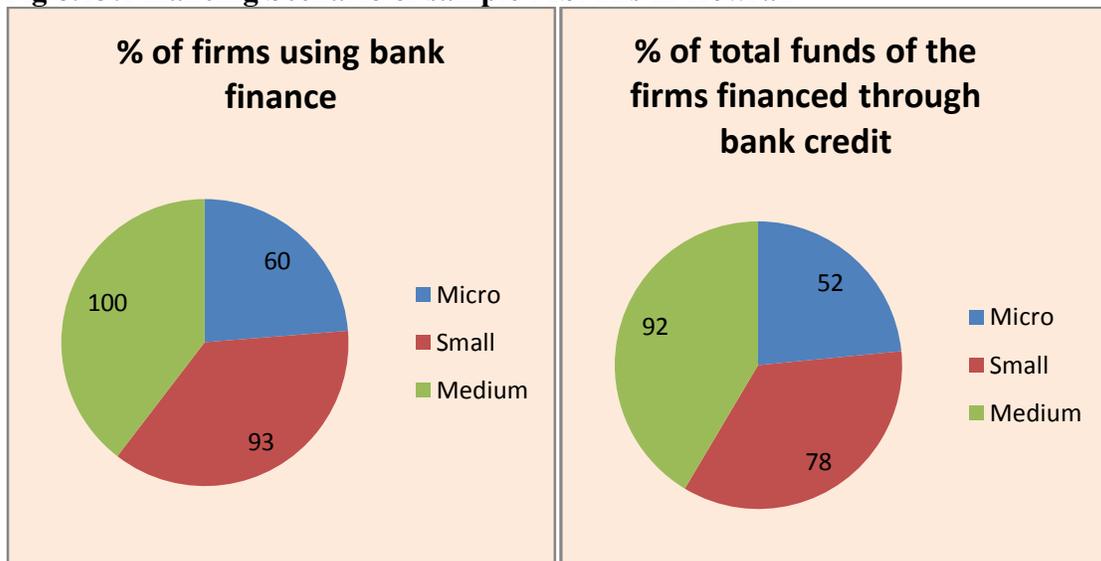
SL	Industry Type	No. of Samples	No. of firms using bank loan	% of firms availed of institutional finance	% of total funds financed through institutional finance
1	Micro	30	18	60	52
2	Small	14	13	93	78
3	Medium	06	06	100	92

Source: Field Survey, 2013

To analyse the financial scenario, we have considered two aspects namely percentage of MSMEs obtained loan from banks and the percentage of total funds of the unit financed through the bank loan. Field survey data reveals that 60 percent of the sample micro units, 93 percent of the sample small units and 100 percent of the sample medium industries have obtained institutional credit support. Institutional support to the MSMEs in Howrah in terms of number of firms granted credit support shows a healthy situation (except micro firms).

In terms of percentage of funds of the sample MSMEs financed by the banks show that 52 percent of funds for sample micro units, 78 percent for sample small firms and 92 percent for medium enterprises are financed by the banks. The sample survey suggests that the banks have done a commendable job though the micro sector is still not getting adequate credit support.

Fig 8.13: Financing Scenario of sample MSMEs in Howrah



Source: Field Survey, 2013

Table 8.14: Problems faced by the MSMEs in securing loans from financial institutions

SL	Details of problems faced	No. of respondents	Percentage
1	Demand for collateral security	28	56
2	Delay in sanction of loan	25	50
3	High rate of interest	20	40
4	Huge paper work	22	44

Source: Field Survey, 2013

The majority of the sample entrepreneurs (56 percent) believed that bank's demand for collateral securities is the most vital problem they encounter while approaching a bank for loan. However, this problem is mainly prevalent among the micro entrepreneurs. The interaction with the small and medium enterprises during the field survey suggests that these units are not much concerned about maintaining collateral securities rather they think that the banks unnecessarily take a lot of time to sanction loans. 44 percent of the sample MSMEs thinks that the loan sanctioning process is too complex and involves huge paper works.

Table 8.15: Demand for loan Vs loan sanctioned by the financial institutions

SL	Loan sanctioned as percentage on loan demanded	No. of respondents	Percentage
1	100	12	24
2	75	18	36
3	50	12	24
4	25	04	08
	Total	46	92

Source: Field Survey, 2013

Note: 4 (8 percent) sample MSMEs did not get credit from banks.

The field survey results suggest that only 24 percent of the sample entrepreneurs got their 100 percent loan demand sanctioned by the banks. This category includes the medium enterprises and some financially strong small firms. 36 percent and 24 percent of firms get credit assistance of 75 percent and 50 percent of their credit needs. This category includes mostly the small and micro firms. 8 percent of firms comprising of micro firms get poor support as only 25 percent of

their credit needs is fulfilled by the banks while 8 percent of the sample units did not get any financial support from the banks.

8.14 AWARENESS IN MSMEs

The field survey results show that the micro units have poor awareness regarding the policy changes and legal framework about the MSMEs. None of the sample micro units have any idea about the reservation policy while only 7 percent of micro units have some preliminary idea about the MAMED Act, 2006. However, the small and medium enterprises respectively have shown encouraging results as 29 percent and 67 percent of small and medium enterprises are familiar with reservation policy and 64 percent and 83 percent of small and medium enterprises respectively have knowledge about the MSMED Act, 2006.

Table 8.16: Awareness among MSME Entrepreneurs regarding vital issues in MSMEs

SL No.	Issues	*No. of Respondents aware of issues			Percentage of Respondents aware
		Micro	Small	Medium	
1	Reservation Policy	0	4	4	0%(M ₁), 29%(S), 67%(M ₂)
2	MSMED Act, 2006	2	9	5	07%(M ₁), 64% (S), 83%(M ₂)
3	Proper maintenance of accounts	13	12	6	43%(M ₁), 100%(S), 100%(M ₂)
4	Idea on Impact of Liberalisation on the firm	10	10	5	33%(M ₁), 83% (S), 83%(M ₂)
5	Advertisement / Marketing Strategy	8	7	6	27%(M ₁), 58%(S), 100%(M ₂)
6	Knowledge on Credit Facility Schemes	10	8	5	33%(M ₁), 67% (S), 83%(M ₂)

Source: Field Survey, 2013

Note: 1) M₁=Micro, S=Small and M₂= Medium Units 2) *Total Samples: Micro =30 units, Small =14 units and Medium =06 units.

43 percent of sample micro units maintain proper books of accounts while all the sample small and medium enterprises claim that they maintain proper accounting procedure. 27 percent of

micro units, 58 percent of small units and 100 percent of medium enterprises use advertisement. However, except the medium and a few prominent small firms, the other sample firms do not have well formulated marketing strategy, separate marketing department, market survey etc. However, some of the micro and small sample units are familiar with modern advertisement techniques like sending mails, giving advertisements in popular websites, developing websites for their companies etc. All the sample medium enterprises use advertisement through local and state dailies, TV. and radio channels, websites etc. However, only 10 percent of the sample medium enterprises have a separate marketing department and carry out regular market survey. The Govt. has announced several credit facilitation schemes for MSMEs from time to time. The awareness about such schemes is low among the micro units (33 percent) and considerably high in small (67 percent) and medium enterprises (88 percent).

8.15 RANKING OF PROBLEMS OF MSMEs AS PER HENRY GARRETT’S RANKING TECHNIQUES

During the field survey, it was our endavoiur to find out the importance of the different problems faced by the MSME entrepreneurs. Unlike Cooch Behar, we identified ten vital issues (financial, infrastructural, marketing, labour, managerial, poor technology, power shortage, irregular supply of raw materials, tough market competition and Govt. policy) and asked the sample entrepreneurs to assign ranks to those issues as per importance. i.e. the most vital problem as per the consideration of the respondent is given the first rank and so on. The results so obtained were used to carry out Garrett’s ranking using Scale Conversion Table given by Henry Garrett.

$$\text{Percent Score} = \frac{100(R_{ij} - 0.5)}{N_j}$$

Where R_{ij} is Rank given for i th item j th individual and N_j is Number of items ranked by j th individual

The percentage score for each rank from 1 to 10 are calculated and converted into scale values using Scale Conversion Table given by Henry Garrett. The scale values (x) for first rank to tenth rank are 81, 70, 63, 57, 52, 47, 42, 36, 29 and 18 respectively. The score value (fx) is calculated for each factor by multiplying the number of respondents (f) with respective scale values(x) (Vishnuvarthani and Selvaraj, 2012)⁷. The mean score is then calculated to know the order of

preference given by the respondents for the factors. Based on the mean score, the overall ranks are assigned for each variable.

Table8.17: Ranking of problems of Howrah MSMEs as per Garrett’s Method

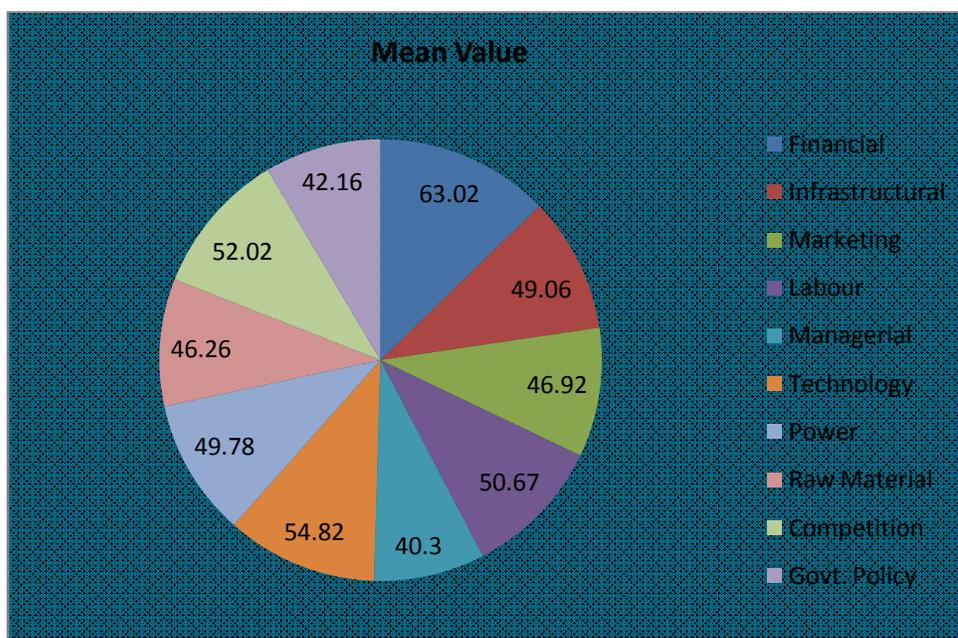
Rank	I	II	III	IV	V	VI	VII	VIII	IX	X	Total	Total Score	Mean Value	Garrett’s Rank
Scale	81	70	63	57	52	47	42	36	29	18				
Factors														
Financial Problems														
f	21	05	05	03	02	03	05	01	03	02	50			
Fx	1701	350	315	171	104	141	210	36	87	36		3151	63.02	1
Infrastructural problems														
f	02	07	04	05	08	05	03	08	05	03	50			
fx	162	490	252	285	416	235	126	288	145	54		2553	49.06	6
Marketing problems														
f	05	04	06	05	04	04	03	05	04	10	50			
fx	405	280	378	285	208	188	126	180	116	180		2346	46.92	7
Labour problems														
f	5	06	07	07	05	03	02	02	07	06	50			
fx	405	420	441	399	260	411	84	72	203	108		2533	50.67	4
Managerial inefficiency														
f	02	01	01	03	04	05	10	08	10	06	50			
fx	162	70	63	171	208	235	420	288	290	108		2015	40.3	10
Poor Technology														
f	05	08	03	10	07	06	03	05	01	02	50			
fx	405	560	189	570	364	282	126	180	29	36		2741	54.82	2
Power Shortage														
f	02	07	06	05	05	07	08	02	03	05	50			
fx	162	490	378	285	260	329	336	72	87	90		2489	49.78	5
Non-availability of raw materials														
f	02	06	05	02	03	08	07	07	04	06	50			
fx	162	420	315	114	156	376	294	292	116	108		2313	46.26	8
Competition														
f	05	04	08	05	06	05	03	10	02	02	50			
fx	405	280	504	285	312	235	126	360	58	36		2601	52.02	3

Govt. policy															
f	01	02	05	05	06	04	06	02	11	08	50				
fx	81	140	315	285	312	188	252	72	319	144		2108	42.16	9	
Total	50	50	50	50	50	50	50	50	50	50					

Source: 1) Field Survey, 2013 2) Vishnuvarthani and Selvaraj, 2012⁷ 3) Ahmad, Fayaz (2012)¹⁹
4) Lahiri, Rajib (2014)⁴

Note: x = Scale Value, f= No. of units, fx = Score

Fig 8.14: Ranking of problems of Howrah MSMEs as per Garrett's method



Source: Field Survey, 2013

As we can see from Figure 8.14, the sample MSME entrepreneurs in Howrah are of the opinion that financing is the most vital problem (mean value 63.02) followed by poor technology (54.82), competition (52.02), labour problem (50.67), power shortage (49.78), infrastructural problems (49.06), marketing problems (46.92), non-availability of raw materials (46.26), Govt. policy (42.16), and managerial inefficiency (40.3).

