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Why are Micro Enterprises Languishing? --- Experiences of PMRY

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Micro, Small & Medium Enterprises (MSME) sector contributes substantively in terms of output, GDP, employment and exports. It helps bring about decentralised form of production of goods, services, promote equity and can have significant spin off that may generate forward and backward linkages. However, this sector faces numerous challenges both from demand and supply sides. In the milieu of competitive environment, this sector faces more serious challenges where business environment is less friendly which constrict significantly the growth of this sector. The survey results palpablydemonstrates that experiences ofthe Prime Minister's RozgarYojana (PMRY) are not very encouraging in terms of utilisation of capital, survival of units, product base, profitability, training and skills, employment and incomes. Clearly, paper suggests that in a competitive environment only those enterprises should be promoted which have potential for growth or having high market demand. Most often, micro enterprise have to face competition both in the product and labour markets from the formal sector enterprises, particularly from the larger units who have advantage of economies of scale. It would, therefore be important from policy perspective to promote those enterprises having linkages with formal sector enterprises.

Key Words: MSEs,investment variability,performence of enterprises, employment generation, productivity syndrome

Introduction

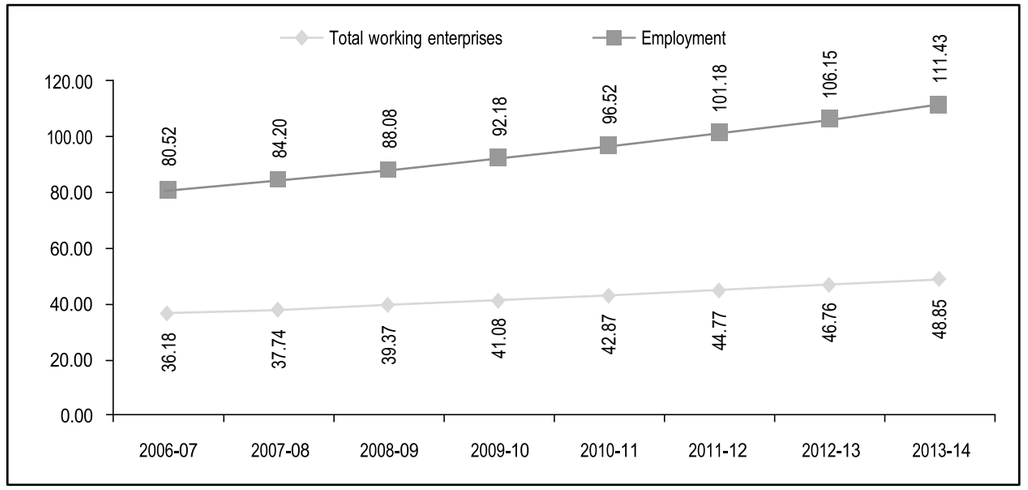
Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialisation of rural and backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country (GOI, 2015).

MSMEsector accounts for about 8 percent to GDP and contributes almost 45 percent of the manufacturing output while its share accounts for 40 percent of export to the economy (GOI, 2015). In terms of employment it is largest employment provider next only to agriculture. The most employment intensive segments are food products followed by non-metallic mineral products and metal products. MSMEs have grown to 36.17 million units providing employment to 80.52 million persons during 2006-07 (Figure 1). The sector represents an average annual growth rate of 4.38 percent in the number of these units; and growth of 4.75 percent in employmentafter fourth census of MSMEs till 2014(Figure 2). The annual growth rate of total fixed assets of the sector (market value) has reached to 7.43 in 2013-14 from 6 percent in 2007-08 (Figure 2). Output of this sector has recorded an average annual growth rate of 8.36 percent during 2006-07 to 2012-13 (GOI, 2015).

Micro and small enterprises (MSEs),a segment of MSME sector, have a significant share in overall sector and play an important role in creation of employment, more equitable distribution of income, reducing the imbalances and disparities in rural and urban areas. The larger significance of this sector lies in sub serving simultaneously broader social and economic objectives. MSEs comprise divergent set of industries, ranging from the micro enterprises, using rudimentary technology on the one hand to the modern small-scale industries using sophisticated technology on the other. There is large diversity and heterogeneity within different segments of this sector. Typically, a large majority of these enterprises are small in terms of employment and plethora of them also work on single person enterprise with informal structure and family ownership which are engaged in production of variety of goods and services, primarily consumer goods. Production is generally carried out on a small scale with modest capital use and has limited functions and specialisation. The product range is highly diversified and linkages in terms of sub-contracting arrangements to large industry are limited.

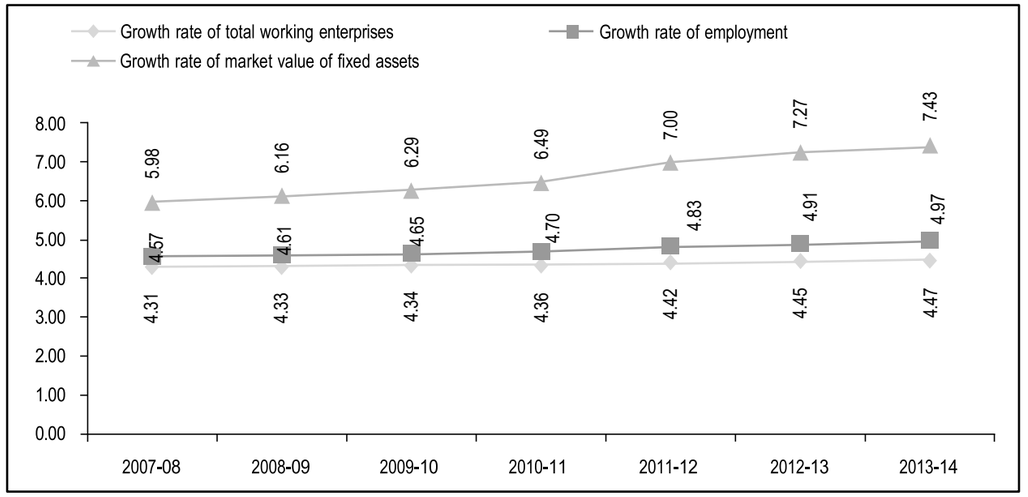
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Figure 1: Total working enterprises and employment in MSME sector (in millions)



