

# **CHAPTER-I**

**Introduction**

**and**

**Background**

**1.0: Introduction**

A country belonging to any of the statuses of existence like developed, developing or underdeveloped need to undergo different areas of activity which will generate inputs for human consumption and provide support for trade and commerce. Trade and commerce in a country support the economy of the country. Consequently the activities, those are desired to be undertaken by a country for supporting human consumption and trade and commerce towards a healthy economy are industrial and agricultural activities out of several other different activities.

Economic development in a country significantly depends upon the growth of industry and industrial activities. Once the situation in a country is developed to an extent which causes fall in the rate of growth in progress and performance of industrial activities, economic development and other associated developments like growth in per capita income of people, growth in GDP of country etc. are adversely affected. Also alternatively, in a situation of growth of industrial activities in the country, an overall favourable change in situation is observed.

India is basically an agro-based country with its vast population and large of its area being under cultivation. Development of industries still independence had not been very significant. A large population with less of education and absence of capability of working in an industrial organisation had forced them to work as agricultural labourers in lands near their places of residences. India till its independence was largely urban-based country.

However, after independence, situations started changing. Indian planners had thought of giving preference to industrial activities since primary dependence upon agriculture was

not enough to bring desired growth in the economy. Since the decades of the sixties, attention paid by Indian Government through successive implementations of Five Year National Plans in areas of industrial development. Though initially attention was given to large scale industries, being mostly infrastructural sectors like Steel, Power, Cement etc., in course of time due attention was shifted to other industries even belonging to Micro, Small and Medium Sectors.

India since the beginning of the eighties of the twentieth century made a continuous move over initiation and implementation of growth of overall industrial sector – large scale industry as well as MSMEs scale industries.

## **1.1: Entrepreneur and Enterprise**

### **1.1.1: Definition of Entrepreneur**

The entrepreneur is the person who uses manpower, raw material, and capital and takes benefits of the facilities as made available in an organisational set up made by him.

As defined by Oxford English Dictionary "An Entrepreneur is one who undertakes an enterprise especially a contractor-acting as an intermediary between capital and labour".

**Francis A. Walker**<sup>1</sup> defines entrepreneur "As one who is endowed with more than average capacities in the task organising and coordinating the various factors of production. He should be a pioneer, a captain of industry".

### **1.1.2: Functions of an Entrepreneur**

Functions of an entrepreneur can be grouped in accordance with the activities undertaken by an entrepreneur. Arthur H. Cole<sup>2</sup> has considered the functions under six different

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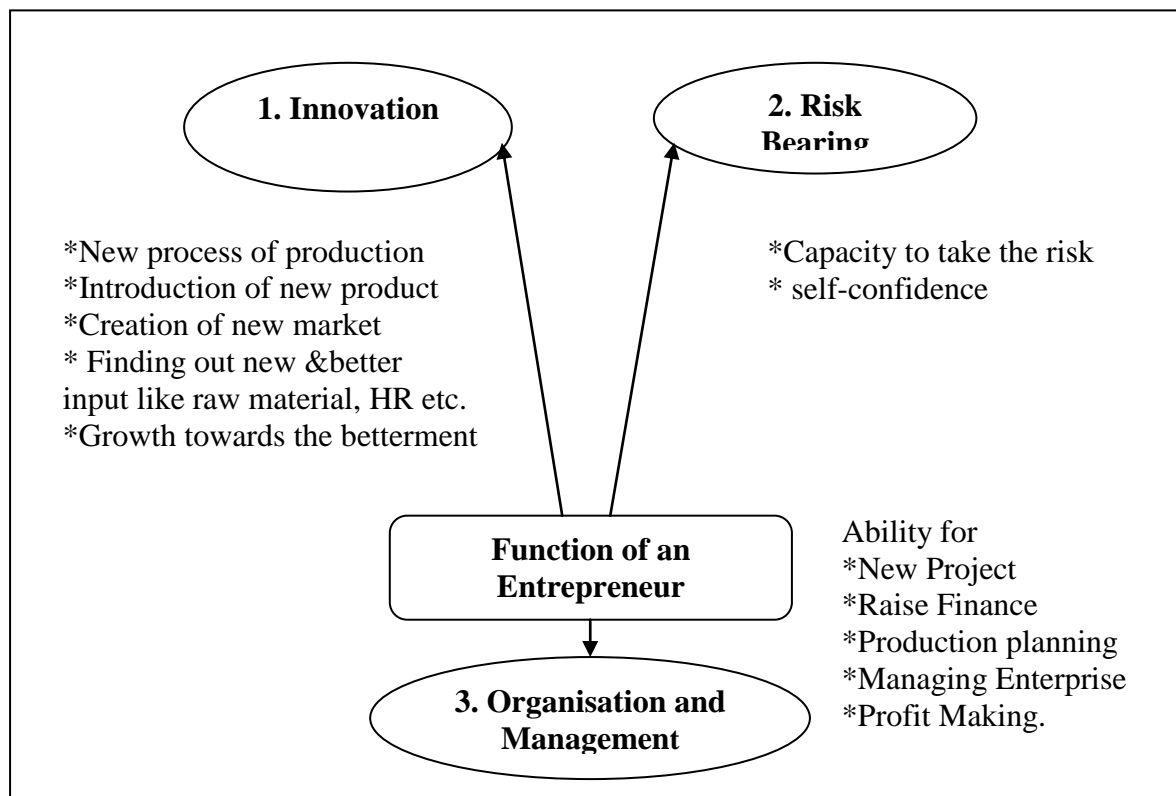
<sup>1</sup> Walker, A. F. (1986). *The Wages Question*. Henry Holt, New York, p. 245.

aspects and Kilbly<sup>3</sup> have identified thirteen functions of an entrepreneur which further may be grouped into four as:

- Exchange Relationship
- Management Control
- Political Administration
- Technology

However, these functions or groups vary according to different constructs of an enterprise like size, volume of output, nature of output, setting up and nature of industries etc and these may be broadly represented as below:

**Figure 1.1: Functions of an Enterprise**



<sup>2</sup> Cole, A. H. (1959) Business Enterprise in its Social Setting, Cambridge: Harvard University Press.

<sup>3</sup> Kilbly, P. (1971). "Hunting the Heffalump": Entrepreneurship and Economic Development (ed.), The Free Press, New York, p. 1-40.

**1.1.3: Enterprise**

Enterprise is an organisation which undertakes various activities and entrepreneur is always determined to take the risk. In enterprise people always work in a group together to achieve the desired goal and objective towards manufacturing for production, innovation, and betterment, selling the product in the market and looking for better market and growth of the organisation. An enterprise always works for manufacturing of goods as well as services using necessary resources like raw material, manpower, and capital. The enterprise works with the ultimate objective of entrepreneurial growth and development.