8.16 MAJOR PROBLEMS FACED BY THE MSMEs IN HOWRAH

Poor banking support

During the field survey in major clusters in Howrah, most of the micro enterprises admit that poor availability of bank loan is the most vital problem for them. On average only 30 percent of the micro firms get bank credit and many of such firms have comparatively strong financial base while the other firms suffer from scarcity of capital. The banks, on average, sanction loans only up to 7 lakh while the units in the cluster needs loan of Rs. 17-18 lakh on average. The units need to maintain about 25 percent of the loan amount as collateral securities. The reasons for poor credit availability of micro units are poor documentation and accounting practice, poor loan repayment record, lack of credit rating, lack of proactive attitude of the banks etc. However, these problems are mostly evident in micro firms only while the majority of small and medium enterprises even financially strong micro firms report that they do not face many problems in obtaining bank credit but these complain that the banking procedure is cumbersome, time consuming and unnecessarily documentation oriented (Lahiri, Rajib, 2014)¹⁶.

Poor technology

The micro enterprises are highly dependent on the traditional skill of their workers. The technology used in these units is below par due to shortage of funds and inability of their workers to handle sophisticated technology. The small and medium firms use comparatively better technology but still these are not at par with the big domestic and foreign firms. Most of the surveyed small and even medium enterprises do not have a separate research and development wing.

Competition

The interaction with the entrepreneurs of micro units reveals that they do not have much idea about the intensity of competition in the market. They mostly operate in the local markets and believe that they face competition only from the similar firms. A few small and all the sample medium firms compete in all India level. They also admit that they are increasingly facing more intense competition in the market due to lack of skilled manager, poor technology and marketing techniques.

Labour problems

The micro and few small scale industries are famous for highly skilled workers with high degree of precision and expertise. They have acquired the skill from generation to generation and learned the job seeing the other family members doing it. However, their skill is not properly upgraded

with modern machineries and they are not familiar with recent trends or changes in tastes, preference and choice of the consumers. The field survey results show that the average number of worker in micro units is 4. Most of the workers in micro units are the family members of the entrepreneurs while only 5 percent of workers are hired on contract basis. The micro entrepreneurs share cordial relations with their workers and the incidence of workers unrest in micro units is a rarity. On average 15 workers are employed in sample small and medium enterprises in Howrah. Few of these units provide on the job training method for the workers. The interaction with the entrepreneurs and workers suggests that they share a strained relation and industrial unrest, lock out, strikes in the units are frequent.

Irregular Power supply

The industrial clusters do not have separate power supplying unit and frequent fluctuation in power is a common problem here. Majority of the units in the cluster have made provision for diesel generator which create environmental problems. The clusters like spare parts cluster at Bargachia, rubber molding cluster at Raghudevpur etc. have placed their demand for separate power supplying unit exclusively for the cluster units which is yet to be materialised.

Infrastructural deficiency

Howrah is well connected with the different parts of the state and the country through road and rail network but the roads inside the clusters are at a very poor shape. The units face tremendous problem in bringing the raw materials and sending the finished products in the market. It is very difficult for the prospective customers to contact physically with the manufacturing units. The units seem to be at a remote village in spite of being situated near Kolkata. There is an urgent need to improve road condition within the cluster to improve the image and accessibility of the units. The units like metal spare parts, rubber molding, gems and jewelry etc require good laboratory and testing facilities to maintain quality of production.

Poor Marketing Technique

The field survey results suggest that only 27 percent of sample micro units, 58 percent of small units and 100 percent of medium enterprises use advertisement to boost sales. None of the sample micro and small units has a well formulated marketing strategy or a separate marketing department. These units use local newspapers, local TV channel etc as the medium of advertisement.

Websites have emerged as a strong medium for advertisement but only 10 percent of the sample MSMEs units have their own websites. About 50 percent of units have registered themselves

with the trade websites but they have given very less information about themselves. The micro units depend on indirect selling i.e. selling through middlemen which increases the price of the product and adversely affects their profitability (Lahiri, Rajib 2014)¹⁶.

Scarcity of Raw Materials

The raw material price is determined by the supply and demand in the local market and controlled by the local suppliers. Often the small firms have to pay the price as decided by the suppliers even if the price of the raw material is less in the international market. There is no regulatory authority to intervene the issue. There is an urgent need of establishing Raw Material Bank especially in the cluster areas to ensure steady supply of raw materials at a justified rate (Lahiri, Rajib 2014)¹⁶.

Govt. Policy

The Govt. taxation policy is cumbersome and time consuming. The excise duty policy of the Central Govt. favours the large business houses creating an uneven competition for the MSMEs. The units in cluster areas have to deposit their taxes and other Govt. dues in Kolkata office. The system should be decentralized and CST, VAT, Municipality fees should be collected from local office. Moreover, the Govt. must ensure a stable policy framework for the MSMEs considering the sensitive nature of the sector.

Managerial inefficiency

The entrepreneurs are the sole decision makers and the percentage of the entrepreneurs having a professional or managerial training is negligible in micro units. It is not possible for these units to employ trained managers due to financial constraints. EDPs and short term skill development programmes might be suitable for them. The medium enterprises employ qualified managers but they do not get the best quality managers as they are snatched away by the large organizations offering fat compensation packages.

8.17 LIMITATION OF THE SURVEY

Unlike Cooch Behar MSMEs, lack of authentic data is a major problem for Howrah MSMEs especially for the micro enterprises. The field survey experience reveals that most of the micro enterprises in industrial clusters do not follow systematic accounting procedure. Collecting seven years data from them was a tough ask. However, the majority of small and medium enterprises follow proper accounting procedure but they do not want to supply information. We requested the sample units to supply their audited annual reports but none of the units were willing to

provide any written document. The DIC provided us with the list of registered MSMEs but the department does not maintain unit wise data for the MSMEs. We could not cross check the data collected through the field survey with the DIC. Therefore, we had to depend on the verbal information supplied by the entrepreneurs.

The survey is restricted to the registered MSMEs only and the MSMEs unorganised sector has not been considered. We faced problems in collecting information from the medium enterprises as they were not willing to cooperate.

The study is carried out by the researcher alone with limited physical and financial ability. It was difficult to visit all the industrial areas in Howrah though all the major industrial clusters and Jalan Industrial Complex were visited.

8.18 CONCLUSION

The performance analysis of MSMEs in Howrah shows that the MSMEs have exhibited dismal performance during post liberalization period due to intensification of market competition, lack of competitiveness, use of worn-out technology, inappropriate marketing and managerial strategies etc.

Howrah has immense industrial potential. The district has a good network of micro, small and medium enterprises and interdependence among these three sectors can be highly beneficial for balanced industrial growth. The sector needs more institutional credit support, infrastructural development, well formulated managerial and marketing strategies, use of advanced technology, establishment of laboratories and testing centres etc to combat the challenges of liberalization and excel in highly competitive market. As per the new Industrial Policy, 2013 West Bengal Govt. has placed special importance for MSMEs and the MSMEs have been identified as the 'thrust area' for industrial development. Howrah, being one of the industrially developed districts of the state has a leading role to play to ensure successful implementation of the policy.

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CHAPTER 9

COMPARATIVE ANALYSIS OF MSMEs IN COOCH BEHAR AND HOWRAH DISTRICTS

This chapter is an attempt to carry out a comparative analysis of Cooch Behar and Howrah MSMEs on the basis of secondary data collected from the Annual Reports published by the districts and primary data gathered from the sample survey in both the districts. The chapter has been divided into two sections. The first section includes comparison of Cooch Behar and Howrah MSMEs on the basis of secondary information and the second section on comparing the survey results.

SECTION I

9.1 COMPARING MAJOR MSMEs IN COOCH BEHAR AND HOWRAH

Cooch Behar is an agriculture dependent district without much industrial development. It is one of the most industrially backward districts in West Bengal. It is famous for handicraft industries like sheetal pati, bamboo products, shola products etc. Because of good agricultural production, agro-based food processing industries like jam, jelly, sauce and chips (supplemented mainly by the production of potato and tomato) have very good prospects. However, with the establishment of Chackchaka Growth Centre in 2004, an industrial park, the industrial scenario has undergone tremendous change. The industrial park houses about 30 units, mostly micro units including food processing, chemical, paper, wood based industries etc. As per DIC Cooch Behar, 2012 there are 582 registered micro units, 24 small and about 900 handicraft industries i.e. a total of 1506 MSMEs in Cooch Behar (**Brief Industrial Profile of Cooch Behar, Ministry of MSME, 2012**)¹⁴. As per DIC records, 2012, there is no medium scale industry in Cooch Behar. The major industrial centres are Mathabhanga, Tufanguange, Dinhata etc apart from Chackchaka Growth Centre. There are a few renowned plywood industries, soap factories and food processing units in Mathabhanga. The handicraft industries are situated at Dhaluabari, Tufanguange, Nakkati Pushnadanga etc which are famous for sheetal pati, wood and sholaproducts.

There is no well developed industrial cluster in Cooch Behar. Formation of cluster for handicraft industries can be highly successful but not yet materialized. In spite of establishment of Chackchaka Growth Centre, the MSMEs are in need of big push. A significant number of units in the Growth Centre have become sick and no significant increase in investment, employment and turnover in MSMEs was observed in recent years. Moreover, there is not a single medium

and large scale industry. Thus, a good network between the MSMEs and large industries cannot be established. The traditional handicraft sector needs urgent attention and forming a well developed cluster might be an appropriate step. The MSMEs encompass a small part of the economy of the district. The industrial scenario in Cooch Behar seems stagnant and requires more attention and exposure **(Lahiri, Rajib 2012)¹**.

On the other hand, Howrah is one of the most industrially developed districts in West Bengal. The major industries include basic metal products, machinery and spares, electrical and electronics machines and parts, hosiery and garments, rubber and plastics, paper and paper products, food processing industries, leather products, computer hardware and software products etc.

Howrah has an enriched handicrafts sector which produce wood carving, batik and tie-dye, clay modeling, needlework, cane and bamboo products, brass metal products, zari, bead work sea shell and coconut shell products etc. **(Brief Industrial Profile of Howrah, Ministry of MSME, 2012)¹⁵**.