Source: MSME, Annual Report 2013-14 & 2014-15.

Figure 2: Growth of MSME sector



Source: MSME, Annual Report 2013-14 & 2014-15.

According to fourth All India Census of Micro, Small and Medium Enterprises (2006-07), out of total 1.56 million units, about 1.48 million units fall under the micro and about 76 thousand units fall under the category of small units which jointly accounts for more than 99 percent of the total MSME sector. In terms of total employment of MSMEsector,MSEs provide jobs to about 96 percent in which share of micro is alone 71 percent of total under the registered category. The MSME sector hasgross output of Rs. 7075billionof which small enterprise have share of 45 percent followed by micro with share of 44 percent. In case of assets, MSME sector accounts for Rs. 4491billion and out of it 90 percent share belongs to MSEs.

In case of unorganised sector, the census reported that total number of units of MSEs are19.9 millionout of which share of micro enterprises is 99.8 percent and rest are small enterprises. The unorganised MSEs provide employment to 40.88 million, with gross output of Rs. 3697 billion, and with a fixed investment of Rs. 2,408 billion.

What really drives this sector? The major determinants can be analysed both from demand and supply side factors. A substantively large part of demand comes from those individuals and households who derive their incomes from the unorganised sector and indeed overwhelmingly large majority workers (92 percent) work in this

sector. Even those who derive their income from organised sector also demand the goods and services of MSEs. It has been generally observed that as the income of household rises the demand of these goods and services also rises. A second source of demand stems from the linkages with other sectors (agriculture or large industries). Though linkages generally appear to be sparse for majority of enterprises yet some modern enterprises have such linkages to large industries in the form of sub-contracting arrangements. As regards supply side factor, it is generally regarded that MSEs are efficient in the use of resources compared to medium or large industries. Also, employment and output per unit of capital, which can be regarded measure of efficiency, are higher in comparison to medium and large industries.

The significant changes noticed in the growth of small sector units are increasing intensity of closed units and substantial decline in employment per unit. Per unit employment declined from 6.3 in 1987-88 to 4.5 in 2001-02. This decline continued and reached to 2.06 in 2006-07.Across states, majority of states have experienced a fall in the share of working units and the consequent rise in the share of closed units. Employment per unit has declined in almost all the states. In recent years the performance of this has declined, which is believed to be as a result of opening up of the economy. This raises the central concern for creating an environment conducive to business and removing policy constraints. Researches haveshown that small and medium enterprises (SMEs) and micro enterprises have to face increasing competition in the present scenario of globalisation, they have to specifically improve themselves in the fields of management, marketing, product diversification, infrastructural development, technological up gradation. Moreover, new small and medium enterprises may have to move from slow growth area to the high growth area and they have to form strategic alliance with entrepreneurs of neighbouring countries (Mali, 1998).

It also highlighted the impact of globalisation and domestic reforms on small-scale industries sector. Subrahmanya, 2004 stated that small industry had suffered in terms of growth of units, employment, output and exports. The researcher highlighted that the policy changes had also thrown open new opportunities and markets for the small-scale industries sector. He suggested that the focus must be turned to technology development and strengthening of financial infrastructure in order to make Indian small industry internationally competitive and contribute to national income and employment. Scholars have also analysed the performance of small scale industry in India and focused on policy changes which have opened new opportunities for this sector. It is brought to the fore that in order to boost SSI growth technology development and strengthening of financial infrastructure are crucial (Singh et al., 2012). The concerns and measures to overcome difficulties of this sector are well documented even in the highest policy levels (Government of India, 2010). There are evidences to show that reforms, including that of labour laws and regulation, have positive impacts in business environment of micro and small enterprises which eventually help boost their growth (ILO,2006). This sector has performed a remarkable role of social inclusion, and promote employment and reduce income inequalities in the world (ISED,2014). Despite the fact that this sector contributes substantively in terms of GDP, employment and exports yet there is still a huge institutional finance gap that requires appropriate policy interventions and support tothis sector (IFC, 2012).

The paper has been structured into six sections. The first section deals with the overview of MSME sector and second section describes the objectives and methodology. The third section illustrates the profile of enterprises and the fourth section analyses economics of enterprises.Fifth section discusses the reasons for poor performance and the final section suggests strategiesand analyse the policy imperatives.

Objectives and Methodology

The paper is aimed at exploring the following issues based on empirical evidences.

(i) What are the social and economic profiles of entrepreneurs in terms of social groups, type of activity, capital used, skill and training acquisition routes etc?

(ii) How the enterprises fared well in terms of profitability, employment and income? Have they achieved desired objectives?