**1.1.4: Characteristics of an Enterprise**

Enterprises are classified in accordance with their size, volume of production, resource use, and involvement, return from operation etc has been broadly categorised into different types of industry like – Micro, Small, Medium, and Large. The characteristics of enterprises may be broadly noted as below:

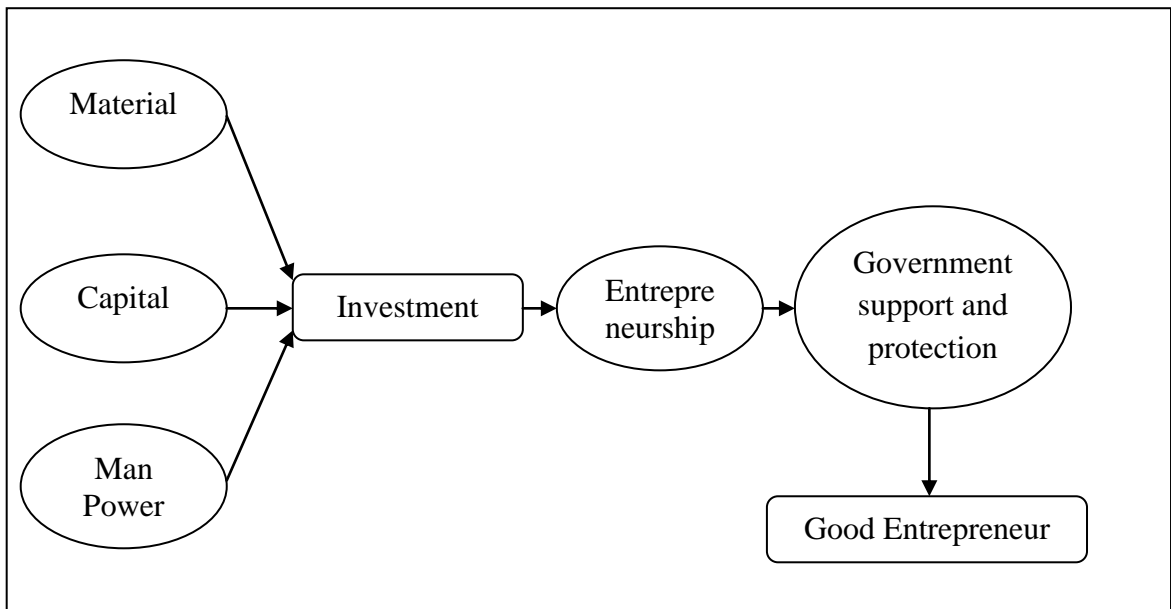
- Involvement of capital
- Use of assets
- Engagement in different activities
- Managed meeting required objectives and
- Effort for growth and development
- Turnover, sales, and profits
- Selling the output in perspective giving best return
- Setting trend
- Easy accessibility to funding with preference to institutional fund

- Creating market demand for product through different promotional means
- Vision

### 1.1.5: Scope and Facility of Entrepreneurial Support System

An enterprise broadly requires raw material, manpower, and finance as inputs and converts it to outputs with use and support of different systems and facilities. These may be shown as below:

**Figure 1.2: Entrepreneurial Support System**



## 1.2: MSMEs in Developing Countries

For a country, it is essential to priorities the initiation, growth, and continuation of large scale industries. But, along with large scale sector, Micro, Small, and Medium Industrial sectors have an important role in developing an economy.

In developing as well as underdeveloped economies, it is not always feasible depending upon large scale sectors for overall growth of industry as well as economy. Industry

whatsoever is its nature, is basically a process which takes several inputs like raw materials, manpower, and finance and converts these inputs to the desired output.

The location of industry is determined by entrepreneurs so that it becomes dependent on locally available resources. Raw material available in the locality where the industry is located and which the industry consumes as its resources are mutually dependent upon each other.

Same is the situation for the manpower that such industries –MSMEs use. Like raw materials which are, as stated in beginning, are locally available, manpower not being otherwise in any way involved in any regular employed are used in the MSMEs. The people being of local origin and not being in any way employed in other places of work may be used in the MSMEs as the input of human resource.

Thus as noted above, entrepreneurs of MSMEs consider the sources of manpower and raw material as a guiding factor for the location of the MSMEs. For the MSMEs under consideration and large industrial sectors there exists one common area of consideration – the finance.

### **1.3: Fund Availability for MSMEs**

As discussed earlier, entrepreneurs of MSMEs most often find the opportunity of availability of raw materials and necessary manpower from the locations where these enterprises are located. However, finance becomes occasionally cause of concern for the MSMEs. Though in several cases the owners try to manage with their indigenously generated fund, the situation very occasionally is observed when fund become a cause of concern for the entrepreneurs. Though entrepreneurs try to build up the capital as noted

above from indigenous sources and situations are not rare when different financial institutes and private and public sectors banks come out for the rescue of the MSMEs.

Normally as happens in business, MSMEs are to depend upon either of the two funds - i) Own fund and ii) Debt fund. However, as observed, getting or arranging debt fund does not become always easy. Unlike large scale industries or enterprises the scope of getting fund on account of outside private investment in equity or loan like bond, debentures (convertible or non- convertible) etc. are scarce since the viability of such industries are almost insignificant since the MSME sector either belongs to nascent stage or in a stage to be not fit for market loan because of the size and market return. Hence MSMEs for their sustenance and growth requires depending upon institutional loan, especially government managed funding agencies.

However, out of several types of such financial institutes under the different ownership and also under the different mission of activities, the role of banks in public sector is very much encouraging and very much useful in nature. Several public sector banks take several fruitful and encouraging measures to take MSMEs out of their fund related scarcities and constraints. These banks in the public sector have several schemes which help the MSMEs to come over their different needs in connection to the requirement of the fund.

In fact, after the nationalisation of banks, Government has taken several measures which provide active support towards the formation and development of the MSMEs. The MSMEs need fund at different phases of their operation. Criterion and nature of the required fund for being duly utilised for growth of MSMEs are different. The functions of Public Sector Banks hue are not only money exchanging or lending role, instead, but



banks in public sector also pay the developing role in such cases. The present research work is an elaborative analytical work in his respect.

#### **1.4: MSMEs: The Evolution**

Indian economy in the pre-independence period as well as in the post-independence period up to mid Second Five Year National Plan had been fairly dependent upon the development of existence, growth, and prospects of rural resource availability, its trade and commerce, and the overall economy. Indian economy used to depend fairly on available local rural resources and the market thereby. Primarily during these periods promoting small scale industries which thus used to depend upon rural resources had been an important and significant activity leading to industrialisation policies. The basic features of post-independence industrialisation policy were provided by The Industries Development and Regulation Act, 1951. In fact, just after independence for the growth of Indian economy along with its export market and global trade and commerce priority was given upon formulation of Indian industrialisation model based on capital intensive large-scale heavy industries. However, capital intensive large scale sectors are not enough for creating enough of employments involvement for the people of India. Consequently, national planners thought of concentrating upon small scale industries being widely spread and labour intensive in nature. Along with economic growth that changed in priority of consumption, there had been a situation in Indian economy and industrialisation process towards making the order in regional imbalances since around 1977. This situation created situations that facilitated linkages between large firms and their promoters which were the cause of increasing export from rural India since the decade of the eighties of earlier centuries. The government with the use of Industrial

licensing system had maintained the control of the industrial activity. The government had taken extensive protective policy and measure over the small industries and in this respect to protect the economic and fund related strength of small scale sectors different subsidies, benefits, concessions, and other forms of financial and administrative support was provided to the economy.

There are effort and consideration for regulation over control of industrial policy, there are wide controversies and difference of approaches over the extent to which deregulation should be maintained and should be there any limits fixed by the authorities such that there exists a limit to deregulation. There are also differences of opinion over types of interventions that must be done over desired flexibility. To safeguard such interests there are central laws with rules framed by the state government and also state laws and rules.

According to Indian constituting, small scale sectors development is under the jurisdiction of the state, though total policy guidelines are under the control of Union Government. Since 1991, the post-reformation period, several regional based political parties and coalition governments had come to power. Because of these, it was seen that changes had come over the authority of State Governments in order to intervene in industrial policy decisions. Under changed circumstances, State Governments are assigned with the responsibility of formulations and implementations of industrial policies.

State originated MSMEs policies for betterment and development are implemented by Commissionrate / Directorate of industries. Each State Government maintains its own policies of incentive packages for promotion and development. District Industries Centre (DIC) is entrusted for providing support facilities and other necessary services to the industries. For assigning promotion and growth of MSMEs at the state level there are

other different authorities like State Financial Corporation (SFC), State Industrial Development Corporation (SIDC) and Technical Consultancy Organisation (TCO) operate at the state level to assist for promotion and development of MSMEs in addition to DIC. Also different other state agencies like State Small Industries Development Corporation, Regional Rural Bank, State Cooperative Banks, Agro Industries Corporation, State Export Corporation, Handloom and Handicraft Development Corporation etc. assist for different measures for promotion and development of MSMEs.