As per the Progress Report of DIC Howrah, 2011-12, there are about 15,400 registered MSMEs in Howrah. However, we could not collect any definite information regarding the individual number of micro, small and medium enterprises. The cluster concept has been successfully implemented in Howrah. There are nine major identifiable clusters such as Metal and Spare parts Cluster at Bargachia, Rubber Moulding Cluster at Raghudevapur, Re-Rolling Mill Cluster, Liluah, Metal casting Foundry, Embroidery and Garment Manufacturing Cluster, Pipulan, Zari Embroidery Cluster, Sankrail, Gems and Jewellery Cluster and Imitation Ornaments Cluster, Domjur, Optical Lens Cluster, Munshirhat and Shuttle Cock Manufacturing Cluster, Uluberia. The 95 percent of the operating units in these clusters are micro units while 5 percent (approximately) of units are small scale industries. There are a few major industrial parks like WBIIDC Growth Centre, Baltikuri Industrial Estate, Howrah Maidan Industrial Complex, Jalan Industrial Complex, Jangalpur, Domjur, Jalan Industrial Park, Jaladhulagori, Sankrail, Bauria Industrial Estate etc **(Progress Report of DIC, Howrah, 2011-12)¹¹**. These industrial complexes house a number of MSMEs especially small and medium enterprises. The scale of operation of the MSMEs in Howrah is significantly high compared to Cooch Behar.

9.2 COMPARING PERFORMANCE OF MSMEs IN COOCH BEHAR AND HOWRAH DISTRICTS

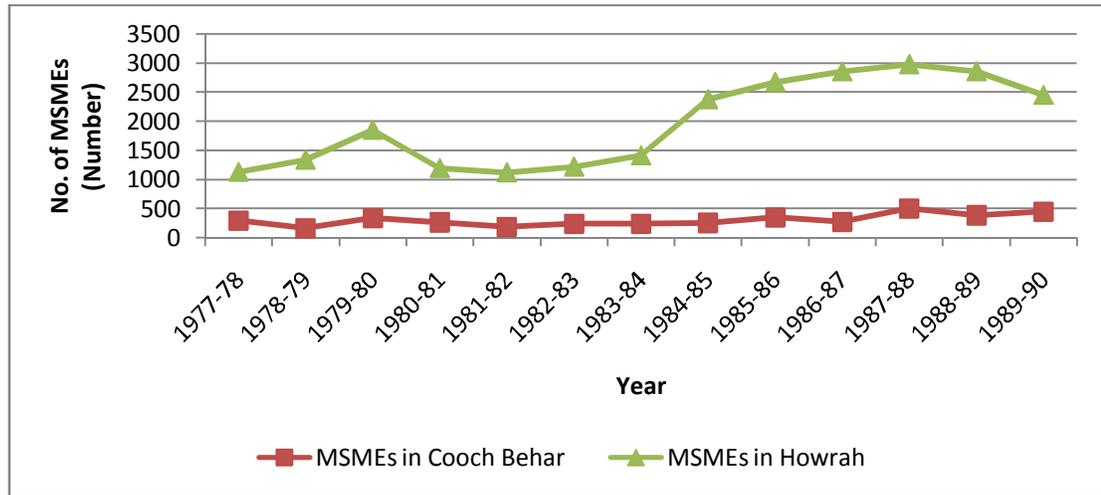
Table 9.1: Number of Registered MSMEs (Number) and corresponding Employment (Number) in Cooch Behar and Howrah from 1977-78 to 2005-06

Pre-Liberalisation Period					Post Liberalisation Period				
Cooch Behar		Howrah			Cooch Behar		Howrah		
Year	Units	Employment	Units	Employment	Year	Units	Employment	Units	Employment
1977-78	302	1072	1132	11803	1990-91	444	2003	2338	10097
1978-79	168	595	1335	12015	1991-92	499	1961	2321	7712
1979-80	341	1289	1851	16659	1992-93	185	756	1512	6607
1980-81	270	1562	1198	10163	1993-94	93	423	1371	6498
1981-82	190	1041	1121	6950	1994-95	117	375	1694	9184
1982-83	242	2338	1219	7777	1995-96	140	628	1669	9010
1983-84	241	2219	1411	8762	1996-97	247	1343	1761	9435
1984-85	260	1599	2374	11227	1997-98	245	1210	1822	8745
1985-86	349	1922	2665	10371	1998-99	186	1123	1496	7815
1986-87	273	1289	2850	12575	1999-00	248	1363	995	6565
1987-88	504	2223	2973	10923	2000-01	199	1448	539	3243
1988-89	390	2222	2851	14401	2001-02	183	902	608	3065
1989-90	451	2202	2449	11431	2002-03	200	1310	568	2980
					2003-04	311	1992	922	4505
					2004-05	332	1746	1140	4981
					2005-06	278	1694	1095	5798

Source: Government of West Bengal, Statistical Abstract (2005), Bureau of Applied Economics and Statistics¹²

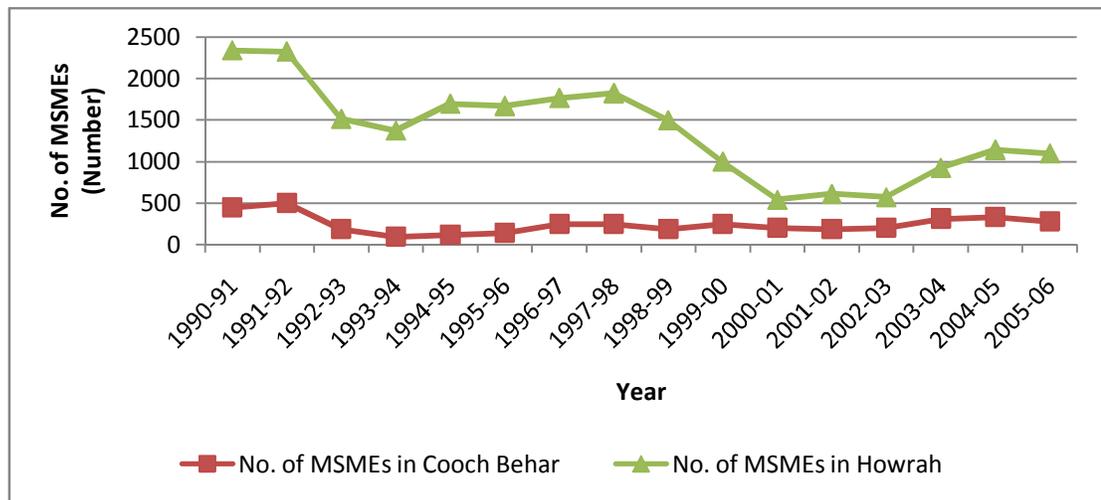
Note: The figures show number of units registered and employment during the year for both the districts. Cumulative figures of units registered and employment is not available.

Fig 9.1: No. of MSMEs Registered during the year in Cooch Behar and Howrah from 1977-78 to 1989-90



Source: Same as Table 9.1, **Note:** Same as Table 9.1

Fig 9.2: No. of MSMEs registered during the year in Cooch Behar and Howrah from 1990-91 to 2005-06

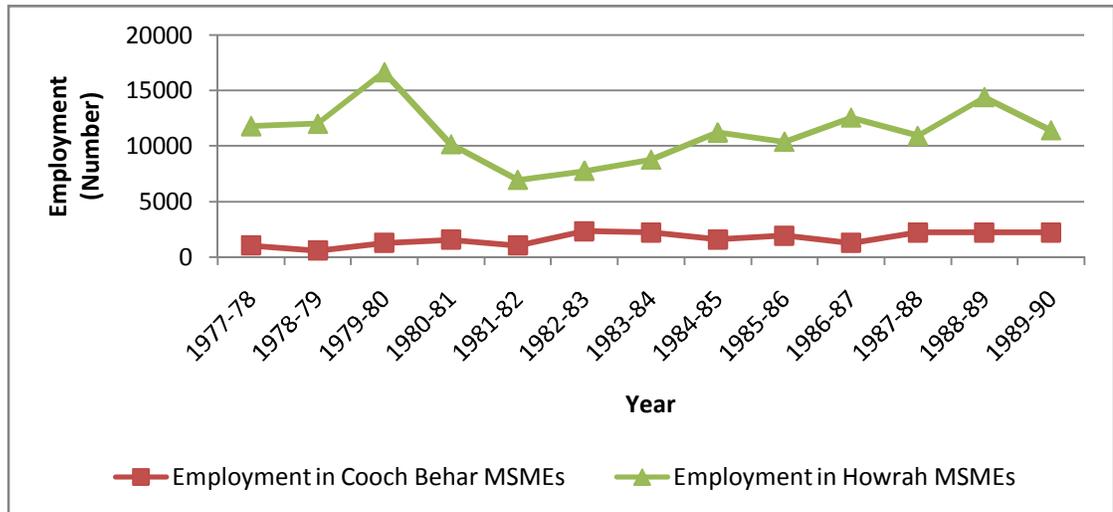


Source: Same as Table 9.1 **Note:** Same as Table 9.1

As figures 9.1 and 9.2 show, the MSMEs registered (fresh registration during the year) in Cooch Behar during pre and post reforms period remains almost the same. No significant effect of globalization is observed on the number of MSMEs during post liberalization period. On the other hand, there exist significant variations in MSME units in Howrah during pre and post reforms (Figure 9.1 and 9.2). During the pre reforms period, the units registered showed almost

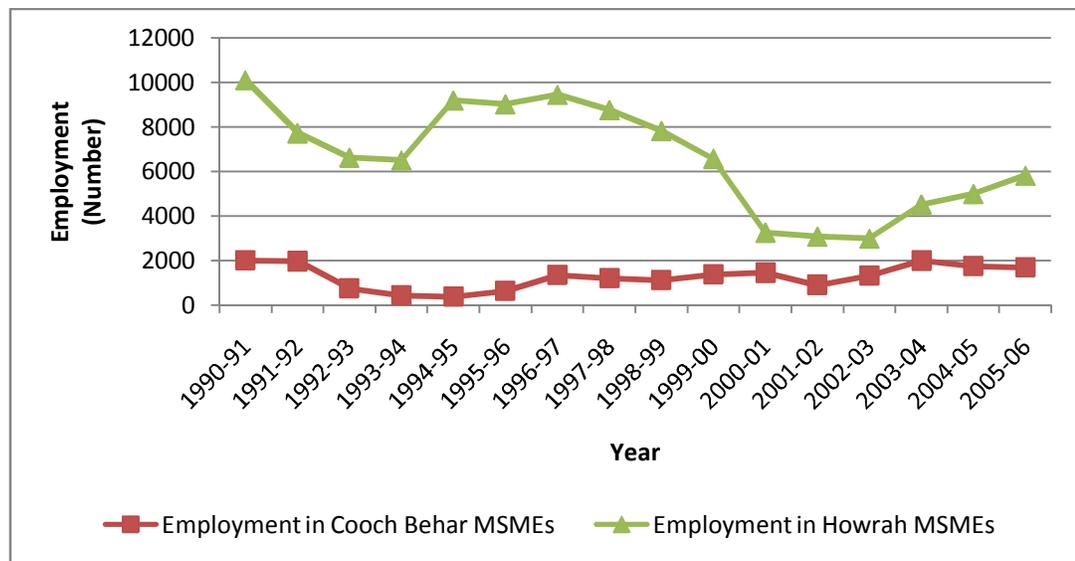
an increasing trend but during the post reforms period, it showed a declining trend (except from 2003-04 to 2005-06). This might be due to severe competition in the market, high rate of sickness, existence of big unorganized market etc.

Fig 9.3: Employment during the year in Cooch Behar and Howrah from 1977-78 to 1989-90



Source: Same as Table 9.1, Note: Same as Table 9.1

Fig 9.4: Employment during the year in Cooch Behar and Howrah from 1990-91 to 2005-06



Source: Same as Table 9.1, Note: Same as Table 9.1

The employment generated by the MSMEs in Cooch Behar does not reflect any significant change during post liberalization period (Figure 9.3 and 9.4). It is mildly high from 2001-02 due to some industrial initiatives taken by the Govt. The impact of globalization on the employment generating capacity (year wise) of the MSMEs in Cooch Behar is not at all prominent.