(iii) What are the reasons for poor performance of enterprises?

(iv) What are the policy implications of micro enterprises development and what lessons can be drawn?

The study is mainly based on primary data which wascollectedfrom six states covering fourteen districts and over 11 thousand beneficiaries giving due representation to types of enterprises, skill and training profiles, investment and income across social groups and gender.

Economic Profile of Enterprises

This section examines various characteristics of enterprises such as type of ownership, functioning status and typology of enterprises, participation by different social groups, gender issues, skill and training profile, investment and income etc within overall framework of the scheme.

The Prime Minister's RozgarYojana (PMRY) was introduced in 1993. It is one of the important credit-linked subsidy schemes to generate self-employment opportunities for the educated youth by assisting them in setting up viable micro enterprises. During the initial year, this scheme was implemented in the urban areas only and from 1994-95 extended to the rural areas. The main objective of the PMRY is to provide financial and technical support to educated unemployed youth in setting up micro- enterprises in industry or business or service sector. This scheme is being implemented by the Ministry of Agro and Rural Industries, Government of India, through District Industries Centres (DIC). Loans are provided by the nationalised banks as per the guidance and directions by the Lead Bank in each district, coordinating with the respective DICs. The financial support is in the form of (i) composite loan at normal interest, and (ii) government subsidy, both within stipulated ceilings. It also provides for training of a short duration in entrepreneurship. Assistance under PMRY is open to persons between 18 and 35 years (with relaxation for scheduled caste (SC) scheduled tribe (ST) other backward class (OBC) and weaker sections of the society), who passed Class VIII, whose family income does not exceed Rs.40, 000 per annum and who are residents of the area for the past three years. The scheme also has a provision of 22.5 percentreservation for SC/ST and 27 percent for OBC and preference for women and weaker sections. By the end of 2005-06, it is estimated to have provided self-employment opportunities to 3.8 million persons.

To assess the effectiveness of the implementation of PMRY and its economic impact on beneficiaries, two Rounds of evaluation were earlier conducted during 1994-95 covering beneficiaries of the years 1993-94, 1994-95 and in 2000-01 covering those of 1995-96, 1996-97 and 1997-98. Ministry of Agro and Rural Industries, Government of India, has commissioned IAMR in 2004-05 for Third Round of PMRY evaluation, covering the beneficiaries of 1998-99, 1999-2000 and 2000-01. It covers 14 districts from six States i.e. Lower Subansiri (Arunachal Pradesh), Navsari, Jamnagar, Dahod (Gujarat), Udipi, Raichur, Kolar (Karnataka), East District (Sikkim), Bareilly, Mirzapur, Shravasti (Uttar Pradesh), Bankura, Siliguri, South 24 Pargana (West Bengal).The ownershipprofile of enterprises by different attributes has been discussed what in follows.

(i) Ownership of enterprises

In all 11,071 enterprises are covered in six states, of which an overwhelmingly large majority (95.5 percent) have sole ownership or proprietorship and fewer enterprises are under partnership basis (about 1 percent) and the status of remaining enterprises are not known (Table1). The ownership pattern does not vary across six states barring Gujarat state where 24 percent units did not divulge their ownership status. This clearly indicates preference of entrepreneurs for sole proprietorship than other forms of ownership.

Table 1: Ownership of the ventures

State	Total number of beneficiaries	Single owner	Partnerships	Not responded
Arunachal Pradesh	145	142	3	-
Gujarat	1,529	1,131	26	372
Karnataka	3,806	3,745	42	19
Sikkim	66	62	4	-
Uttar Pradesh	4,993	4,984	9	-
West Bengal	532	513	19	-
All India	**11,071**	**10,577**	**103**	**391**
	(100.0)	**(95.5)**	**(0.9)**	**(3.5)**

Source: IAMR (2006).

(ii) Start of establishment

About 48 percent units were started during 1998 to 2001 and for a substantive number of units (39 percent) information was not available, probably due to recall lapse or due to other reasons. After 2001 less than one percent units were set up. The trend across states does not vary as highest numbers of units were established during 1998-2001(Table2).

It has often been observed that there is high turnover of units in the unorganised or informal sector and within short period of time many units disappear and also new one reappear. Such volatility is often common feature of this sector. Why there has been huge increase in number of units during 1998 to 2001 and then steep down turn after 2001 in almost all the states except in Arunachal Pradesh? This probably needs to be examined whether there has been any change in policy stance during the period or reflect sampling error that could not capture the nuances of units.

(iii) Time taken to start activity

It has been often complained that average time taken to set up a unit is very high due to cumbersome procedural delays and corruption prevails that prevents for timely assistance from the government agencies. But this argument does not seem to be valid as majority of units (78 percent) start their activity within a period of 1 to 4 weeks (Table3). And only a fewer units (4-5 percent) take unduly longer time (13 weeks or more). There are no perceptible variations in this trend across states. This is positive indicator on the part of policy initiatives to promote micro enterprises with a view to provide sustainable livelihoods to educated youth.

Table 2:Year of start of units

Year of start	Arunachal Pradesh	Gujarat	Karnataka	Sikkim	Uttar Pradesh	West Bengal	All India
Prior to 998	6	82	282	9	791	87	1,257
1998 to 2001	42	876	2,117	51	1,933	378	5,397
After 2001	37	13	19	1	4	25	99
Not available	60	558	1,388	5	2,265	42	4,318
Total	**145**	**1,529**	**3,806**	**66**	**4,993**	**532**	**11,071**

Source: IAMR (2006).