The MSMEs actually form the backbone of manufacturing sectors not only in India also in several countries in developed and developing stages with priority to locally available manpower and material resources. MSMEs normally enjoy the protection of State and Central Governments and are seen to exist under sheltered environment. Government policy ensures high protection of these sectors, for encouraging the viability of these sectors several products had been exclusively reserved for these sectors, provisions of special fiscal incentives were also extended to units under the MSMEs. Also, the units under MSMEs were facilitated to be with the privilege of enjoying different support programs so that their survival is never at stake.

In the earlier decade, the overall performance of MSMEs was very much encouraging. Growth in production was considered to be higher taking consideration of overall production growth rate. In the last decade of the previous century i.e. in the post-reform period of 1991, the scenario was not very much prospective. Subsequently, the tariff on imports etc had reduced. India got advantages of integrating with world economy an opportunity of sharing the new trade block and also along with many other industrially developed countries India had the opportunity of entering into Preferential Trade

Agreements, Free Trade Agreements, Comprehensive Economic Agreement to improve trade in areas of their comparative advantage. Under such situation economy in India is being subjected to more open door policy leading to the scope and further need of adjustment with the new situation. Along with the intensive spread of globalisation Indian industry including MSMEs are to confront with both opportunities and challenges. The opportunity of entering and growing with the global market in the global environment will facilitate entry into the global value chain by virtue of being open to global competition. The challenge is being fully exposed to this global competition and repositioning in order to survive amidst the turbulence of globalisation.

### **1.5: Some conceptual issues related to MSMEs**

*Definition:* There exist several definitions of the term small-scale industry. These are the industrial undertakings having fixed investments in plant and machinery, whether held on hire purchase basis, lease basis or ownership basis not exceeding Rs 1 crore. However, presently, the Micro, Small & Medium Enterprise Development (MSMED) Act, 2006 classifies the Micro, Small and Medium Enterprises (MSME) in two classes:

**1. Manufacturing Enterprises** – The enterprises which undertake production or manufacture of a product or good for any industrial organisation in accordance with the schedule as specified in The Industries (Development and Regulation) Act, 1951 are termed Manufacturing Enterprises. A manufacturing industry involves investment for manufacturing purposes in plant and machinery.

**2. Service Enterprises** - The enterprises generating services instead of manufacturing or producing products are called Service Enterprises. A service industry involves investment for generating services in required instrument and machinery.

According to the MSMED Act, 2006, the amount of investment up to which investment may be made for plant and machinery in each of the above two is mentioned as below:

**Table 1.1: Types of Enterprises**

<b>Manufacturing Sector</b>	
Type of Enterprise	A manufacturing industry involves investment for manufacturing purposes in plant and machinery
Micro Enterprise	Not more than Rs. 25 lakhs
Small Enterprise	Above Rs. 25 lakhs and not above Rs. 5 crores
Medium Enterprise	Above Rs. 5 crores and not above Rs. 10 crores.
<b>Servicing Sector</b>	
Type of Enterprise	A Service industry involves investment for servicing purposes in equipment.
Micro Enterprise	Not more than Rs. 10 lakhs
Small Enterprise	Above Rs. 10 lakhs and up to Rs.2 crores
Medium Enterprise	Above Rs 2 crores and up to Rs. 5 crores

### **1.6: Pattern and Assistance to MSMEs in India**

The directive principle of state policy had highlighted in 1950 the need for state control upon large industries, to bring the economic control of large industrial sectors from the hand of few big houses and pass it off to medium, small and micro houses. In fact in India Small and Micro industries had taken time to establish their position in industrial map of India though Medium scale industries had been significantly achieved recognition in this respect. Even in 1951 when the first Five Year Plan was formulated for implementation, the overall existence of the three sectors – MSMEs were not so much specifically significant neither in their existence and promotion policy. Soon after initiation National

Five Year Planning a committee named as “Carve Committee” was formed by Planning Commission. This commission had suggested for gradual improvement in technologies and techniques used by the Micro, Small and Medium industries without reducing the job opportunities created by them. The commission also recommended for assuring market support and opportunities through different market promotion policies to these industries.

The Second Industrial Resolution Policy which was adopted in 1956 emphasised for state policy that should ensure that decentralised Micro, Small and Medium industrial sectors should not be subjected to any insecurity regarding their infrastructure and existence and should enjoy sufficient vitality for being self-supporting. It was of the idea that state should take sufficient measures aiming at necessary support and develop the Micro, Small and Medium Industries so that they gain necessary competitive strength. The concepts and measures as recommended in The Second Industrial Policy Resolution were not suitably implemented till The Second Five Year Plan when categorical enforcement of state policies towards the development of Micro, Small, and Medium sectors was observed. During the National Second Five Year Annual Plan an overall systematic and concerted effort for prosperity and growth of such industries began. The different authorities responsible of the development of MSMEs, as recommended above, had been created and under the guidance and concerted effort by these responsible authorities work for the overall growth of concerned sectors as mentioned above had been continued. The Industrial Estate Program, Assistance through National Small Industrial Corporation (NSIC), Industrial Extension Service etc. are some of the authorities created for the purpose of providing necessary support.

### **1.6.1: Facilities and Support Provided by State Governments**

**A) Tax Relief:** Decision was taken by Government over scope of exemption of sales tax for buying raw materials for period up to five years from date of the production and also there had been provisions for decision for exemption of taxes paid to Government on sale of finished goods manufactured by the concerned industry belonging to MSME group for definite period.

**B) Preferential Treatment in Government Purchase:** Under the benefits as per these facilities the different Government bodies including State Governments, Corporations or Boards under State Governments will provide price facilities up to 15% in comparison to large scale industrial sectors. Entrepreneurs in such sectors will require in such cases providing only 20% of normal security device and no earnest money in such cases is required.

**C) Allotment of Built-up factory Shed in Industrial Estates:** The State Governments make the schemes of making built-up factory accommodation at suitable sites having fair prospects of industrial development and in such built –up factory sheds and industrial estates there are scopes and available arrangements of water, electricity, accessible roads etc.

**D) Allotment of Land in Industrial Area:** In district towns and other places in districts where prospects for MSMEs are observed, industrial development areas have been developed. The land is allotted for starting SMEs on payment of some initial amount (amounting of few installments out of total installments being the price of land) or otherwise payment of around 50% (as decided by concerned State Government) of rent in the industrial area for 5 years after allotment date.

**E) Project Reports:** Sometimes, Governments of different states decide upon the feasibility of project initiated by entrepreneurs. Once the feasibility and suitability are justified, the industries department of concerned State Government assist the entrepreneur of SMEs in developing the Project Report and supplied at free cost to the entrepreneur. Even for projects where the department of industries under State Government is not in a position to prepare the Project report because of lack of knowledge in concerned area, State Government occasionally provide significant amount of subsidy for getting the Project Report done by Government approved agencies.

**F) Concession on Electricity Tariff:** Considerable amount of concession is allowed for consumption of Electrical energy by State Governments. There are different schemes offered by different State Governments. Sometimes instead of fixing any minimum fixed charge for being levied for consumption of Electrical energy – a minimum definite amount as fixed earlier irrespective of prevailing tariff rate is levied per unit of energy consumption. Also in many cases, a fixed predetermined amount of subsidy per unit of consumption is provided.