The MSMEs in Howrah show considerable variation in employment during pre and post reforms period (Figure 9.3 and 9.4). It shows fluctuating trend in pre reforms period and declining trend in post reforms period upto 2000-01 and increasing trend from 2002-03 to 2005-06. Thus, employment generation (year wise) has not been satisfactory in Howrah during post reforms period (Lahiri, Rajib 2014)¹⁰.

This is important to note that for performance analysis purpose, we have considered number of MSMEs registered and employment during the year as reliable information regarding cumulative figures of units registered and employment could not be obtained.

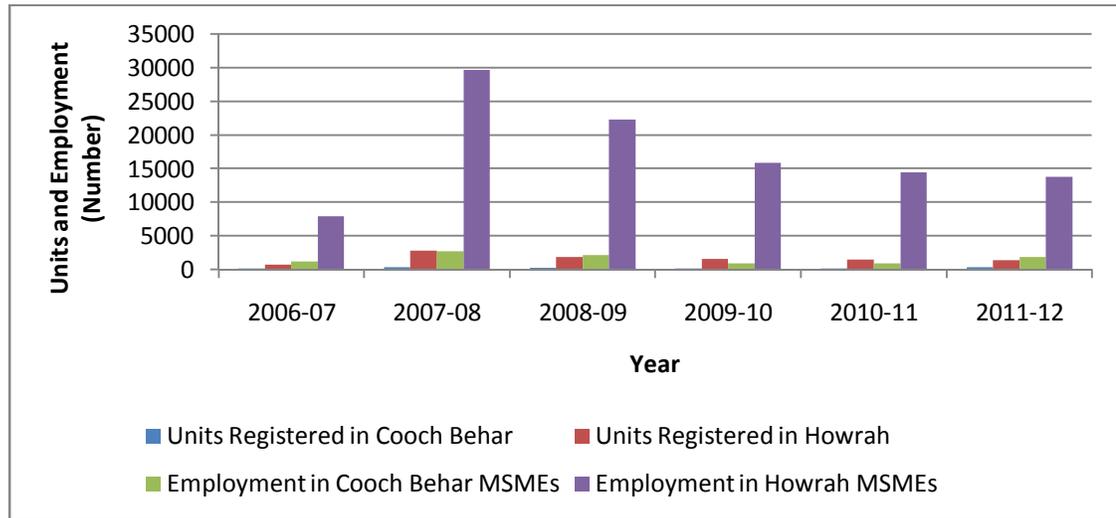
Table 9.2: MSME Units registered (EM-II) (Number) and Corresponding Employment (Number) in Cooch Behar and Howrah from 2006-07 to 2011-12

Year	Units Registered (EM II) and Employment in Cooch Behar MSMEs since MSMED Act, 2006					Units Registered (EM II) and Employment in Howrah MSMEs since MSMED Act, 2006				
	Micro	Small	Medium	Total	Employment	Micro	Small	Medium	Total	Employment
2006-07	NA	NA	NA	167*	1217	NA	NA	NA	725*	7944
2007-08	384	6	0	390	2717	2555	233	0	2788	29589
2008-09	243	5	0	248	2138	1683	210	3	1896	22306
2009-10	151	1	0	152	986	1417	184	4	1605	15880
2010-11	177	2	0	179	976	1413	97	2	1512	14410
2011-12	366	4	0	370	1924	1280	138	1	1419	13778
TOTAL				1506	9958				9935	103907

Source: Directorate of Micro & Small Scale Enterprises, Govt. of West Bengal, 2011-12⁷

Notes: 1) *Break up of MSMEs in Micro, Small and Medium Enterprises in 2006-07 is not available. 2) Total MSMEs registered and total employment refers to registration during the year and employment generated by the MSMEs during the year.

Fig 9.5: MSMEs Registered and Employment during the year in Cooch Behar and Howrah from 2006-07 to 2011-12



Source: Same as Table 9.2, Note: Same as Table 9.2

Introduction of Micro, Small and Medium Enterprise Development Act, 2006 has considerably simplified the registration procedure to encourage more and more MSMEs to get registered. MSMEs finally registered (year wise) i.e. submitted EM-II and employment generated by these from 2006-07 to 2011-12 show a fluctuating trend in Cooch Behar and decreasing trend in Howrah. In 2006-07, the number of units registered and employment were very less in both the districts which increased substantially in next year but a steady growth is not maintained in both the districts. Though the number of MSMEs and employment in Howrah is significantly higher than Cooch Behar, decreasing trend in registration and employment must be a matter of serious concern.

SECTION II

9.3 COMPARATIVE ANALYSIS OF MSMEs IN COOCH BEHAR AND HOWRAH BASED ON FIELD SURVEY

9.3.1 Distribution and Types of MSMEs

Table 9.3: Category-wise distribution of the sample MSMEs in Cooch Behar and Howrah

SL No.	Category	Cooch Behar		Howrah	
		Total Number of MSMEs	No. of Samples	Total Number of MSMEs	No. of Samples
1	Micro	582	20	NA	30
2	Small	24	12	NA	14
3	Medium	---	---	NA	06
4	Handicraft	900	18	NA	---
	TOTAL	1506	50	15,400	50

Source: 1) Field Survey, 2013 2) Progress Report of Cooch Behar and Howrah District, 2011-12¹¹

Note: NA refers to Not Available

We have considered 50 sample MSMEs from each district. There is no medium scale industry in Cooch Behar. Most of the industries are either micro or handicraft industries with a few small scale industries. During the survey we identified that there are a few ‘big’ small enterprises in Cooch Behar which are on the verge of medium enterprises.

The exact number of micro, small and medium enterprises in Howrah could not be collected. As per the Progress Report of Howrah District Industries Centre (DIC), 2011-12, there are about 15,400 registered MSMEs in Howrah. We visited all the major clusters and few industrial estates. Due to limited physical and financial ability, we could survey very limited number of handicraft industries in Howrah and could not collect effective and reliable information from these. Therefore, handicraft industries in Howrah are not considered in the analysis.

Table 9.4: Types of sample MSMEs in Cooch Behar and Howrah

SL No.	Types	Cooch Behar		Howrah	
		No. of Units	Percentage	No. of Units	Percentage
1	Food Processing Industries	17	34	07	14
2	Plywood Industries	06	12	-----	-----
3	Paper Industries	03	6	-----	-----
4	Chemical Industries	06	12	02	04
5	Handicraft Industries	18	36	-----	----
6	Metal Spare Parts Industries	-----	-----	08	16
7	Re-rolling and Foundry Industries	-----	-----	10	20
8	Rubber Molding Industries	-----	-----	06	12
9	Zari Industries	-----	-----	05	10
10	Optical Lens Industries	-----	-----	03	06
11	Shuttle Cock Industries	-----	-----	03	06
12	Engineering Industries	-----	-----	06	12
	TOTAL	50	100	50	100

Source: Field Survey, 2013

The sample MSMEs in both the districts give a good idea about the industrial structure there. Cooch Behar has less number of MSMEs with very limited variety of Industries. Most of the modern MSMEs are located at Chackchaka Growth Centre and food processing, plywood and handicraft industries are the major industries here. Thus, majority of our samples are collected from handicraft and food processing industries (38 percent and 36 percent respectively) followed by plywood, chemical and paper industries. On the other hand, Howrah has a strong industrial base especially in metal spare parts, engineering, re-rolling, food processing etc. In our sample

collection procedure, we have tried to cover major of types of MSMEs in Howrah except handicraft industries as we could not gather reliable information from these units. We have visited major clusters and collected samples using random sampling method.

9.3.2 Institutional Financing to the MSMEs

Table9.5: Financing Scenario of MSMEs in Cooch Behar and Howrah

Type of Industry	Cooch Behar		Howrah	
	% of firms availed of institutional financing	% of total funds financed through institutional finance	% of firms availed of institutional finance	% of total funds financed through institutional finance
Micro	75	47	60	52
Small	83	66	93	78
Handicrafts	33	28	---	---
Medium	----	----	100	92

Source: Field Survey,2013

Field survey data reveals that the credit support to micro units in both the districts and handicraft industries in Cooch Behar is not satisfactory. Only 47 percent and 52 percent of total funds of micro enterprises in Cooch Behar and Howrah and only 28 percent of capital of Handicraft industries in Cooch Behar comes through institutional financing while the rest is financed through own sources or unorganized sources. The situation is markedly better in case of small enterprises in both the districts and medium enterprises in Howrah. 83 percent and 93 percent of the sample small enterprises in Cooch Behar and Howrah respectively got credit support from banks and 66 percent and 78 percent of their total funds (in Cooch Behar and Howrah respectively) was financed through bank credit. All the sample medium enterprises got bank credit support in Howrah and more than 90 percent of their funds were financed through bank credit. Both the districts require more credit support for micro and handicraft sectors. The banks can be a bit unorthodox or proactive in loan sanctioning procedure and the MSMEs must also be responsible borrower by maintaining proper accounting, proper repayment of loan etc.

9.3.3 Average Investment and Average Employment of sample MSMEs during the study period (2005-06 to 2011-12)

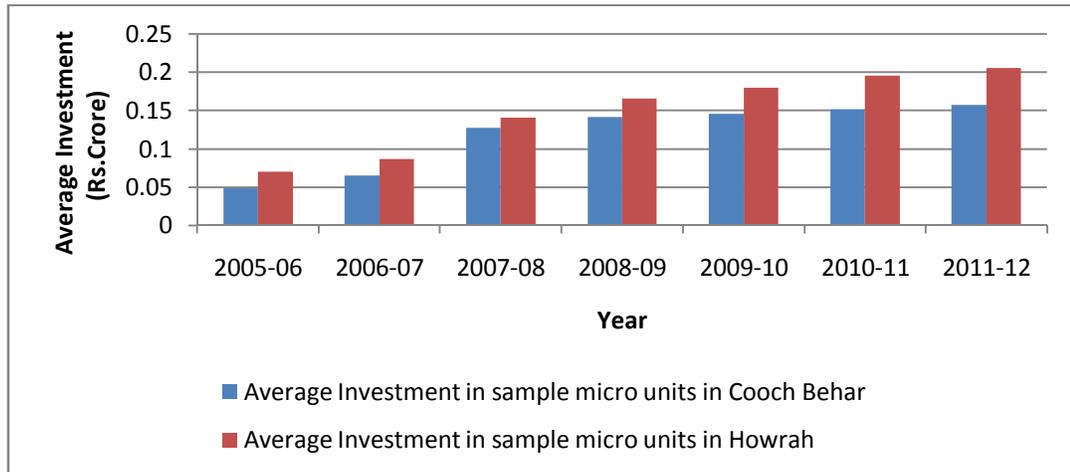
Table 9.6: Average Investment (Rs. Crore) in Plant and Machinery of the sample MSMEs in Cooch Behar and Howrah

Year	Cooch Behar			Howrah		
	Micro	Small	Handicraft	Micro	Small	Medium
2005-06	0.048	0.927	0.003	0.07	2.12	6.30
2006-07	0.065 (35.42)	1.000 (7.87)	0.0035 (16.67)	0.086 (22.86)	2.23 (5.19)	7.55 (19.84)
2007-08	0.127 (95.38)	1.022 (2.2)	0.004 (14.29)	0.140 (62.79)	2.60 (16.59)	7.63 (1.06)
2008-09	0.141 (11.02)	1.099 (7.53)	0.004 (Nil)	0.165 (17.86)	2.90 (11.54)	7.95 (4.19)
2009-10	0.145 (2.84)	1.185 (7.83)	0.005 (25)	0.179 (8.49)	2.96 (2.07)	8.82 (10.94)
2010-11	0.151 (4.14)	1.33 (12.24)	0.006 (20)	0.195 (8.94)	3.20 (8.11)	8.98 (1.81)
2011-12	0.157 (3.97)	1.418 (6.62)	0.007 (16.67)	0.205 (5.13)	2.98 (-6.88)	9.12 (1.56)