Table 3: Distribution of beneficiaries by time taken to start activity

State	Total no. of beneficiaries	No. not responding	Percentage of respondents by time taken to start				
			1 to 4 weeks	5 to 8 weeks	9 to 12 weeks	13 weeks or more	All respondents
Arunachal Pradesh	145	79	51 (77.3)	8 (12.1)	3 (4.5)	4 (6.1)	66 (100.0)
Gujarat	1,529	585	828 (87.7)	96 (10.2)	7 (0.7)	13 (1.4)	944 (100.0)
Karnataka	3,806	1,257	2,012 (78.9)	425 (16.7)	77 (3.0)	35 (1.4)	2,549 (100.0)
Sikkim	66	26	32 (80.0)	6 (15.0)	- (-)	2 (5.0)	40 (100.0)
Uttar Pradesh	4,993	1,595	2,585 (76.1)	666 (19.6)	115 (3.4)	32 (0.9)	3,398 (100.0)
West Bengal	532	144	288 (74.2)	49 (12.6)	27 (7.0)	24 (6.2)	388 (100.0)
All States	**11,071**	**3,686**	**5,796 (78.5)**	**1,250 (16.9)**	**229 (3.1)**	**110 (1.5)**	**7,385 (100.0)**

Figures in brackets are row percentage

Source: IAMR (2006).

(iv) Functioning status and typology of units

It has been argued that many units spring up in the unorganised sector but soon they disappear primarily due to higher instability and few survive relatively longer period. This happens in this sector where access to government support is limited and often faces competition both in the product and labour markets from the organised segment.

The annexure table1 supports our argument that instability is one of the main features of the unorganised sector. Little over 62 percent units have been reported functional and about 38 percent units non-functional and the status of remaining units is not known. Service activities dominate (66 percent) followed by industry (62 percent) and business (61 percent) (See annexure1). Topology of functional units in terms of activity across states show marked variations. Arunachal Pradesh and Sikkim show 29 and 37 percent functional units respectively which is low compared to other states. A large number of units remain non-functional in these states is cause for serious concern.

The reasons for non-functional units are not due to lack of access to support system but lack of demand and tough competition in the product market that are reported widely in these states.

(v) Participation of women

Gender bias is not related only to work but also education, health and other productive resources and participation in economic activities (Awasthi, 1999). Majority of women are handicapped in number of wayslimited access to land and lack of mobility associated with family burden primarily due to women's subordination in patriarchal order. Such gender discrimination has been widely documented in the literature (Agarwal, 1994, 1997; Banerjee, 1995).

Gender bias is widespread in the government development programmes and participation of women in PMRY is relatively much lower (13 percent) than in other similar programmes such as Swarnjayanti Gram Swarozgar Yojana (SGSY) and Urban Self Employment Programme (USEP) (IAMR, 2006). Application received, recommended and sanctioned for PMRY schemehas remained abysmally low at 13-14 percent and overwhelming large majority of loan disbursement (87 percent) was made to male beneficiaries. It has also been noted that in urban area women participation has shown some encouraging results while in rural area the results are somewhat contrary and in turn widened the rural urban divide (Agrawal, 2007).

(vi) Functional units by social category

Not only gender dimension but social class dimension is so central in that influences the access and barrier to numerous non-farm activities. It has been also noted that the lower social class generally face additional constraints in the labour market in accessing non-farm employment, especially in high productivity activities, primarily because their low entitlement base compared to other social classes (Lanjouw and Shariff, 2002; Ramachandran, et al., 2002). Several field research results shows that the upper castes tend to dominate local politics and social dynamics and enjoy better asset endowments, more favourable access to education and information that helps them to access better, remunerative and productive non-farm employment opportunities. Types of economic activities pursued in turn influences the expenditure behaviour of households. It has been observed that in the case of SCs poverty ratio is higher both farm and non-farm sectors and activity wise as well (Thorat et al., 2005). However, the present research findings of PMRY study refute the above arguments. There does not appear to be marked difference across different social groups in terms of ownership of functional units. In fact OBC has the highest share than others social groups (Table4).

(vii) Skill training

A large proportion of beneficiaries have education up to matric (29 percent) and only 3.2 percent of the beneficiaries had a technical degree or ITI or any other technical diploma or certificate (IAMR, 2006). The responses show that most of the beneficiaries had not had any technical training and whatever trade

training they have acquired is mostly through informal routes. The main training providers are NGOs followed by the District Industries Centres (DIC), Bank etc. It has been observed that training is not only inadequate (7-20 days) but also less relevant to the area specific and activity chosen. The survey results have brought out clearly that content of training under PMRY requires substantial changes. Training has to be based on specific activity with more technical contents. Training must also cover aspects of financial management and marketing along with training in soft skills like communication, persuasion, etc.

(viii) Income class and functional units

Is there any relationship between the income groups and that of functioning of units? It is generally argued that the smaller entrepreneurs make use of their capital more efficiently and productively because capital is relatively scarce factor of production. It can be noted that in the lower income group the percentage of functional units is higher and the units of functional units decline as we move to higher ladder of income groups (Table5).

Table 4: Percentage of functioning units by social category

Social category	Percentage of functioning units
1. Scheduled Castes	57.8
2. Scheduled Tribes	63.1
3. OBCs	64.6
4. General	60.5
All	**62.2**

Source: IAMR (2006).