**G) Financial Assistance:** State Governments provide various types of financial assistance for developing MSMEs and few may be noted as below:

- i) Guarantee of facilities of loans.
- ii) Purchasing and underwriting of share.
- iii) Facilities of loan under different State Government schemes.
- iv) Supply of machineries and raw materials on different easy financial terms and conditions.



- v) Sponsoring hire purchase applications with National Small Industries Corporation.
- vi) Prospects of loan from State Financial Corporations
- vii) Financial assistance to entrepreneurs from different Commercial Banks

**H) Assistance in Marketing:** Different State governments had made rules and accordingly State Directorate of Industries has, in many states, made an exhaustive list of materials which could be purchased from MSMEs by the concerned State Governments.

The discussion has been undertaken reveals the trend of concern effort of State Governments over the support extended for the growth of MSMEs. The patterns of help received from State Governments are fundamentally not very much different and broadly each of State Governments wants to extend all-out support for development and growth of MSMEs.

### **1.7: Prospects and Challenges to Micro, Small and Medium Enterprises in India**

In developing countries industrialisation is considered to bring transformation in economic and social systems of countries which are developing and underdeveloped economically. The economy in a country is desired to be strong and self-sufficient which only can make process of growing faster. Suitable process of industrialisation causes acceleration in economy of country, it affects structural changes in the on-going process of economy of the country, it causes suitable and effective use of different available resources of the country, effects growth in production and income generation, brings different new means to occupational pattern of people and also create opportunities for

trend in fair and fast growth in trade, commerce and export and which all thereby become cause of social changes.

Considering that program of industrialisation is the cause of development in economic development and national income, there has been the ongoing initiation of strong industrialisation related economic planning has occurred since the beginning of National Five Year Plans. During last five and half decades of National Five Year Plans, India has observed a steady trend of rising in the rate of growth rate in industrial sectors and share of this growth in medium, small and micro sectors are significantly appreciable.

Economic development is a large process and extent of this diversity becomes related to the existing situation of the state of industrialisation in the country. Economic growth through the process of industrialisation is dependent upon several factors. The factors that influence the growth of industrialisation are the technology used, the product items and ranges being selected, desire and purpose of the management or the entrepreneur, availability of infrastructural facilities, skill and nature of manpower available, raw material or other necessary resources those are used etc.

### **1.7.1: Significance of Small and Medium Enterprises in India**

In economic development of country, small scale industries play a pioneering role. The rise in living habit of a country is the indicator of economic development of the country. The consumption of different consumables being both durable and non-durable by the people of the country is the indicator of the economic status of a country. In case growth in economy, this consumption habit of people of country increases proportionately. These consumables mostly are supplied by industrial sectors of the country and role of Medium

and Small scale industries in output of the consumables being subjected to use in larger quantity in growth of economy is very much rising and significant.

Globally the contribution of medium and small scale industries to factors like economic growth, product diversification, generation and creation of employment and scope for employment, elimination of situations causing adversities in benefits of employment, higher export and promotion of scope for export are all outcome of contribution of small scale and medium scales industries. Also, a steady and uniform growth trend in small and medium scale industries in a country eliminates the regional economic imbalances of the country and also regional inequalities in respect of consumption habits, economic status and growth rate in economy are because of non-uniformity in growth and development of small and medium scale industries. In a developing and developed economy, SMEs are considered to be means or vehicles for meeting both growth and equity objective. As stated in Industrial Policy Resolution 1956, Small and Medium scale industries once are suitably taken for planning and operation may be the means for fair means for large scale employment creation and also opportunity for growth of ensuring more equitable spread of national earned income and benefits an effective arrangement of resources of fund and skill which in other ways not used and remain mostly unexplored and unutilised. The priority upon medium with small scale sectors on a national basis in India would come forward for sorting out some of the problems of unplanned industrial and economic planning. Indian economic planners and Government of India identified this problem and through implementation of different industrial and economic policies since independence, like policy of NIP 91, Five Year Plans, Annual Budgets, New Small Enterprise Policy 1991, EXIM Policy and recommendations of various expert committees over for fast growth of SSIs efforts had been made to remove these problems. In conformance with

these policies as stated here, during last five decades Government of India was capable to make very successfully and very effectively with use of available local resources and human skill the strong network and existence of small scale industries around the whole country almost with equal spread around its length and breadth and even being more intense and better than sector several developing countries of world. Presently India after almost its effort for last long five decades is able to make possible a very wide small enterprise development program for extending service and help to individual entrepreneurs and organisations for setting up SSIs in rural and urban areas.

As observed in the Ninth National Five Year Plan (1997 – 2002), SSI sector has shown considerable resilience and inbuilt strength and because of this, there had been a significant contribution to the Indian economy. This achievement from part of SSIs has gone to extent of meeting the target of contributing to the extent of 40% to the total national industrial output and also 35% to export volume<sup>4</sup> and creating a job opportunity for 17.9 millions.

### **1.7.2: Significance of Micro Enterprises in India**

India is a country with a heterogeneous mixture of people at a different income level. From different studies concentration of people being in the lower earning group has been observed come to be largest one, followed by the middle-income earner and the higher income earner are seen to be in group being very poor in number. The reason for such poverty is because of the existence of different factors and some of which may be mentioned as predominance of large of rural population, the average proportion of individual person to land holding is very insignificant, overdependence upon agriculture and agriculture being almost income of every rural Indian who mostly belong to lower

economy and lower income group, existence of most of industries being in urban areas, large uneven distribution of income and wealth, under and erratic utilisation of human resource and also some other factors like low ethical value, giving priority to caste and class-based rigid social hierarchy and structures.

From the beginning of the twenties, unrest is observed in several areas of India and this is being mixed with violence. However, there exist many causes of this violence and amidst this some of which are perennial and chronic being rooted in actual social disparity and deprivation. The government in past had achieved marginal success and had resulted in achievement of several controversies. Because of several fundamental reasons which require to be mentioned are, mal or minimum utilisation of resources, social with political anomalies, national, Government administrative policies, uneven growth across the country are there which had been or behind the creation of adversities. The output of this uneven growth has generated many discrepancies, some of which are lack of employment, unsuitable and underemployment, and also distressed employed persons, scarcity of asset, being unable to be used as well as access to the resources available locally or available for larger use towards the process of industrialisation. These all are the outcome of, as stated above, post-independence period unsuitable economic planning. The planning in several cases had turned to be not very much useful and usable because of its nature since it had failed to consider several factors which require consideration. In such type of country and rural planning, economists had given priority towards self-reliance upon local raw material and local available human resource. As observed in real life, even in India where since the beginning or in a later phase of planning and subsequent implementation tremendous success has been achieved, local material, as well as human resources utilisation, had been the key point of success.

### 1.7.3: Micro Enterprise and Micro Finance in India

As discussed previously, micro enterprises are very small business organisations which produce goods and services for generation of income. There are different characteristics that identify nature and construct of Micro Enterprise. In fact, the Micro organisations operate in which are informal in nature in respect economy and economical growth. Micro enterprises require initial start-up capital and also employ very few people as employees. As per the definition of employees in Micro Enterprises should be at least ten, it is observed that in general number of employees in Micro Enterprises are around four to five in number. As defined by Rogerson (1997)<sup>4</sup>, usually, number of employees employed by Micro enterprises is in between one to four. Also as mentioned by Karekezi (2002)<sup>5</sup> and Rogerson (1997), Micro enterprises are often home-based and consequently, employees of Micro Enterprises are usually members of family of entrepreneur or household members of entrepreneur, sometimes it turns that because of the reason of their family relationship with entrepreneur the employees are unwaged. This in many situations in absence of any definite record keeping it becomes difficult to distinguish between household expenditure and expenditure involved in operation of Micro Enterprise.