Source: Field Survey, 2013

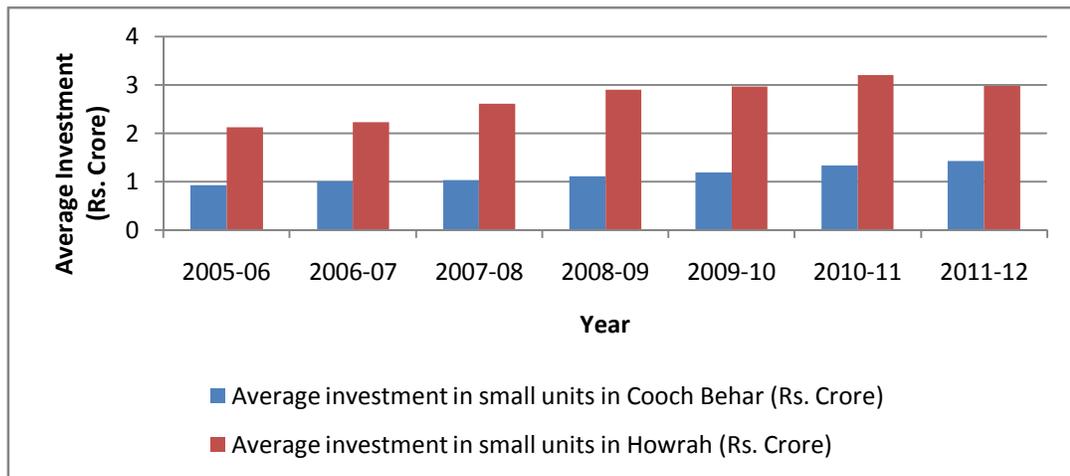
Note:1) Figures in parenthesis show percentage growth over the last year. 2) Average Investment for MSMEs in Cooch Behar has been calculated on the basis of 20 sample micro, 12 sample small and 18 sample handicraft units. 3) Average Investment for MSMEs in Howrah has been calculated on the basis of 30 sample micro, 14 sample small and 06 sample medium scale industries.

Fig 9.6: Average Investment (Rs. Crore) in sample Micro units in Cooch Behar and Howrah



Source: Field Survey, 2013

Fig 9.7: Average Investment (Rs. Crore) in sample Small units in Cooch Behar and Howrah



Source: Field Survey, 2013

Average Investment in sample micro and small units shows increasing trend in both the districts in terms of absolute figures. However, growth rate in average investment in Cooch Behar and Howrah does not show any specific trend as the growth rates are highly fluctuating. Average investment in Howrah MSMEs is much higher than Cooch Behar MSMEs.

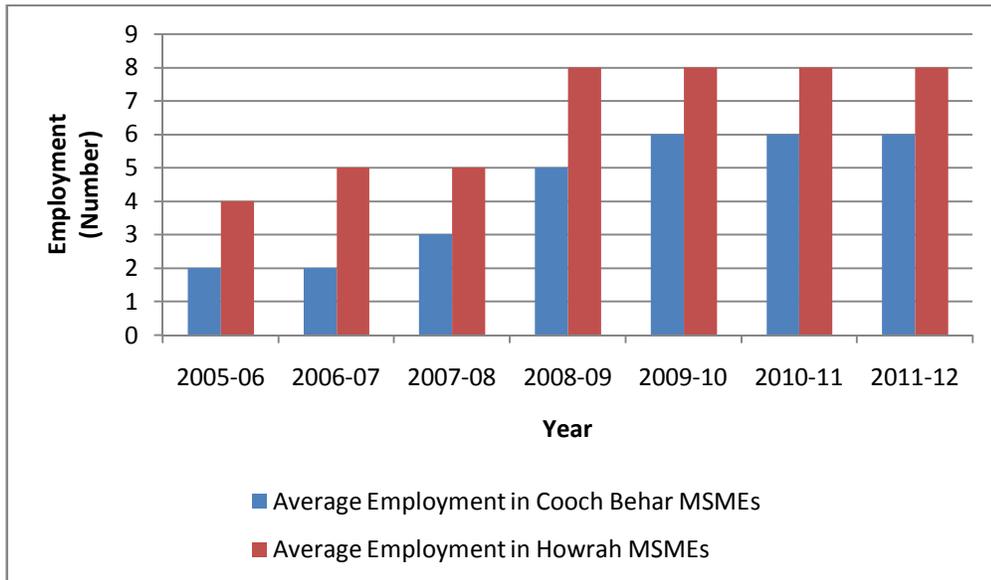
Table 9.7: Average Employment (Number) in sample MSMEs in Cooch Behar and Howrah from 2005-06 to 2011-12

Year	Cooch Behar			Howrah		
	Micro	Small	Handicraft	Micro	Small	Medium
2005-06	2	25	3	4	30	20
2006-07	2(Nil)	32(28)	4(33.33)	5(25)	35(16.67)	22(10)
2007-08	3(50)	34(6.25)	4 (Nil)	5(Nil)	38(8.57)	26(18.18)
2008-09	5(66.67)	37(8.2)	6(50)	8(60)	38(Nil)	32(23.08)
2009-10	6(20)	37 (Nil)	6(Nil)	8(Nil)	40(5.26)	36(12.5)
2010-11	6(Nil)	38(2.70)	6(Nil)	8(Nil)	40(Nil)	35(-2.78)
2011-12	6(Nil)	38(Nil)	7(16.67)	8(Nil)	40(Nil)	36(2.86)

Source: Field Survey, 2013

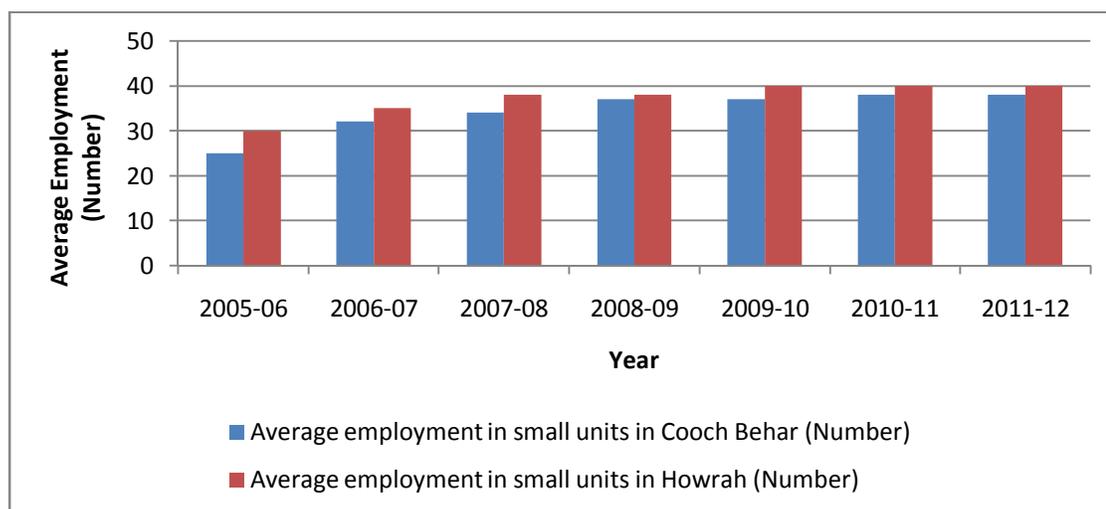
Note: Same as Table 9.6

Fig 9.8: Average Employment (Number) in sample Micro units in Cooch Bihar and Howrah



Source: Field Survey, 2013

Fig 9.9: Average Employment (Number) in sample Small units in Cooch Bihar and Howrah



Source: Field Survey, 2013

Employment generation is the most vital aspect of MSMEs. The number of workers employed in micro units in Cooch Behar shows increasing trend upto 2008-09 and after that it remains the same. The similar trend is also observed in micro units in Howrah. Except mild increase in 2006-07, 2008-09 and 2011-12, no significant change in employment of the handicrafts industries in Cooch Behar is observed. On the other hand, Howrah micro units show fluctuating growth rate over the study period. Growth rate in average employment of small units in both the districts and medium enterprises in Howrah show a fluctuating trend.

9.3.4 Awareness among the MSMEs

Table 9.8: Awareness among sample MSME Entrepreneurs in Cooch Behar and Howrah regarding vital issues of MSMEs

SL No.	Issues	Percentage of MSMEs aware of issues in Cooch Behar			Percentage of MSMEs aware of issues in Howrah		
		Micro	Small	Handicraft	Micro	Small	Medium
1	Reservation Policy	0	33	0	0	29	67
2	MSMED Act, 2006	10	58	0	7	64	83
3	Proper maintenance of accounts	40	100	11	43	100	100

4	Idea on Impact of Liberalisation	30	83	0	33	83	83
5	Advertisement / Marketing Strategy	0	50	0	27	85	100
6	Knowledge on Credit Facility Schemes	25	58	11	33	67	83

Source: Field Survey, 2013

The comparative analysis of awareness about the vital issues relating to MSMEs shows that the Howrah MSMEs are in a better position than that of Cooch Behar MSMEs though their performance is also not up to the mark. None of the sample micro units in both the districts have any minimum idea about the Reservation Policy. The study results show that the Reservation Policy has no relevance in Cooch Behar and Howrah MSMEs and the MSMEs are not likely to be much affected due to gradual withdrawal of the policy. All the sample small units in both the districts and the medium enterprises in Howrah district (there is no medium scale industries in Cooch Behar) claim that they maintain proper accounting procedure and undertake regular auditing of their accounts while less than 50 percent of micro firms follow proper accounting techniques. This is a major reason why the micro units in both the districts get poor financial support from the banks. 58 percent of small units in Cooch Behar and 64 percent of small units in Howrah district claim that they are aware of MSMED Act, 2006, one of the most vital developments in MSME sector in recent times. However, the field survey reveals that except the medium enterprises in Howrah, the other units have very less idea about MSMED Act, 2006. The Howrah MSMEs are much ahead in terms of advertisement and marketing strategy. 25 percent of micro units, 85 percent of small units and 100 percent of medium enterprises use advertisement measures in Howrah while only 50 percent of small units in Cooch Behar use advertisement and none of the micro and handicraft industries use advertisement. The MSMEs in both the districts need to be more aware of using low cost innovative advertisement techniques.

9.3.5 Comparative rankings of major problems faced by the MSMEs

Table 9.9: Comparative Ranking of Major Problems MSMEs in Cooch Behar and Howrah District as per Garrett's Ranking Technique

SL No.	Problems	Cooch Behar MSMEs	Howrah MSMEs
		Ranking	Ranking
1	Financial Problems	1	1
2	Infrastructural problems	3	6
3	Marketing problems	10	7
4	Labour problems	9	4
5	Managerial inefficiency	6	10
6	Poor Technology	2	2
7	Power Shortage	7	5
8	Non-availability of raw materials	4	8
9	Competition	4	3
10	Govt. policy	8	9

Source: Field Survey, 2013

With the help of data collected from the field survey, we have made an analysis of ranking of common problems faced by the MSMEs in both the districts using Garrett's Ranking method (Vishnuvarthani and Selvaraj (2012)³ (details are available in Chapter No. 7 and Chapter No. 8). Table 9.10 shows the comparative analysis of such rankings by the sample entrepreneurs in Howrah and Cooch Behar. The entrepreneurs of both the districts have ranked poor financial support and lack of advanced technology as their first and second most vital problems. The sample MSMEs especially the micro and few small enterprises are not satisfied with the role of banks and believe that the obtaining bank loans is an extremely cumbersome and time taking procedure. The level of technology put to use in Howrah and Cooch Behar is not sufficient to compete with the market. Poor availability of raw material seems to be a major problem for

Cooch Behar MSMEs mainly due to poor transport facilities while the Howrah MSMEs do not consider it as a major problem. The Cooch Behar MSMEs have ranked managerial inefficiency as 6th most vital problem while surprisingly, Howrah MSMEs have considered it as the least vital problem. This might be due to easy availability of trained managers in Howrah because of existence of good number of management training schools in nearby areas. However, it was evident from the field survey that the MSMEs mainly the micro and few small units do not have much idea about managerial efficiency. Howrah MSMEs have ranked labour problems as 4th most vital problem while Cooch Behar MSMEs have given it the 9th rank. The small and medium enterprises in Howrah consider labour problem as a vital problem while the micro units do not consider it to be a vital problem as the majority of workers in micro units are family members. As the number of small enterprises is considerably low in Cooch Behar, the MSMEs do not give much weightage to the labour problems. We find from the field survey that the modern micro and small scale industries in Cooch Behar are recent development initiated with the establishment of Chackchaka Growth Centre. Thus, most of the entrepreneurs are first generation entrepreneurs and the process of skill transfer from generation to generation has not yet effectively started (except handicrafts industries). On the other hand, the micro and small firms are in existence from a long period in Howrah and the workers learn and transfer their skills from one generation to the other. The workers are highly efficient but they do not have much exposure to modern technologies. MSMEs in both the districts are concerned about the high degree of competition in the market and ranked “competition” high up their order. Surprisingly, MSMEs are not concerned about their marketing inefficiencies as the Cooch Behar MSMEs consider it the least vital problem and Howrah MSMEs 7th most vital problem. The MSMEs in both the districts are not much aware of the Govt. policies and have ranked Govt. policy lower part of the order.