Table 5:Percentage of functioning units by initial family income

Initial family income class	Percentage of functioning units
1. No family income or not reported	56.3
2. Less than Rs. 10,000	71.2
3. Rs. 10,000 to 19,999	64.5
4. Rs. 20,000 to Rs. 29,999	62.8
5. Rs. 30,000 and above	61.6
All	**62.2**

Source: IAMR (2006).

(ix) Investment by activity

Average total investment turns out to be approximatelyRs. 78 thousand of which 82 percent is met out through loan and remaining 18 percent is covered through an additional investment (Table6). This pattern, by and large, remains the same barring two states (namely, West Bengal and Karnataka) where proportion of additional investment is higher than national average. Activity- wise investment also does not show any glaring variations across states barring two hill states (namely, Arunachal Pradesh and Sikkim) where investment in industry is higher than business and services while in other states services predominates.

Overall average investment ranged as low as Rs.59 thousand in Gujarat to highest Rs.0.114 million in Arunachal Pradesh. Loan amount pattern is also noted similar in these two states. The additional investment component was the highest in West Bengal at Rs. 22,537 and the lowest in Gujarat at Rs. 7,510. Overall investment variabilitymeasured by coefficient of variation (CV) does not evince marked variations. The variation in CV in total investment and loan is lowest indicating lowest instability while for additional investment that is met out from own source is higher indicating higher instability.

Surprisingly, Gujarat, one of the industrially developed states with high entrepreneurship, however, shows relatively low level of investment compared to other states while it has highest numbers of functional units. Is it a case of efficient utilisation of funds? Or just operating in low equilibrium trap is to be examined in later section.

Average per unit investment in functional units is reported to be highest in Arunachal Pradesh (Rs.0.134 million) and lowest in Karnataka (Rs.75 thousand). Surprisingly, one third of units have been reported non-functional and ratio of non-functional investment to functional investment works out to be 82 percent. This ratio varies from 70 percent in Sikkim to 93 percent Uttar Pradesh (Table7).

It is a matter of serious concerns from policy point of view that one-third units remain non-functional and huge amount of investment made in these units gets dissipated without any returns.When capital base and skill base is low it will have snowballing implications and the units are likely to be operating in a low productivity syndrome with low surplus that would eventually make the enterprise uneconomical and closure.

Table 6: Average total investment by activity

State	Activity*	No. of units	Average total investment		
			Loan	additional investment	Total investment
Arunachal Pradesh	Business	62	87,397	15,484	1,02,881
	Industry	31	1,05,921	10,194	1,16,115
	Service	52	1,14,224	13,500	1,27,224
	Not reported	-	-	-	-
	All activities	**145**	**1,00,978**	**13,641**	**1,14,619**
Gujarat	Business	469	53,294	6,914	60,207
	Industry	413	45,027	7,177	52,204
	Service	338	1,30,669	8,328	1,38,997
	Not reported	23	-	-	-
	All activities	**1,243**	**51,458**	**7,510**	**58,968**
Karnataka	Business	2,300	52,395	15,096	67,491
	Industry	256	64,823	22,502	87,325
	Service	1,145	58,813	15,476	74,290
	Not reported	105	55,870	14,826	70,696
	All activities	**3,806**	**55,254**	**15,706**	**70,960**
Sikkim	Business	48	49,045	10,833	59,878
	Industry	7	93,581	10,286	1,03,867
	Service	11	77,044	17,273	94,316
	Not reported	-	-	-	-
	All activities	**66**	**58,435**	**11,848**	**70,283**
Uttar Pradesh	Business	3,623	71,834	13,902	85,737
	Industry	699	77,459	11,945	89,404
	Service	644	77,282	11,543	88,825
	Not reported	7	71,957	18,143	90,100
	All activities	**4,993**	**73,346**	**13,320**	**86,667**
West Bengal	Business	301	63,963	24,748	88,731
	Industry	103	68,551	33,143	1,01,695
	Service	128	73,711	8,802	82,513
	Not reported	-	-	-	-
	All activities	**532**	**67,206**	**22,537**	**89,743**
All States	Business	6,803	63,617	14,297	77,913
	Industry	1,509	66,490	13,834	80,325
	Service	2,318	76,574	12,937	89,511
	Not reported	116	45,763	12,087	57,850
	All activities	**11,071**	**64,424**	**13,939**	**78,363**
C.V.			**0.25**	**0.32**	**0.22**

*Business activities include any activity that involves trading in commodity or goods, while industries cover manufacturing, assembling, repairing, etc. and service activities include personal services like running of a beauty parlour, business services like data processing, typing or photocopying, transport related services like travel agency, etc.

Source: IAMR (2006).

Profitability, employment and incomes of enterprises

Profit is one of the important parameters for judging efficiency of an enterprise that ultimately determines the growth of an enterprise, employment and incomes. Surplus is critical for reinvestment and making employment productive or efficient and therefore the employment question needs to be looked in to this perspective.

It is evident from the Table8 that overall profit as percent of investment turns out to be about one third, which is indeed very high. Karnataka and West Bengal reporting 38 percent profits, while other states recording from 8 percent in Arunachal Pradesh to 31 percent in Uttar Pradesh.