Karekezi (2002) states, in accordance with organisational terms, Micro Enterprises are not in practice of keeping or maintaining organisational formalities, because being in low-level organisational formalities, are in practice of following up informal level of

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<sup>4</sup> **Rogerson, C. M. (1997).** *Rural electrification and the SMME economy in South Africa*. University of Cape Town.

<sup>5</sup> **Karekezi, S. (2002).** Poverty and energy in Africa—a brief review. *Energy Policy*, 30(11-12), 915-919.

accounting, if anything is at all maintained. In several cases, Micro Enterprises are not even registered with registrar of companies and also not even recorded in official or tax records. According to Allerdice, A. & Rogers, J.H. (2000)<sup>6</sup>, it is occasionally observed that though some of the Micro sectors have necessary documents and also license to operate, many do not have the necessary licenses to operate and because of low profile and informal nature of the Micro sectors those are not much cared for and tracked by legitimate government sections and also are not tracked and documented by official government statistics. The range of operation of Micro sectors cover different areas of economy which may be mentioned as being commerce (to be mentioned with retail and trading in new and second hand goods); manufacture (production of different products undertaken in different production centres under micro industries); service (being both service rendered for consumption or enjoying of personnel or non-personnel ) etc. Heeks, R., & Duncombe, R. (2001)<sup>7</sup> identifies, there are differences between “survivalist” Micro Enterprise businesses and “flyers” or “potential flyers” which typically have different needs also it is identified that the latter group has greater potential and possibilities for growth and development.

Micro industries play a definite role in areas of developing potentials and possibilities of employment. For mitigating problems of unemployment with poverty, micro industries play a significant role since this sector fulfill many priorities of development with growth. Micro industries actually involve small businesses that produce services and goods for generation of cash income of even very small in amount. MSMEs are mostly labor-

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<sup>6</sup> Allerdice, A., & Rogers, J. H. (2000). *Renewable energy for microenterprise* (No. NREL/BK-500-26188). National Renewable Energy Lab., Golden, CO (US).

<sup>7</sup> Heeks, R. & Duncombe, R. (2001). *Information, Technology and Small Enterprise: A Handbook for Enterprise Support Agencies in Developing Countries.*, UK: IDPM, University of Manchester.

intensive sectors and involvement of manpower accordingly is intensive in nature. People possess less education, expertise, skill, and experience. In fact, it is observed people involved with micro industries as entrepreneur or employee possess very less or no technical experience or working experience in production, accounting, marketing, buying and selling or material inventory management because of their low-level education. They are rarely registered for employment at government registration and they just belong to a family being busy with the survival of self and family members. The geographical locations of micro industries are, in conventional or existing practice, in the sector being informal located mainly in rural areas. The micro industries to start with at beginning involve very low capital and also manpower involvement also becomes very less. In many cases, it is observed that manpower involvement become the entrepreneur himself or his family members.

As observed and stated above the employees in Micro Enterprise are the entrepreneur, the family members and households of entrepreneur and they work on a casual basis and even sometimes they work without taking any wages. Since scarcely any record of accounting is maintained, it is not easy to differentiate the expenditure involved in the maintenance of the household or family expenditure of entrepreneur and the expenditure involved at the Micro industry itself. Therefore, micro enterprises are characterised as possessing the poor quality of organisation and informal accounting. As a result of low profile and informal nature, micro enterprises rarely covered under official government statistics. Micro enterprises operate in several areas of economic sectors which are mentioned as commerce (retail and trading), service and manufacturing sectors.



As seen from different developed countries the majority of employments are within recognised institutional framework in Government and in private sectors. But in the developing countries even in India, the majority of people are destined to earn to get their food themselves and they need to look for their employment out of the resources possessed by them on basis of skill possessed by them. These situations in the area of employment create a dualistic of formal as well as informal components related to employment generation. The situation of an informal and unrecognised sector is something not very specifically stated or realised in the Indian context and it is very difficult to spell it distinctly because of nature and the real-life situation. Accordingly, it is occasionally stated negatively by directing towards the non-availability of characteristics that come under formal characteristics possessing significance being under labour market characteristics, regularity of work, better income, availability of wage and long-term benefits.

The International Year of Micro Credit 2005, as observed by United Nations makes a situation to bring awareness of significance of micro enterprises which presently has come as a major strategy to meet the situation because of crisis developing out of poverty and unemployment. India has a large size population being around 1300 million and its GDP is also high being among 15 top economies of the world. Consequently, after liberalisation and also globalisation of the Nineties it is observed that scope of employment and earning of unskilled and uneducated mass in micro sectors are not raising at the same rate as other areas of economy like trade and commerce, industrialisation, agriculture etc. Around 400 million or more people are still there in India Below Poverty Line (BPL). There is the presence of a visible difference in the position of rural economy as well as the urban economy. The rural people are poorer and

economically unsound than the urban people. For rural people a primary source of earning a livelihood is agriculture and urban people have the opportunity of different alternatives. India being mostly agro-based Country; it is making subsequent progress in different areas like trade and commerce, industries etc. Presently in India, almost for the last two decades or more much emphasise being given upon micro enterprises and these activities have been seen to be causes of promotion forward self-employment generating activities. The self-employment activities and household enterprises are to be essential factors for promoting socioeconomic development growth rate.

Indian economy has registered a mixed growth rate in the previous decade – 8.1 percent in 2004, 8.3 percent in 2005 and 7.9 percent in 2006 and in 2007 growth rate had been 8.7 percent. Many states like Jharkhand, Orissa, West Bengal, Assam etc. even with their much enormous resources of natural and manpower are placed in the positions of poor states in India with above almost 35 percent people living below poverty line. The rural people work hard throughout the year and even then do not go much above their existing poverty line and they rarely are in a position to change economic status with economic development for them and the states are far off. Along with these the states are still presently exposed to different naturally developed adverse situations like calamities because of the flood, drought, landslide, much rainfall etc. The trend of development in agriculture or industry is far below the expected situation and in many situations, the situations lag behind some other parts of the country. Also, arrangements of suitable facilities for procurement and storage and marketing of agricultural products result in adversities towards growth and development economy of the agriculture sector.

The growth in population and introduction of these people in already surplus pool of labour force generate a reason for overcrowding in employability and this result in the situation causing further unemployment and underemployment. The developments in states in India remain largely stagnant because of these adverse situations concerned with mass poverty. Indian society is still largely male-dominated and women population is almost in the same size in comparison to male population. Still, in India, there is an existence of discrimination towards the women by society as well as the male themselves. However, in urban areas among the educated people the situation is different and women over there in the urban literate localities are getting their recognition. But the overall situation in overall India is far from this ideal and desired situation. Consequently, discrimination towards women and women exploitation is in existence in India, Women are not considered to be equal to men inside the premises of family and outside that. Because of the prolong and such age-old practices of such socio-cultural situations women are confined inside the houses and strictly barred from taking part or participating in activities which add to the economic development of society as well as the country. The participation of women in India is not in the same proportion to men in agriculture, trade, and commerce, in industry etc. Because of such unfavourable and undesired situation in India, development of Industries, along with micro and small industries, women entrepreneurship is significantly low in this country. Against these deplorable conditions of Indian women, several government measures for protection of women right and also effort of several national level voluntary organisations stressing the need of women right nothing very significant has come up and this allows the undesired adverse situation concerning the deplorable situation involving women partition in micro industries etc and contribution towards development of economy is below level.

The growths in Micro entrepreneurship come from the rise of informal sectors. The growth in Micro Entrepreneurship are associated with small scale operation, family ownership of the entrepreneurship. The Micro Entrepreneurship are also dependent upon indigenous resources and locally available resources. These are normally labour intensive units and based on adaptive technology and traditional skill. The Micro Entrepreneurship are mostly household settlers irrespective of the locality which are either urban-based or rural based. Also, micro industries are created, managed and financed by the entrepreneurs and respective family members. Also, Micro entrepreneurship generates the opportunity of employment of owners and few outside people.