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CHAPTER 10

SUMMARY, CONCLUSION AND SUGGESTIVE MEASURES

This chapter is an attempt to present the summarized version of the major findings of the study and offer some suggestive measures for the betterment of MSMEs in India as well as in Cooch Behar and Howrah. We have tried to analyse the role, growth and performance of MSMEs with special reference to MSMEs in Cooch Behar and Howrah districts in West Bengal using both primary and secondary data. The study analyses the socio-economic conditions and various economic parameters like institutional support, investment, employment from 2005-06 to 2011-12 and identifies the major problems faced by the MSMEs in Cooch Behar and Howrah districts. The study is based on information collected from 50 sample units each (selected through simple random sampling) of the districts with the help of a structured questionnaire.

The findings of the study have been categorised into two areas like 'general' and 'survey'. The 'general' findings refer to the major observations made regarding MSMEs in India and in West Bengal while 'survey' findings refer to the observations regarding MSMEs in Cooch Behar and Howrah districts. The 'general' findings are based on secondary data while the 'survey' findings are based mainly on primary data collected through field survey.

10.1 GENERAL FINDINGS

Objectives

O₁: To understand the institutional credit scenario to MSMEs

Findings: Timely and uninterrupted supply of institutional financing is probably the most vital condition for development of MSMEs. The public sector banks play the pivotal role in MSME lending whereas the private banks and foreign banks are yet to play a significant role though their influence is increasing continuously. The supply of credit to the MSMEs especially to the micro units has not been satisfactory. As per the **Third Census**²¹ of SSIs (Base year 2001-02), only 14.26 percent of the registered units availed of bank finance while only 3.09 percent of the unregistered units had access to bank finance. The **Fourth Census of MSMEs (Base year 2006-07)**⁹ shows that out of the registered MSMEs, more than 87% of firms do not have any access of institutional financing. The annual growth rate of Net Bank Credit, Credit to MSMEs and Percentage of Net Bank Credit offered to MSMEs from 1994-95 to 2011-12 show

fluctuating trend. The annual growth rate of percentage of Net Bank Credit offered as credit to MSMEs has not shown sufficient increase even after re-classification of MSEs as per MSMED Act, 2006.

Traditionally, banking sector considers small industries a risky field of investment due to low growth rate, informal business practices, inability of the entrepreneurs to maintain collateral securities, lack of creditworthiness, relatively high processing cost, and poor flow of information. The financial institutions are more interested in lending to large organizations to reduce the possibility of NPA in spite of several RBI guidelines.

O₂: To study the reasons for poor loan supply to MSMEs

Findings: In spite of having several sources, the feasible options of collection of fund for the MSMEs are limited. Low equity base of the firms at the early stage of operation, lack of cash flow and information asymmetry make it difficult for the MSMEs to access debt financing. The unconventional or unorthodox sources of financing MSMEs (Micro financing, venture capital financing, angel financing etc) are gradually gaining more importance as the institutional financing system has not been adequate in fulfilling the needs of MSMEs. However, such financing modes are still at their initial stage and definitely not a substitute for bank financing. Thus, a majority of MSMEs which are not covered by institutional financing have to depend on informal source where the cost of capital is significantly high. The situation has taken a shape of 'Vicious Circle' where the banks avoid investing in MSMEs due to their lack of credit worthiness and the MSMEs have to suffer due to lack of financial capacity which adversely affects their loan eligibility.

O₃: To analyse the performance of SIDBI

Findings: Performance of SIDBI has been analysed with the help of five parameters like loan sanctioned, loan disbursed, income, profit and NPA from 2007-08 to 2011-12. The performance is not satisfactory in terms of growth rate as all the parameters except NPA show a declining trend during the study period. The NPA of SIDBI has increased significantly during 2009-10 and 2010-11.

O₄: To analyse the dominance of Micro, Small or Medium enterprises in terms of number of units, employment, investment and output

Findings: Micro units account for 95 percent of the registered MSMEs and 70 percent of employment generation. However, the sector lags behind small enterprises in terms of percentage of investment in fixed assets and in plant and machinery. Thus, micro sector is the most dominant part of MSME sector in terms of number of units, employment and output. Small enterprises are only 5 percent of the total MSMEs but shows highest percentage of investment in fixed assets and plant and machinery (52 percent and 50 percent respectively) and in gross output (45.06). Medium enterprises form only 0.17 percent of total working MSMEs and 4.64 percent of employment generation but show comparatively higher investment (20.46 percent and 12.49 percent in fixed assets and plant and machinery respectively) and gross output (10.71 percent) **(Final Report of Fourth All India Census of MSMEs, Registered Sector, 2006-07)⁹.**

O₅: To compare employment intensity of MSMEs in rural and urban areas

Findings: The MSMEs in rural areas are more employment intensive than that of MSMEs in urban areas. Employment intensity is measured in terms of employment per unit of investment in plant and machinery, employment per unit of market value of fixed assets and employment per unit of output. The Final Report of Fourth All India Census of MSMEs, Registered Sector, 2006-07 reveals that employment intensity in rural areas in form of employment per unit of investment in plant and machinery and per unit investment in fixed assets is 1.5 times more compared to urban areas.

O₆: To compare working units, investment, productivity of MSMEs in rural and urban areas

Findings: Inequality in MSMEs in rural and urban areas is prominent. MSMEs in urban areas dominate the rural MSMEs in terms of percentage distribution of working units, investment in Plant & Machinery, market value of fixed assets and gross output. However, employment intensity and productivity of MSMEs in rural areas are more than the MSMEs in urban areas.

O₇: To study the participation of female entrepreneurs in MSMEs in rural and urban areas

Findings: As per the Final Report of Fourth All India Census of MSMEs, Registered Sector, 2006-07⁹, the percentage of female entrepreneurs is significantly low (22.43 percent in rural areas and only 19.16 percent in urban areas). In both rural and urban areas, maximum number of women entrepreneurs is found in micro enterprises followed by small and medium enterprises.

Poor participation of women entrepreneurs might be due to lack of financial ability, family obligation, poor mobility, poor education and managerial ability of the female entrepreneurs.

O₈: To carry out a comparative performance analysis of MSMEs during pre and post liberalization period

Findings: We have carried out performance analysis of MSMEs on the basis of four parameters (No. of units, production, employment and export) from 1973-74 to 2011-12 using Average Annual Growth Rate (AAGR) as the major statistical technique. The study reveals that the AAGR in production and export is lower during the post reforms period whereas the AAGR in number of units and employment is marginally high during post liberalization period. However, the intensity of all the parameters with time has been significantly high during post reforms period. Thus, the performance of the MSMEs during post liberalization period needs much improvement.

O₉: To analyse the impact of gradual withdrawal of Reservation Policy on MSMEs

Findings: Reservation policy seems to lose its relevance among the MSMEs. The field survey interactions suggest that the majority of the entrepreneurs are not aware of the policy and do not even know that they are producing reserved items. The MSMEs could not perform satisfactorily even when the reservation policy was in full force. The performance of the MSMEs not producing reserved items is superior to that of MSMEs producing reserved items (**Morris et al (2001)**)². Data collected from 1967 to 2010 (when last revision of reservation list took place) shows that from 1967 to 1989 i.e. pre-reforms period, a large number of items were put in reserved category to safeguard the MSMEs from market competition. From 1997 to 2010 i.e. post reforms period, there has been steady dereservation to increase the competitiveness of MSMEs and enable the consumers to enjoy better variety and superior product quality at a competitive price. Thus, we do not identify any adverse impact on the MSMEs due to gradual withdrawal of reservation policy and suggest that the Govt. should continue the de-reservation policy.

O₁₀: To analyse the sickness scenario of MSMEs in India

Findings: Data collected from 1999-00 to 2010-11 from Annual Reports of MSMEs, 2011-12 reveals that the percentage of sick units on total number of registered MSMEs shows a declining trend. In 1999-00, 3.13 percent of total units were sick units which came down to 0.29 percent in 2010-11. Similarly, the bank investment blocked in sick MSMEs came down to 0.67 percent in

2010-11 from 3.29 percent in 1999-00. Thus, incidence of sickness and percentage of funds blocked in MSMEs have significantly reduced during post reforms period. However, data collected from 2004-05 to 2010-11 shows that the viability of sick MSMEs is extremely low. Moreover, the percentage of potentially viable MSMEs put into rehabilitation or nursing scheme is also not satisfactory. Thus, though the percentage of sick units in total MSMEs shows a declining rate, the poor viability rate of such sick units and putting only a small proportion of such viable units under nursing scheme must be a matter of serious concern.

O₁₁: To understand the growth of MSMEs in West Bengal during post liberalization period
Findings:

There exists a big unorganised sector of Micro and Small Enterprises in West Bengal. As per the Fourth **All India Census of MSMEs in Unorganised sector 2006-07**⁹, West Bengal is in the second position (next to Uttar Pradesh) in India in terms of share of MSMEs in unorganised sector (10.47 percent).

The industrial performance of West Bengal was almost at par with industrially developed states like Maharashtra, Gujarat etc during pre reforms period. However, West Bengal started losing the race since the introduction of reform measures due to inability of the state to combat the challenges and explore the opportunities of globalization (**Chakrabarti and Bose, 2009**)²⁰.

The performance analysis of MSMEs in West Bengal during the post reforms period (1990-91 to 2010-11) shows that the AAGR for number of registered units and employment is 5.49 percent and 6.019 percent respectively. This growth rate is significantly lower than the growth rates of MSMEs in India (the AAGR for number of registered units and employment for MSMEs in India is 10.12 percent and 9.81 percent respectively) (Details available in Chapter 3, Section 3.7).

10.2 SURVEY FINDINGS

We carried out field surveys in Cooch Behar and Howrah districts. The following are the major findings:

O₁: To understand the nature of industrial development in Cooch Behar and Howrah

Findings: Cooch Behar is an agriculture dependent district without much industrial development except the traditional handicraft industries. The district is famous for Sheetal Pati, shola and bamboo products. Major industrial development in Cooch Behar was initiated in 2004 with the establishment of Chackchaka Growth Centre, an industrial park which houses about 30 odd MSMEs including food processing units, chemical industries, paper industries, wood based industries etc. As per **DIC Cooch Behar, 2012**¹⁷ there are 582 registered micro units, 24 small and about 900 handicraft industries i.e. a total of 1506 MSMEs in Cooch Behar. There is no medium scale industry in Cooch Behar.