(i) Profitability of functioning units

Average annual profit per unit ranges between Rs. 10 thousand to Rs. 12 thousand for three states (namely, Arunachal Pradesh, Gujarat and Sikkim) and it ranges between Rs.28 thousand to Rs. 35 thousands per annum in another 3 states (Karnataka, Uttar Pradesh and West Bengal) with overall annual profits reported to be Rs. 26 thousand. Even if we assume that an enterprise is managed by one entrepreneur and that he works for 8 hours per day then the profit turns out to be too low and is lower (or no better) than average daily wage rates for unskilled workers.

Overall average annual profits for functioning units are reported to be about Rs. 26 thousand. Activity wise highest profit has been recorded in business (Rs. 27 thousand) followed by services (Rs.24 thousand) and industry (Rs. 22 thousand) (Table8).

Table 7: Average total investment by functional status

State	Functioning status	No. of units	Average total investment		
			Loan	additional investment	Total investment
Arunachal Pradesh	Functioning	40	1,06,851	26,800	1,33,651
	Not functioning	99	99,605	9,152	1,08,757
	Not reported	6	84,470	-	84,470
	All units	**145**	**1,00978**	**13,641**	**1,14,619**
Gujarat	Functioning	840	75,738	7,428	83,166
	Not functioning	263	56,518	7,281	63,799
	Not reported	140	54,487	8,431	62,918
	All units	**1,243**	**51,458**	**7,510**	**58,968**
Karnataka	Functioning	2,154	57,646	16,999	74,645
	Not functioning	1,034	52,546	12,130	64,675
	Not reported	618	51,424	17,726	68,650
	All units	**3,806**	**55,254**	**15,706**	**70,960**
Sikkim	Functioning	23	79,154	11,218	90,372
	Not functioning	39	50,173	12,667	62,840
	Not reported	4	19,850	7,500	27,350
	All units	**66**	**58,435**	**11,848**	**70,283**
Uttar Pradesh	Functioning	2,424	73,591	15,879	89,470
	Not functioning	1,938	73,498	9,911	83,409
	Not reported	631	71,941	13,966	85,907
	All units	**4,993**	**73,346**	**13,320**	**86,667**
West Bengal	Functioning	296	69,219	26,873	96,092
	Not functioning	134	65,703	18,103	83,806
	Not reported	102	63,373	15,812	79,184
	All units	**532**	**67,206**	**22,537**	**89,743**
All States	**All units**	**10,785**	**64,424**	**13,939**	**78,363**

Source: IAMR (2006).

Table 8: Profitability of functioning units by activity

State	Activity	No. of functioning units	Average investment per unit (Rs.)	Average annual profit per unit (Rs.)	Percent of profit to investment
Arunachal Pradesh	Business	18	1,21,890	13,090	10.7
	Industry	9	1,35,837	17,778	13.1
	Service	13	1,48,823	2,215	1.5
	All	**40**	**1,33,651**	**10,610**	**7.9**
Gujarat	Business	301	59,874	15,183	25.4
	Industry	308	48,410	2,519	5.2
	Service	231	63,970	16,910	26.4
	All	**840**	**56,797**	**11,015**	**19.4**
Karnataka	Business	1,293	71,849	28,027	39.0
	Industry	142	91,272	32,970	36.1
	Service	719	76,705	27,579	36.0
	All	**2,154**	**74,754**	**28,204**	**37.7**
Sikkim	Business	12	64,708	6,542	10.1
	Industry	5	1,09,640	2,400	2.2
	Service	6	1,25,642	32,667	26.0
	All	**23**	**90,372**	**12,457**	**13.8**
Uttar Pradesh	Business	1,781	89,024	28,235	31.7
	Industry	333	89,943	29,501	32.8
	Service	308	91,250	24,293	26.6
	All	**2,424**	**89,433**	**27,908**	**31.1**
West Bengal	Business	165	93,882	37,172	39.6
	Industry	57	1,16,024	54,772	47.2
	Service	73	84,215	18,304	21.7
	All	**295**	**95,762**	**35,908**	**37.5**
All States	Business	3,548	80,713	27,321	33.9
	Industry	852	77,492	21,725	28.0
	Service	1,338	79,184	24,521	30.6
	All	**5,776**	**79,880**	**25,776**	**32.3**

Source: IAMR (2006).

(ii) Profit reporting units

A large majority of units (64 percent) have been reported as loss making and only 36 percent units are reported as profit making considering all the units (Table-9). Intensity of loss making units is highest in Arunachal Pradesh (94 percent) followed by Sikkim (85 percent) Gujarat and Uttar Pradesh (69 percent). West Bengal and Karnataka are only two states, which are reporting lowest loss making units (50 to 53 percent, respectively). Considering only the functional units, the profit reporting units increases to 59 percent, particularly Arunachal Pradesh, Sikkim and Uttar Pradeshreport substantive increase in such units.

(iii) Investment and profits

Analysis of only functioning units provides some clearer picture with regard to investment and profitability of these enterprises that has been shown in Table 10.

Overall profit ratio to investment rises to nearly 48 percent, which is significantly higher. This ratio also goes up for all the states, Arunachal Pradesh (54 percent), Karnataka and West Bengal (49 percent), Uttar Pradesh recording (48 percent) and the lowest profit ratio is reported in Sikkim (36percent). Average annual profit per unit is highest in Arunachal Pradesh (Rs.53 thousand) followed by West Bengal (Rs. 50 thousand), Uttar Pradesh (Rs.48 thousand), Karnataka (Rs.41 thousand), Sikkim (Rs.32 thousand) and Gujarat (Rs. 27 thousand).