### **1.8: Entrepreneurship in India**

Entrepreneurs and entrepreneurship contribute to the growth of the economy in a country which is under developing stage. In India entrepreneurship is in the growing stage and is not much developed. Entrepreneurship turns to be very much effective in case of economic growth and poverty removal of a country. Small and Micro sectors developed either in urban or rural areas become an important or key factor for the growth of an economy and also poverty alleviation. Local enterprises coming up in form of small or Micro Enterprises are sources of employment generation. This process of workforce participation which with the development of Micro Enterprise turns to be employment generating improve workforce participation and being labour intensive turns work involvement organisation. Also, the micro enterprises use mostly local raw materials, locally available skills, and technology.

Entrepreneurship is basically active processes which recognise economic demand for the country economy. Also, it is a place and mechanism which utilise factors of production

(land, labour, and capital) for material requirements of production of micro sectors which in turn out of the products produced and sold in the Micro Enterprise generate profit. In a developing economy where the poverty level is high with slow economic growth shows, the people in large number in such enterprises of developing countries shift for self-employment. These way Micro industries satisfy the needs of developing economy and become the cause in growth of employment (which is mostly the self-employment), poverty removal economic development and also equity and social stability. With the use of growing micro industries and their advantages and benefits, people get the scope of employment and also the development of the economy. These situations develop the scope of poverty removal and people thus get the opportunity of poverty alleviation. People, both rural and urban though they possess less of education and skill, thus being associated with Micro Enterprises get the opportunities for economic growth.

Related to growth in production and correspondingly promoting income distribution and wealth generation micro sectors in developing country has a very specific and definite role. It functions as a catalytic agent towards initiation, promotion, and maintenance of the activities of promoting income distribution and wealth generation as mentioned above. Also with this economic and wealth growth of individual and people at large there develop a situation of feelings of recognition of values of self-liberty, individuality, innovation, risk-taking, and independence. It is observed that in several cases in country is under developing stage, MSME industries account for larger share of extent of industrialisation and contribute significantly and also claim for a larger share of total volume of employment. In an economy being in a state of transition and developing, MSM industries in many situations and in many economies play a role which appears to be the very dynamic one bringing the situation out of its state of economic stagnation.

MSMEs play a very promising and important role in a country being in the stage of developing the economy. Several studies and research analysis undertaken in many research work has observed that MSMEs sector contributing significantly too many economic growths involved in economy.

People who undergo entrepreneurial activities are actually entrepreneurs and these entrepreneurs search for changes towards the creation of scopes for events of the creation of wealth and economic prosperity for him and his enterprise but also for the opportunity to other different section of society. The entrepreneurs look for changes of situation and respond to those and harness the benefit contained in it and in this process make human life more comfortable, prosperous, easier, and full of well being. In this way, as discussed above the MSMEs contribute significantly and enormously towards the economic change and growth of country in the stage of development.

In this process of performance, the MSMEs by virtue of inspiration, initiatives, effort and creativity in course of their existence, sustenance, progress, and development bring significant progress and development towards national production. MSMEs through contribution of a great share towards the total volume of national production booster the country production and growth significantly and in many situations take the position of making a decisive role and achieve position of playing distinctive role in national economy by contribution a fair amount in increasing national income. This they receive as an honour and recognition in return of their tireless conscious effort towards growth of economy and generation of profit which is a yardstick of success.

### **1.9.1: Sources of Support for Financing Small and Medium Enterprises in India**

The source from which capital is obtained to small and medium sectors may be classified as internal source or spontaneous source and internal or negotiable source. The fund generated from the retained earnings of entrepreneur as fund for investment is the internal source of fund. If the internal fund is not enough for satisfying fund need of enterprise, then the enterprise depends upon fund from external sources. This fund may be institutional fund or non- institutional fund. The source of non-institutional fund normally becomes relatives, friends, known persons, money lenders, indigenous bankers etc. The source of fund from institutional sources is commercial banks, SFCs, IDBI, SIDBI, and various other Central Government and State Government agencies. The external fund may be informed of owner fund or debt fund. The IDBI and NABARD also play a very distinctive role in growth for small and medium scale industries. The SFCs and commercial banks also provide large amount financial help to medium and small scale industries. The National SSIs Corporation also provide information about different mechanisms like hire purchase schemes etc. at the national level.

### **1.9.2: Sources of Support for Micro Industries in India**

The post globalisation impact upon economy brings it in exposure of competitiveness with global players in each area. Because of removal from trade barrier and liberalisation in open door post globalisation scenario, it has been essential for entrepreneurs to confront with and promote the culture of sustained competition. Analytical studies over the pattern of functions undertaken by research scholars upon entrepreneurs belonging to small and microenterprises show that micro sectors in present state of affairs are in position to grow with rising trend, and are in position to be innovative in area of their operation and also are quite competent to compete with others for survival and also are

quite capable for satisfying need of changing demand of their customers even in the environment of recession in economy once it comes up. In the new context of economic wave, the liberalisation in economy is giving a new dimension to this operating trend of industries belonging to MSMEs. This undergoing liberalisation process is adding a new dimension to the characteristics of operation of economy as noted here above. Accordingly, for the small and micro industries, alike medium and large industries, the stiff competition is waiting to confront in their span of operation period. The small and micro sectors are to be efficient enough so that can come over winningly the accessibility as well as exposure of stiff competition from inside the country and outside. The inputs to this competition will be finance, technology and consequent quality up gradation. The industrial clusters give enough opportunity for intervention and provide scope of increased collective efficiency even an environment of internal competition. The situation of competitiveness turns to be cause of specialisation which results into innovation of several means and features in the process innovation of the system under production.

One very normally asked common and open question is if government should intervene in the operation of the informal economy. There exist a group who share the thought that the government should involve itself in the informal sector and there exists another group who oppose this concept.

However, if the market operates efficiently, involvement by government in informal economy develop situations that lead to inefficiencies and distortions. Amidst such situation, the informal sector may be accessible to situation leading to declining of the economic growth. Also, it is considered by many that the informal sectors require being left behind the reach of government because they believe in the area of operation of



informal sectors desires no involvement of regulation. Such regulations and taxations, as believed by these economists, will lead off situation that may even be damaging existence of informal sectors since such sectors are not that much structured and well equipped to bear the burden of government-imposed regulations and taxations.

A group of economists believes that informal sectors should be in existence and also there must be prevailing appropriate regulations, laws and policies framed and made applicable by the government. In fact, these existing measures and systems introduced by the government are the only available mechanisms to prevent biases and discrepancies of existing laws, regulations and policies. The biased policies, regulations, and practices provide support to the formal economy and become the cause of disadvantage of informal workers.

The main reasons and causes because of which a section of analysts support government intervention in informal economy and sectors are the apprehensions and arguments that are based upon the fact that government involvement is on the basis of a mix of equity, efficiency, and political economy. The argument on the case of equity principle is based upon fact that the poor and also women who are mostly dependent and involved with informal sectors involving micro sectors are not competent enough or not adequately powerful in the market to bring the market share of their product. Accordingly, the women become unprivileged to enjoy enough of market power and face uneven market power and discriminations.; possess little market information and skill; and are protected with insufficient and inadequate insurance against risk – risk against unemployment, illness, disability and old age. It is argued by this group, the group which advocated for government involvement in informal sectors and economy, that the existing process of

normalisation in which more and more people are being involved under system of informal arrangement – threatens to perish and damage the long-existing social process.