The economy of Howrah is industry driven and the district is one of the most industrially developed districts in West Bengal. The major industries include basic metal products, machinery and spares, electrical and electronics machines and parts, hosiery and garments, rubber and plastics, paper and paper products, food processing industries, leather products, computer hardware and software products etc. Howrah has an enriched handicrafts sector which produce wood carving, batik and tie-dye, clay modeling, needlework, cane and bamboo products, brass metal products, zari, bead work sea shell and coconut shell products etc. As per the **Progress Report of DIC Howrah, 2011-12**¹¹, there are about 15,400 registered MSMEs in Howrah. However, we could not collect any definite information regarding the individual number of micro, small and medium enterprises.

Industrial development in Cooch Behar is a recent initiative (except handicraft industries) but Howrah had strong industrial base since pre independence period.

O₂: To study the clusters in both the districts

Findings: The cluster concept has been successfully implemented in Howrah especially in case of micro and few small scale industries. The major identifiable clusters are Metal and Spare parts Cluster at Bargachia, Rubber Moulding Cluster at Raghudevapur, Re-Rolling Mill Cluster, Liluah, Metal casting Foundry, Embroidery and Garment Manufacturing Cluster, Pipulan, Zari Embroidery Cluster, Sankrail, Gems and Jewellery Cluster and Imitation Ornaments Cluster, Domjur, Optical Lens Cluster, Munshirhat and Shuttle Cock Manufacturing Cluster,

Uluberia. There is no identifiable cluster in Cooch Behar but the handicraft industries have ideal condition of forming a cluster. Industrial development in Cooch Behar is rather unplanned and indiscriminate.

O₃: To analyse employment generation by the MSMEs in both the districts

Findings: The employment generation by the MSMEs almost follows the same pattern in both the districts. Except a handful of small and medium enterprises, most of the workers in the micro and handicraft industries are the family members of the entrepreneurs. The number of permanent workers is insignificant as most of the outside workers are hired on contract basis. The possibility of disguised unemployment is high in both the districts.

Majority of the sample entrepreneurs in Cooch Behar are first generation entrepreneurs. Therefore, the concept of 'skill transfer' from one generation to the other is not much prominent here (except handicraft industries). The existence of industries in Howrah dates back to pre independence period. Thus, the workers especially in clusters transfer their skills from generation to generation. The workers are highly efficient but they do not have much exposure to modern technologies. The level of technology used in both the districts is not adequately advanced to compete with the large domestic firms and the MNCs.

O₄: To analyse the impact of globalization on the number of registered MSMEs and employment in both the districts

Findings: The performance analysis of MSMEs in Cooch Behar shows that there is no significant impact of globalization on the number of MSMEs and employment. The trend of number of units and employment (both year wise) in pre and post reforms period remain almost the same. However, number of MSMEs and employment show a declining trend in Howrah during post reforms period compared to pre reforms period. Thus, globalization has an adverse impact on the number of MSMEs and employment (both year wise) in Howrah. This unsatisfactory performance might be due to intense competition, lack of sophisticated technology, poor employee training etc.

O₅: To study the marketing efficiency of the MSMEs

Findings: None of the sample micro and handicraft firms in Cooch Behar employ any advertisement technique while 50 percent of small firms claim that they use advertisement techniques but not on a regular basis. Except a few plywood and food processing units, most of the firms sell their products in local markets, adjacent districts (Jalpaiguri, Darjeeling etc) and

states (mostly Assam). The awareness about the importance of advertisement and knowledge about modern advertisement and sales promotion techniques is extremely low among the MSME entrepreneurs in Cooch Behar. In Howrah, the situation is comparatively better as 27 percent of sample micro, 85 percent of small firms and 100 percent of sample medium enterprises use advertisement techniques (**Field Survey, 2013**).

O₆: To understand contribution of female entrepreneurs in MSMEs

Findings: The contribution of female entrepreneurs and workers is significantly less as their participation is limited in handicraft industries and food processing industries in both the districts. The number of female workers is extremely less in major plywood industries in Cooch Behar and in major clusters like metal spare parts, optical lens, re-rolling, engineering industries in Howrah.

O₇: To find out whether withdrawal of reservation policy has any negative effect on the MSMEs in Cooch Behar and Howrah

Findings: The field survey in Cooch Behar and Howrah shows that none of the sample micro units in both the districts have any idea about reservation policy while only 33 percent and 29 percent of small firms in Cooch Behar and Howrah have some preliminary idea about the policy. 67 percent of medium firms seem to have reasonably good idea about the policy but none of these firms produce any of the reserved products. Thus, the field survey also confirms that the reservation policy has lost its importance (**Field Survey, 2013**).

O₈: To study whether the MSMEs maintain proper accounting procedure

Findings: 40 percent of sample micro units in Cooch Behar and 43 percent in Howrah, 100 percent of small firms in both the districts and 100 percent of medium enterprises in Howrah maintain proper books of accounts. However, only 11 percent of sample handicraft firms in Cooch Behar follow standard accounting procedure (**Field Survey, 2013**). This is a major reason why the micro and handicraft firms in both the districts get poor institutional credit support.

O₉: To analyse the trend of average investment and average employment in both the districts

Findings: Average investment and average employment of the sample MSMEs in both the districts show an increasing trend in terms of their absolute figures during the study period (2005-06 to 2011-12). Howrah MSMEs show more average investment and employment than the Cooch Behar MSMEs. However, no specific trend in terms of growth rate could be identified as

the growth rates are much fluctuating (**Field Survey, 2013**). There has not been a steady growth of MSMEs in both the districts.

O₁₀: To understand the scenario of bank finance to the MSMEs

Findings: Cooch Behar has a reasonably good network of banks but the credit support to MSMEs especially to the micro and handicraft firms is not encouraging. 75 percent of sample micro firms, 83 percent of small and only 33 percent of handicraft firms have got bank credit. 47 percent, 67 percent and only 29 percent of total funds of micro, small and handicraft firms are financed by the banks. This suggests that even if the number of micro firms obtained loans from banks may be high, the volume of loan obtained by these is insufficient. The situation is comparatively better in case of small firms as they have more financial strength and are more acceptable to banks.

On the other hand, the credit scenario is far better in Howrah as 60 percent, 93 percent and 100 percent of sample micro, small and medium enterprises respectively get credit support from banks. Similarly, 52 percent, 78 percent and 92 percent of total capital of sample micro, small and medium enterprises is financed by the banks (**Field Survey, 2013**). Except micro firms mostly in clusters, institutional finance in Howrah seems encouraging. Interactions with the MSME entrepreneurs during the field survey reveals that the bank's demand for collateral securities is the most vital credit related problem for the micro units while the small and medium firms consider delay in sanctioning credit and need for huge documentations as the most vital credit related problem.

10.3 SUGGESTIVE MEASURES

10.3.1 Suggestive measures regarding financial problems of MSMEs

- One of the most effective ways to increase access to financial services is to liberalise interest rates as it increases competition among the financial institutions which ultimately brings down the rate of interest. It also forces the financial institutions to increase their efficiency to make interest rates more competitive. Governments can help lower rates without compromising sustainability by promoting competition and innovation as strategies for improving efficiency and lowering prices rather than fixing affordable interest rates for the MSMEs (**Malhotra, Chen, Criscuolo et al, 2006**)²². The MSME loan market is dominated by the banks and the MSMEs have to accept the terms and

conditions as laid down by the banks. The degree of competition among the financial institutions must be increased to ensure higher efficiency of the loan market.

- The banks have the tendency to consider the quantitative factors without giving much importance to the qualitative aspects while sanctioning loans to MSMEs. They fail to identify many prospective MSMEs due to this conservative approach. The banks must be pro-active in loan sanctioning process and struck a balance between the quantitative and qualitative aspects. The banks should arrange training classes for their staffs associated with MSME loan sanction process to motivate the loan officers to know the real needs and prospects of different MSME projects without being too concerned about the risk aspects. The bank may also announce special incentives for satisfactory performance in MSME financing (**Kulkarni, 2012**)⁷. The Govt. must ensure that the RBI Guidelines regarding loans to MSMEs have properly been adhered to by the banks.
- The banks may form expert committees for taking decision on loan application for risky or unconventional MSME venture and for restructuring of viable sick MSME units. The application form should be simple and clearly mention the documents required and formalities to be done once the loan is sanctioned. As per **Nayek Committee (1991)**¹⁰ recommendations, application cum sanction form must be printed in English and also in regional language.
- The banks should use scoring model and develop software for Credit Appraisal and Rating Tool (CART) for speedy and effective settlement of loan applications and also introduce (already introduced by some leading banks) online submission and tracking of loan information (**RBI Notification on credit delivery to MSEs, 2009**)¹³. In case of rejection, the banks should inform MSMEs the reasons for rejection within a definite period. The banks should also set up a dedicated cell at the Regional Office level to monitor the progress of applications (**Prime Minister's Task Force Report on MSMEs, 2010**)¹⁴. The banks should introduce a Central Credit Processing Cell (CCPC) to act as a single window cell for appraisal, sanction and documentation of loans.
- Delayed realisation of receivables hampers the liquidity position of the MSMEs. Factoring services should be introduced by the banks and NBFIs to facilitate the MSMEs hassle free collection of debt. 12th Five Year Plan recommends introduction of “Support

for Factoring Services” with budgetary support of Rs 2,500 crore to provide equity / margin money support for factoring companies.

- Credit Rating System for the MSMEs must be properly implemented to increase their credit potential **(Subramanian and Nehru, 2012)⁸**. Credit rating for the small industries needs proper understanding of the operation of the MSMEs as it is vastly different from the rating procedure of the large companies. CRISIL introduced the SME Rating Concept in 2005 and it provides the widest coverage of small industries ratings. More and more small enterprises need to be encouraged to take up credit rating procedure to increase their credit worthiness.
- The MSME must try to increase credit worthiness through credit rating, maintaining proper accounting records, establishing financial discipline, infusion of modern technology, standardisation of products etc. Putting the blame on the banks is not going to offer any readymade solution **(Reddy, 2006)²⁴**. The bank officials have to work under tremendous pressure of reducing NPA. The MSMEs must play the role of responsible borrower by improving their governance and risk management practices, submit correct information and ensure timely repayment of loan **(Kulkarni, 2012)⁷**.
- The supply of unorthodox sources of capital (Angel financing, Venture Capital Financing, Risk capital etc) must be ensured especially to the MSMEs involving innovation and new technologies by removing fiscal/regulatory impediments. Establishment of MSME Exchange is a vital step to enable MSMEs arranging share capital. The effectiveness of MSME listing at the MSME Exchange is dependent on final investors comprising of high net worth individuals or corporate, qualified institutional buyers and banks. They must be offered some special incentives (like income tax exemption, waiving Securities Transaction Tax on the securities traded in MSME Exchange for certain period etc) to attract them to invest in MSMEs **(Report of Working Group on MSMEs Growth for 12th Five Year Plan)¹⁵**. Securities and Exchange Board of India (SEBI) must expedite the process of setting up of SME Exchanges in consultation with all the stakeholders **(Prime Minister’s Task Force Report on MSMEs, 2010)¹⁴**.

- The banks should not be considered only a loan supplying body rather should perform several non-credit activities like exploring new markets and business ideas, preparation of project report, information about latest technological development etc. to become business partners of the MSMEs (**Chainnaiyan and Nandagopal , 2005**)¹. The banks must maintain good relation with the SMEs to know their financial position, customer base, future prospects. The SMEs with good loan repayment record and sound financial position may be sanctioned loan even if they fail to fulfill any specific requirement.
- There exists a severe lack of co-ordination among the different Govt. departments as different departments run almost same type of assistance schemes (**Valasamma, 2003**)⁵. Many of such schemes are either not known to the entrepreneurs or not suitable for them (**Nair, 2011**)³. Setting up of different committees and piling up their recommendations would not serve the purpose. A consorted effort must be exerted to ensure best implementation of the MSME supporting schemes.