How one can interpret these profit ratios? Is high profit ratio necessarily meaning high profits even assuming that profits reported are factually correct?

Using the minimum threshold analogy that an entrepreneur works 30 days in a month and 8 hours per day, then it appears that a large number of entrepreneurs are earning equal to minimum wages or even slightly higher than the minimum wages prescribed for unskilled or semi-skilled workers. If the profits are converted in to daily incomes then profit turns out to lowest in Gujarat(Rs. 75) followed by Sikkim (Rs.89), Karnataka (Rs. 114), Utttar Pradesh (Rs. 133), West Bengal (Rs.139) and Arunachal Pradesh (Rs. 147). If we take in to account of opportunity wage for unpaid family helpers then probably this will dip down further.

Are the entrepreneurs not just operating in a precarious margin of subsistence? When surplus is low, their capacity to invest or re-invest would bound to be also low that would have cascading implications to the economics of the enterprise in terms of employment and profitability.

(iv) Employment generation

One of the important objectives of promoting micro enterprises is to create employment primarily because these enterprises are labour intensive and help produce goods and services that embody more labour than capital, which is scarce. Table11 shows that investment per unit employment comes to be around Rs. 46-47 thousand and on an average employment generated per unit turns out to be 1.95 with little variance across activities. Self-employment is predominant mode of employment followed by unpaid helper and casual workers. Investment per unit employment is lowest in Karnataka (Rs. 30 thousand) and highest in Gujarat (Rs. 66-67 thousands). Contrary to the volume of investment, average employment per unit does not show any correspondence to the investment per unit. Average employment per unit is the highest in West Bengal (2.6) and Karnataka (2.5) while the investment per unit employment is lowestinWest Bengal (Rs. 30,000) and Karnataka (Rs.40,000). Similarly, in Gujarat average employment per unit is lowest but investment per unit employment is highest. By and large inverse relation can be observed between investment and average employment and profit per unit (figure 3). It remains somewhat obscure to judge the quality of employment without relating to wage rates that are not available. One can tentatively draw conclusion that when the returns from enterprise is low, the wage share bound to be low. In all probability the floor wages are lower than the minimum wages.

(v) Impact on income levels

What has been the impact of micro enterprises on the income levels of beneficiaries? Has the income increased, if yes, then how much? This can be one of the indicators of evaluation of a

scheme and such impact assessment can become one of the policy guidelines for monitoring and corrective measures. Table-12 below indicates increment in income as a result of the scheme. Only 44 percent beneficiaries responded and a majority of them (66 percent) did not report information on income. Out of those reporting, almost 20 percent beneficiaries had increase of income in the range of Rs.1 to 10 thousand per annum and 37 percent in the range of Rs.10 to 25 thousand per annum. About 24 percent beneficiaries had increase in their income in the range of Rs. 25 to 50 thousand and only 7 percent beneficiaries are such who had gained their income above Rs. 50 thousand. And 13 percent beneficiaries had no increase in their income during the year. It is observed that 57 percent beneficiaries had increase in their income less than Rs. 25 thousand per annum and 13 percent beneficiaries had no increase in their income levels. Almost 57 percent beneficiaries are such whose incomes had increased below Rs. 25 thousand per annum and their per day income can be treated equivalent to wages of unskilled worker. A large majority of beneficiaries (70 percent) had either little or no increase in their incomes through this scheme.

Table 9: Proportion of profit-reporting units by activity and state

State	Activity	Total no. of units	Percentage of functioning units to all units	Percentage of profit-reporting units among functioning units	Percentage of profit-reporting units to all units
Arunachal Pradesh	Business	62	30.0	22.2	6.7
	Industry	31	30.0	22.2	6.7
	Service	52	26.5	15.4	4.1
	All	**145**	28.8	20.0	5.7
Gujarat	Business	560	75.4	54.8	41.3
	Industry	511	75.9	71.1	54.4
	Service	458	77.5	65.9	51.1
	NR*	23	17.4	100.0	17.4
	All	**1,529**	76.2	40.7	31.0
Karnataka	Business	2,300	65.8	69.3	45.6
	Industry	256	67.6	63.1	42.7
	Service	1,145	72.3	71.3	51.5
	NR	86	77.1	24.1	18.6
	All	**3,806**	67.5	68.9	46.5
Sikkim	Business	48	25.0	33.3	8.3
	Industry	7	71.4	20.0	14.3
	Service	11	54.5	66.7	36.4
	All	**66**	37.1	39.1	14.5
Uttar Pradesh	Business	3,623	56.7	59.0	33.5
	Industry	699	52.7	42.0	22.1
	Service	644	52.6	44.8	23.6
	NR	7	66.7	100.0	66.7
	All	**4,993**	55.6	54.9	30.5
West Bengal	Business	301	68.8	73.9	50.8
	Industry	103	60.9	71.9	43.8
	Service	128	62.4	68.5	42.7
	All	**532**	68.8	72.3	49.7
All States	Business	6,803	60.9	62.8	38.2
	Industry	1,509	62.4	34.5	21.5
	Service	2,338	66.4	63.6	42.2
	NR	116	25.0	38.9	7.8
	All	**11,071**	62.2	58.6	36.4