It is understood by many that a situation develops which asks for a contract between state, business, labours involved in such business, and other necessary and relevant social performers where organisations of informal workers and producers are involved. In support of this contract or agreement involving state interference on efficiency principles it is justified that informal sectors actively contribute to GDP producing big share of consumer goods mostly purchased and consumed by middle and low-income groups, these also produces other than consumer goods a sizeable amount of capital goods and also very significantly provides employment to a great number of local and unskilled less educated people finding no other means of alternative employment. Apart from these, the informal sectors use a big amount of local resource, occasionally output of locally grown products like the output of agricultural lands, forestry etc. and because of these, the producers of these resources grown locally get a potential market. Also, these informal sectors provide scope for the training of local people over practices and procedures of operating Micro Enterprises. The informal sectors are unlike of large enterprises are labour intensive and correspondingly along with the growth of Micro Enterprises, there become growth of scope of job creation and scope for creation of employment of people than such scope in formal economy. Accordingly, on basis of such facilities and benefits as generated by informal sectors, it is argued that government support made available to informal sectors.

Also, as noted previously, there is considered by some that there should be government support upon the informal sectors since such support in form of state intervention on

political economy principles is advantageous and encouraging in the interest of the need satisfaction of wider section of people in a better way than the purpose is served by large sectors. In fact apparently, it appears that supporting large scale sectors bring more of facilities and advantages for growth over the economy, government and state machinery become occasionally biased upon the market-related performances linked with large scale sectors. In fact, it is desired there be no biases from the part of state government and state machineries or state policies towards micro or small businesses making those singled out or taking those as a case being distortionary. In fact, it is often observed that impact of prevailing or existing economic policies upon the informal sectors have got some effect and that effect is in some way or other is specifically separate from the impact of those policies upon large formal sectors. In the real situation, the government always observe and intervene in the market and outcome of government policies and interventions are always are in accordance with the nature of the sector (whether it is large size or small size) and also in accordance with the relative power of different economic factors involved in the corresponding market.

In fact, it is always desired that government should always intervene in economic policies on each type of sector based on merit and credibility towards social causes and benefits taking into consideration cumulative effect of the sector, it is not to be on the basis of the effect of any individual industry belonging to individual group. If the Government stays away instead of providing its care and intervention, there will not be any suitable authority to come forward with due authority and ability to look after the sectors. Each of the sectors has got several stakeholders and each stakeholder possesses a separate interest and this needs to be careful of. If suitable care is not taken upon and the interest of the stakeholder become in difficulties the concerned sector also becomes in difficulties.

**1.9.3: Institutional Support for Micro Industries in India**

Since capital had been a major constraint for enhancing income level of vulnerable group of people through organising development in activities of micro industries, the efforts have been made by government to make these vulnerable group of people accessible to Micro Finance for purpose of organising development in micro industries activities. Various finance corporations were created to make finance available to these segments. In India, the strategy of providing Micro Credit to generate livelihood for poor was adopted by government in a big way starting with Small Farmers' Development Agency in the early 1970s and the setting up the network of Regional Rural Banks, (RRBs), since 1976 to serve marginal farmers and artisans. The nationwide Integrated Rural Development Program (IRDP) had been also created for the purpose of offering subsidised loan to poor for acquisition of assets.

Subsequently, a number of NGOs working on livelihood promotion had come up with alternative ways to enable the poor to access credit from banks for acquiring assets for purpose of creating micro-enterprises. Reserve Bank of India and NABARD approved the experiments with Self-help Groups in 1992, which led to a pilot project of the bank lending to SHGs.

*National Bank for Agriculture and Rural Development (NABARD)* on the basis of consideration the importance of rural non-farm sector as means to enhance employment opportunities for rural population, other than different refinance programs has launched promotional schemes for interventions in entrepreneurial development, skill up-gradation, technology up-gradation, marketing support, with emphasis on the development of clusters, formation of self- help group.

*Small Industries Development Bank of India (SIDBI)* in addition to their refinance schemes, they are implementing promotional and development schemes through NGOs for implementing inherent strength of MSEs.

*Coir Board*, Ministry of ARI, Government of India, Kochi looks after promotion and growth of coir industry at different parts of country in areas covering research and development, training, extension, quality improvement, development in production infrastructure, domestic and export market promotion etc.

They also provide assistance under different programmes and schemes of government of India to strengthen the co-operative network and welfare of coir industries.

*Council for Advancement of People's Action and Rural Technology (CAPART)* is an autonomous body functioning under the aegis of Ministry of Rural Development, Government of India since 1986. It is a nodal agency for catalysing and coordinating the emerging partnership between organisations and the Government sustainable development with interventions like housing, skill training, technology up-gradation, the establishment of community centres, marketing support etc. Rural artisans sector is one of the identified priority areas of CAPART.

*National Centre for Design and Product Development (NCDPD)*, a non-profit organisation, is set up by the Export Promotion Council for Handicraft (EPCH) and the office of development commissioner (Handicraft). NCDPD has been involved in inviting prominent designers from overseas and working in coordination with leading design institutes and helping Indian artisans especially tribal to improve their skills. NCDPD

aims to provide updated and advanced assistance to the Indian handicrafts industry through international standard design and technical inputs.

*Export Promotion Council for Handicrafts (EPCH)*, New Delhi has been established in 1986-87 under the EXIM Policy, by Government of India. This is basically a non-profit based organisation. EPCH is an apex organisation of trade and industry and this is sponsored by Ministry of Textiles, Government of India. Also, EPCH is an organisation aimed with the promotion of handicraft in India. The purpose of EPCH is also projecting India's image abroad as a trusted and reliable supplier of high-quality handicrafts. It is also an organisation established with the aim of ensuring means and measures so that various measures are ensured in the handicraft sector in accordance with international standards and specifications.

*Council of Handicraft Development Corporation (COHANDS)* is a national organisation and it represents 28 state government corporations in India and it operates under the aegis of Office of Development Commissioner (Handicrafts), Ministry of Textiles. COHANDS acts as a facilitator for undertaking integrated design and technical development workshops, interior design and participating in domestic and international fairs, cultural programs, organising seminars and symposiums.

*Khadi and Village Industry (KVIC)* works under the administrative control of the Ministry of Industry, Government of India. It is a part of the Department of Small Scale Industries and Agro and Rural Industries. The headquarter of KVIC is in Mumbai and it has its state offices in each state and also regional offices. KVIC has the arrangement of training, production of sales centres spread around the whole country. There are 30 State Khadi and Village Industries Board, more than 3500 institutions and also about 29000 Co-

operative Societies under KVIC. KVIC has more than 1, 42,000 sales outlets in the country.

#### **1.9.4: Gaps in Financial System and Need for Micro Finance**

Corresponding to the study undertaken by World Bank it has been observed that about one-third of world poor people (earning an equivalent of one Dollar per day) live in India. For poverty alleviation, much Central Government and State Government schemes are in existence in India. But all these existing schemes are not enough for poverty alleviation as required and taking this into consideration the role of Micro Finance has been analysed with respect to poverty alleviation needs. Undergoing an overall review it has been observed that Micro Finance plays a big role in the elimination of poverty of people and also Micro Finance had been a major contributor to financial inclusion in India. By analysis of previous data on Micro Finance provided by different financial institutes, it has been understood that Micro Finance has provided a major benefit in comparison to other sources of fund availability. Microfinance is the cause of major relief in process of poverty alleviation by income generation to microfinance loan users through Micro Enterprises created from Micro Finance fund.