10.3.2 Suggestive measures regarding sickness in MSMEs

- As per the MSME policy framework, the Govt. has been providing encouragement to the prospective MSME entrepreneurs to ensure their maximum participation through various incentive schemes, subsidies, cheap finance etc. The policy has undoubtedly increased the number of MSMEs but also resulted in overcrowding of the sector as more and more marginal and inefficient firms have entered into the market. The policy would work best if a serious initial screening of proposed MSME projects is established. The economy needs more investment in MSMEs but such investment would be effective if the MSMEs are viable in the long run. Thus, the initial screening policy may consider the following areas: i) appraisal of the proposed project and prospective entrepreneurs ii) increase in equity requirement for small project financing and iii) creation of compulsory contingency reserve to combat the start-up problems (**Parmar, S. Renu, 1995**)⁴.
- The rate of failure of MSMEs controlled by the first generation entrepreneurs is more than that of second generation entrepreneurs. The banks and other financial institutions have the tendency to favour the second generation entrepreneurs. The new entrepreneurs must be given adequate training regarding project implementation and management prior

to disbursement of project finance. The cost of training may be considered a part of project cost and can be recovered by the financing bank or financial institutions (**Parmar, S. Renu, 1995**)⁴.

- Sickness in MSMEs must be detected early so that the restructuring measures can be implemented without delay. The banks have a vital role to play by maintaining a close look on the operation of the firm's bank account, ability of the firm to pay regular loan installments, financial performance etc. Early detection of sickness would ensure improving viability of new investments, saving of public money used for rehabilitation schemes and higher possibility of recovering dues from the sick units by the banks and other financial institutions (**Parmar, S. Renu, 1995**)⁴.
- There exists considerable heterogeneity in infrastructural support for industries in different states. Thus, the degree of industrial development in different states is also different. A coordinating body or a Technology Bank should be established to ensure continuous interaction with the agencies/organizations associated with development of new technologies (Department of technology and science, bio-technology etc). The body should have representatives from MSME associations. A symbiotic relationship between MSME clusters and leading technical institutes should be developed and those institutes should be linked with the clusters to solve their technology related problems and encourage them to use better technology (**Prime Minister's Task Force Report on MSMEs, 2010**)¹⁴.
- Subcontracting facilities may be available for MSMEs by establishing suitable links with large industries. The Govt. should consider the policy of purchasing certain products only from the MSMEs. Proper linkage with other industries may ensure solution to scarcity of raw material availability and marketability problems.
- Incidences of failures or sickness are common in MSMEs. A suitable exit policy is a must for the non-viable MSMEs. The current exit policy for MSMEs is archaic and needs to be toned up to address the following four critical issues a) a quasi-judicial body to examine the viability and take quick decision regarding revival or closure of the unit b) ensuring provision for a holding period for revival c) separating business assets from the personal assets and d) quick winding up of the unit if it is unviable (**Prime Minister's Task Force Report on MSMEs, 2010**)¹⁴.

- MSME Associations can help industrial units by review of capacity utilisation, growth trends etc. Such associations can form a First-Aid Cell consisting of technical and managerial experts to offer primary identification and treatment of sick units. They must also increase level of awareness among the entrepreneurs regarding Govt. policies, promotional schemes and Bank's Code of Commitment to the MSMEs. They should widely circulate the success stories of MSME entrepreneurs to encourage the budding entrepreneurs. The new entrepreneurs should also be made aware of the mistakes committed by the sick or failed MSMEs so that they do not repeat those.
- The rehabilitation or restructuring of potentially viable sick MSMEs has not been much successful as the banks are reluctant to offer rehabilitation package. An alternative procedure of re-examining the viability of the MSMEs which are denied of rehabilitation package by the banks may be undertaken by an administrative mechanism at the district level. The committee should comprise of general manager of DIC, members of leading banks, govt. officials and representatives of MSME associations. The committee may allow rehabilitation facilities including additional finance from the banks, waiving or reducing statutory dues by the central govt. or autonomous bodies etc (**Prime Minister's Task Force Report on MSMEs, 2010**)¹⁴. This procedure may be highly beneficial for the sick MSMEs which did not get banking rehabilitation packages.
- Several promotional policy packages for MSME Sector have already been declared. The packages should be so tailored that it can satisfy the needs of various categories of MSME entrepreneurs. The Govt. must ensure proper co-ordination among the different departments, ministries and MSME promoting agencies. The MSMEs are ultra sensitive to policy changes and need proper nurturing. The Govt. policies must be based on long term objective and must not be changed frequently (at least for five years). Any change in policy should be implemented in a phased manner so that the sector gets sufficient time to adept. The other measures like tax concession, loan at concessional rate, priority in supply of raw materials, proper implementation of law and order, strict measures for smuggled goods, development of data bank etc would be helpful in preventing sickness in MSMEs.

10.3.3. Suggestive measures regarding MSMEs in West Bengal

- Infrastructural inadequacies in terms of poor transportation facilities, irregular power supply etc is major impediments to industrial development in West Bengal. Transportation facilities are not up to the mark as roads almost all over the state are in serious condition and major rivers lack navigability. The local bodies should be encouraged to set aside a major portion of their collection and utilize it for up gradation of roads, power supply, sewerage and water supply for the existing industrial estates. The industrial estates may also be notified as local bodies and entrusted with the responsibility of developing infrastructure within the estate. The state govt. should ensure a reform-cum-financial package to the industrial estates (**Prime Minister's Task Force Report on MSMEs, 2010**)¹⁴.

Setting up industrial parks or clusters can be an effective tool in overcoming infrastructural bottlenecks. One of the major reasons for success of rural enterprises in China is ensuring availability of a package of transport, power and telecommunication facilities in village level (**Chi and Chou, 2003**)⁶. This China model can be successfully implemented in West Bengal.

- The state Govt. should create favourable condition for the investors and industrialists by controlling political interference in industries and establishing political and economic stability in the state. Single Window Schemes should be properly implemented to prevent 'Red Tapism' and bureaucratic mode of operation in the different Govt. departments. The Govt. has come up with a new industrial policy in 2013 which has identified the MSMEs as the 'thrust area' for industrial development of the state. The Govt. must continue the current policy of supporting MSMEs through subsidised loans, tax exemptions, cluster development etc in more strategic and efficient manner.

10.3.4 Suggestive measures regarding MSMEs in Cooch Behar

- The formal education system is fairly strong in Cooch Behar as there are number of schools, colleges and two universities. But the scope of management and professional education and employee training is extremely limited. This is the main reason why a major portion of educated youth of Cooch Behar migrates to Siliguri or Kolkata. Setting up sufficient management, engineering and employee training institutes is a vital need to ensure supply of trained workers to the MSMEs.

- The experience of the field survey suggests that the majority of the MSME entrepreneurs is not good at English and face problems in understanding the books published by the Govt. departments or the Govt. websites written in English. Moreover, computer proficiency (except the new generation entrepreneurs) is not satisfactory. Thus, uploading the policy frameworks, promotional schemes etc to the Govt. websites is not likely to serve the purpose. It is strongly recommended that the book/booklets written in simple Bengali containing vital information about the MSMEs must be published and made easily available by the DIC.
- The traditional handicrafts industry in Cooch Behar is a much neglected sector. Majority of such industries are not registered with the DIC. The Govt. must introduce cluster in handicrafts sector.
- The MSME Associations in Cooch Behar are not very strong. Only the Chackchaka Growth Centre Industries have registered industry association. The other associations like plywood industry association in Mathabhanga or the Ghugumari Pati Shilpa Co-Operative Society etc are not much influential. The associations have to play meaningful role in motivating MSMEs to maintain financial discipline, credit rating, increasing consciousness regarding better technology, Govt. policies and promotional schemes.
- Though Cooch Behar has good concentration of commercial banks, supply of credit to MSMEs is not sufficient. The field survey reveals that majority of MSME entrepreneurs believe that the banks unnecessarily demand a lot of documents for granting credit and fulfils only the demands of the financially strong MSMEs. As per the recommendations of **Nayak Committee (1991-92)**¹⁰, the banks should arrange only a single form, written in regional language for loan application and requirement of documents should be only the essentials. The banks may also form expert committee, use scoring model and modern software to speed up the credit sanctioning process.
- The small and micro industries act as the ancillary industries to medium and large industries. Development of medium and large industries is a vital condition for upliftment in small and micro industries. There is severe dearth of medium and large scale industries in Cooch Behar. Therefore, development in MSMEs in Cooch Behar must be a part of the overall industrial growth of the district rather than concentrating on the MSMEs in

isolation. The Govt. must give special attention for infrastructural development and easy availability of credit.

10.3.5 Suggestive measures regarding MSMEs in Howrah

- The availability of raw material at a justified price is a major problem for Howrah MSMEs. The local raw material market is dominated by the local influential suppliers. They artificially increase raw material price even if the price of such raw material is far less in international market. It is strongly suggested that a regulatory body should be set up to intervene the matter and ensure supply of raw materials at competitive price. The Govt. must also ensure establishment of raw material bank near industrial clusters.
- The MSMEs like metal spare parts, rubber molding, gems and jewelry etc require good laboratory and testing facilities to maintain quality of production but such labs is not sufficient in number in cluster areas. Therefore, establishment of laboratories and testing centres near the cluster areas are the vital needs for the MSMEs.
- Howrah is well connected through road and rail transport but the roads within the most of the clusters are in extremely bad condition. The roads are not even suitable for three wheelers to ply through. The clusters are in urgent need of all weather roads.
- Irregular power supply and its frequent fluctuation are a common problem for cluster MSMEs. Inadequate power supply forces the units to resort to old technology which compromises with the product quality and creates environmental issues. It is suggested that the major clusters should have independent power supply unit to ensure uninterrupted power supply.
- DIC must arrange EDPs, seminars, short term management courses to increase managerial efficiency of the entrepreneurs, informing and encouraging them to use sophisticated technology and increasing awareness regarding Govt. policy and promotional measures etc.
- Lack of availability of reliable data is a major problem for carrying out research on MSMEs. The District Industries Centres (DICs) do not maintain unit wise data. General or overall information about the major clusters in Howrah is available. In many cases, the available data regarding MSMEs are doubtful and not properly updated. It is strongly suggested that data collection procedure should be better organised and DICs can play a more meaningful role to ensure systematic collection of data.

10.4 FUTURE SCOPE OF STUDY

The current research topic encompasses a broad spectrum and it is not possible to capture all the areas associated with the MSMEs. The study is expected to open various new avenues for future research. We have identified the following few prospective areas for future study:

- The current study is restricted to the registered MSMEs. Future researches may be directed towards analyzing the role, problems and prospects of unorganized MSMEs.
- The enactment of MSMED Act, 2006 is one of the most vital events for MSME sector in recent time giving rise to several positive and negative effects to the MSMEs. Future researches may be carried out to analyse the effectiveness of MSMED Act, 2006.
- In globalised economy, the MSMEs need a dynamic and self-sustaining culture of innovation as in today's "Knowledge-Based Economy" competitive advantages to MSMEs are more attributed to the ability of the unit to generate fresh/ innovative ideas rather than the access to physical resources. Therefore, innovation readiness of Indian MSMEs, role of Research & Development Institutes and Govt. can be an attractive field for future study.
- The social responsibilities of MSMEs have been an extremely unexplored area of study. This might be due to the fact that individual influence of an MSME is far less than that of a large industry. However, the cumulative impact of the MSME sector can be extremely significant for the society. Future research should be undertaken to analyse the Corporate Social Responsibility (CSR) of the MSMEs and increase awareness in this regard.
- Thousands of Indian MSMEs are losing revenues due to their lack of awareness about Intellectual Property Rights (IPR). Most of the business innovations are generated by the MSMEs but only a small percentage of such innovations are patented by the Indian MSMEs. Effective research can be pursued regarding the importance of IPR in the operation of MSMEs.
- The current study points out that the traditional banking system is not adequate to meet the credit demand for MSMEs. The alternative or unorthodox methods of financing (Venture Capital Financing, Equity financing, Angel Financing etc) are yet to get momentum resulting in a 'financial gap'. Future studies may be carried out regarding bridging the 'financial gap' and establishing a proper blend of institutional and unconventional sources of financing.

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