Still now in India, great numbers of people (almost half of the population as found in RBI study) do not have any saving bank account and are deprived of different financial assistance scheme as offered by Government under different schemes of poverty alleviation through income generation by different small entrepreneurship. Poor people require necessary minimum income for satisfying the requirements of different consumables, the building of assets and satisfying the safety needs. Micro Finance as available from microfinance institutes serve as supplements to banks and in some way are

considered more satisfying to the users. Microfinance institutions are not only microcredit providing financial institutions but serve the recipients of microcredits providing different services like savings, remittance, insurance, other non-financial services like counseling over different uses of money, formation of micro sector like micro industries etc. for starting own enterprise to create own income generation system. The borrowers taking microcredit receive all these mentioned benefits in their doorstep and they enjoy benefits of repayment of microcredit finance even at terms and conveniences of their own.

However, the rate of interest rate that is paid back by Micro Finance loan users sometimes may be higher than the existing rate in commercial banks, considering nature and pattern of service provided by microfinance, the marginal additional amount paid back by Micro Finance users are considered legitimate and rational.

Whatever may be the existing system in areas of Micro Finance availability and how far may be its ease of availability with its logical utilisation and approaches, related to total logical need and requirement of genuine use of Micro Finance, the availability is still now is not in a significant level. There is a wide gap in between availability of Micro Finance and requirement or expectation of prospective users of Micro Finance. Micro Finance has been appeared to be much successful in poverty removal and generation of employment generation to required people in India, but the network covering the availability of finance to desired groups requires being larger and adequate.

### **1.10: Effectiveness of PSBs (Public Sector Banks) Finance in Development and Sustenance of MSMEs – Exploring the Situation with Respect to Districts of Medinipur**



In this work, titled Introduction and Background of the Study, an elaborate analytical work has been undertaken to establish the requirement of effective participation of public sector banks and other institutional finance in progress and growth of enterprises belonging to any of the sectors – medium or large or micro. Finance under various schedules or heads provided to these sectors. Fund, as required by each sector from the Public Sector Banks or other Financial Institutes, is for purpose of utilisation in process of establishment of this sector as capital for investment for purpose of fixed capital or working capital. This is the fund taken from PSBs or other Financial Institutes at beginning of venture or at the start of a sector. Also in course of process of growth of this sector fund is required for several purposes like capital for progress and development, capital for replacement of existing machinery in case of obsolescence, capital for product diversification, capital for introduction of new technology, capital for growth with change of market etc.

It requires the MSMEs to operate and maintain their sustainability. As noted in the discussion in this chapter MSMEs has numerous contribution to society and economy of a country, to be more specific for India economy and people at large depend upon the MSMEs. The MSMEs role is significant to the economy by promoting trade, commerce, export of wide number of products those are produced in the sectors. Also, MSMEs provide opportunities for appointment. In many cases, people start Micro Enterprises and generate their own employment and subsequently earn their livelihood and also along with this generate scope for employment for people belonging to same locality or other who neither have educational background nor any skill. By this way, the MSMEs help the society to grow and develop and retain its well being and prosperity.

Hence it is necessary that it requires existence and continuous growth and prosperity of MSMEs and there should be regular availability of fund, as necessary, from either Government financial institutes or other sources like PSBs.

In this respect, it may be mentioned that there are sources of fund which may be available to and be utilised by the MSMEs. The fund being available from different private sources in form of loan etc. and fund available from relatives or friends of entrepreneurs are in many cases used by MSMEs. The fund available from such source is not in the area or present study and accordingly, it is not being taken for consideration for any further study and analysis.

However, in the locality where the existing study is being undertaken, the MSMEs mostly depend upon Public Sector Banks (PSBs). The dependence of MSMEs upon PSBs is mainly and also may be called mostly because of not the availability of any other source like other Government financial institutes and any other sources belonging to either Government or private owners.

It requires analysing and establishing the effectiveness of the Fund being available to the MSMEs from PSBs. The MSMEs should take all care in relating with to utilisation of the fund they thus obtain and use. Optimum utilisation of the fund and it needs to ensure how the fund obtained from PSBs is generating return quantitatively in form of return upon investment and wealth generation of the enterprises being under MSMEs. Also along with this, it needs to study and analyse how effective is the payoff to the society in form of generation of employment and economic development.

It needs to take all care that the scarce public fund as available from the PSBs should be utilised to its highest value and there must be best return generation in specific areas like capital growth, growth in economy etc of the MSMEs. These key areas where attention requires to be given on priority basis has been specifically identified in the chapter where discussion upon “Objective of the study” and “Formation of hypothesis as done in process of this study” has been endeavoured.

### **1.11: Location of Area where field study had been done**

The area selected as the location of the place where from field study is to be done are the two districts being Purba (East) Medinipore district and Paschim (West) Medinipore district in State of West Bengal. In fact, the place from where such research work is decided to be undertaken is desired to possess some special features or characteristics. The study is envisaged to undertake in a place which has got its uniqueness with respect to different features of the existing research work.

It is required that the place should be the places being covered under the general and existing socio-economic conditions of country which is making this country as a place for the growth of tiny and small industries which are included in Ministry of Industries Government of India as Micro, Small, and Medium Enterprises (MSMEs). Also as included and proposed in the schemes of Government and policies for extending financial help as liberal credit money for the purpose of support of these industries. These supports are necessary since the people in concerned areas are deprived of any facilities and benefits from where they can earn some money which is required to be invested for these MSMEs with respect to need of capital for fixed capital and also working capital.

The district Medinipore is at one remote end of this state being surrounded by two states – Jharkhand and Orissa at another side. It is far off from the metro city of Kolkata and the district town Medinipore is also a small town. Previously the Medinipore district was a single undivided district and presently being a large-sized district, it is divided into separate two districts namely Purba (East) Medinipore and Paschim (West) Medinipore.

The socio-economic conditions existing two districts are being too large extent separate from other parts or districts of West Bengal. A large portion of this district known as Jhargram being adjoined to Jharkhand state contains people of tribal origin. The districts contain mainly agricultural land and share of industries etc in district or state economy is very poor. The primary source of income in these two districts is agriculture. People in large numbers are landless and they work as seasonal agricultural labour with almost no income in offseasons. Also, large portions of Paschim Medinipore district contain uncultivable and unfertile land where no agricultural work is undertaken.

The socio-cultural systems of the districts are also adverse in nature. Most of the people are illiterate and because of not existence of major industries, people are mostly unemployed and poor.

The long stretch of Paschim Medinipore district being adjacent to Jharkhand is covered with dense forest and since quite a significant period extremist activities had been observed to continue.

To bring out the two districts from the miseries of poverty, unemployment, scarcity of food , want of daily needs of maintaining a minimum life standard, there is continuous effort from Government to bring the people under the umbrella of financial facilities as

obtained from different schemes introduced by financial institutes which largely belongs to public sector commercial banks.

Accordingly, with the facility of availability of services from different public sector commercial banks being established in the remote areas of these two districts, local people are motivated by different Government institutes and the local available public commercial banks to come forward for taking bank credit facilities and starting up MSME enterprises. The easy credit facilities obtained from public sector commercial banks help local people in being involved with the beginning and continuing the MSME enterprises like animal husbandry, agro-based products, agricultural entrepreneurship, coir industries, mat manufacturing, handloom, and several others.

The two districts thus selected namely Purba Medinipore and Paschim Medinipore are considered to be an ideal place to implement the policy scheme and economic benefit of the development of MSMEs with utilisation of public sector bank easy credit facilities developed for development of weaker and unprivileged sections of mass and development of economic situation of people. As it is observed from the documents as obtained from different government institutes and offices like District Industrial Centre (DIC) and also from records of different Public Sector Commercial banks annual report there is a growth in the rate of progress of MSMEs with aid of credit facilities from such sources.

Accordingly, the present research work is decided to be undertaken collecting its primary data from the two districts of Medinipore in West Bengal to justify the role and prospect of loan and credit facilities from Public Sector Commercial Banks towards the development of MSMEs.