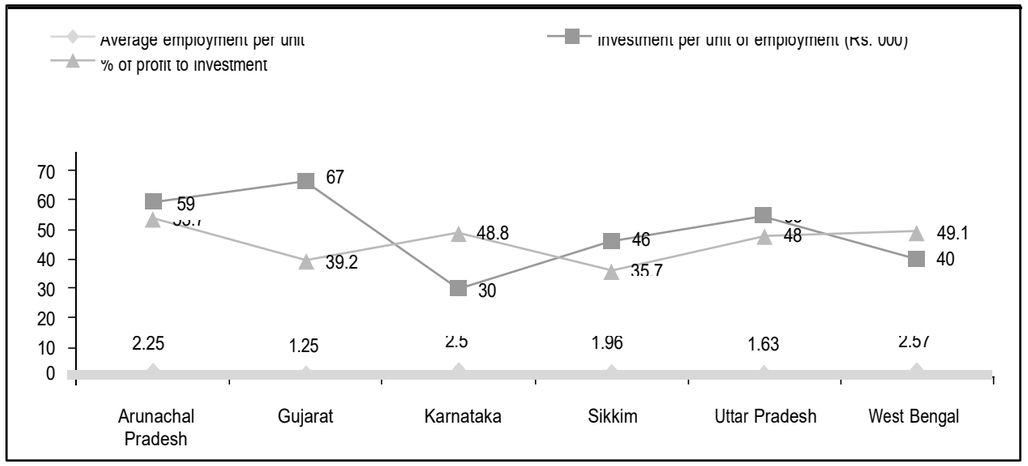
*Source: IAMR (2006).*NR = not reported*

Table 10 : Profitability of functioning units reporting profits by activity

State	Activity	No. of functioning units reporting profits	Average investment per unit (Rs.)	Average annual profit per unit (Rs.)	Percent of profit to investment
Arunachal Pradesh	Business	4	1,01,250	58,907	58.2
	Industry	2	90,500	80,000	88.4
	Service	2	1,02,000	14,400	14.1
	All	**8**	**98,750**	**53,054**	**53.7**
Gujarat	Business	165	69,126	27,697	40.1
	Industry	22	70,733	35,273	49.9
	Service	153	67,975	25,824	38.0
	Not classified	4	1,88,750	39,250	20.8
	All	**344**	**70,108**	**27,483**	**39.2**
Karnataka	Business	889	82,036	40,506	49.4
	Industry	89	99,973	52,321	52.3
	Service	506	81,922	38,726	47.3
	Not classified	7	88,571	30,286	34.2
	All	**1,491**	**83,099**	**40,559**	**48.8**
Sikkim	Business	4	56,250	19,625	34.9
	Industry	1	65,000	12,000	18.5
	Service	4	1,28,000	49,000	38.3
	All	**9**	**89,111**	**31,833**	**35.7**
Uttar Pradesh	Business	1,050	98,938	47,892	48.4
	Industry	140	1,04,323	47,957	46.0
	Service	138	94,372	44,195	46.8
	Not classified	2	1,02,250	66,000	64.5
	All	**1,330**	**99,036**	**47,542**	**48.0**
West Bengal	Business	122	98,268	50,195	51.1
	Industry	41	1,27,018	76,146	59.9
	Service	50	86,420	26,890	31.1
	Not classified	1	90,000	25,000	22.5
	All	**214**	**1,00,969**	**49,604**	**49.1**
All States	Business	2,234	89,901	43,556	48.4
	Industry	295	1,03,433	52,341	50.6
	Service	853	81,961	36,594	44.6
	All	**3,396**	**89,203**	**42,546**	**47.7**

Source: IAMR (2006).

Figure 3: Graph of per unit employment and investment and percent of profit to investment



Source: Tables 10 and 11.

Table 11 : Employment generated per functioning unit by activity

State	Activity	No. of functioning units	Average employment per unit				Investment per unit of employment (Rs.)
			Self	Wage	Unpaid helpers	Total	
Arunachal Pradesh	Business	18	1.00	0.28	0.22	1.50	81,260
	Industry	9	1.00	2.11	0.11	3.22	42,185
	Service	13	1.00	1.31	0.31	2.62	56,650
	All	**40**	**1.00**	**1.03**	**0.22**	**2.25**	**59,400**
Gujarat	Business	301	1.00	0.19	0.10	1.29	46,449
	Industry	308	1.00	0.08	0.18	1.26	38,527
	Service	231	1.00	0.06	0.13	1.19	1,34,280
	All	**840**	**1.00**	**0.08**	**0.17**	**1.25**	**66,532**
Karnataka	Business	1,293	1.00	0.41	1.00	2.41	29,833
	Industry	142	1.00	1.06	1.24	3.30	27,658
	Service	719	1.00	0.60	0.91	2.51	30,570
	All	**2,154**	**1.00**	**0.51**	**0.99**	**2.50**	**29,890**
Sikkim	Business	12	1.00	0.17	0.41	1.58	40,954
	Industry	5	1.00	1.00	0.80	2.80	39,147
	Service	6	1.00	0.33	0.67	2.00	62,821
	All	**23**	**1.00**	**0.39**	**0.57**	**1.96**	**46,108**
Uttar Pradesh	Business	1,781	1.00	0.32	0.23	1.55	57,488
	Industry	333	1.00	0.75	0.23	1.97	45,588
	Service	308	1.00	0.54	0.20	1.74	52,434
	All	**2,424**	**1.00**	**0.41**	**0.22**	**1.63**	**54,780**
West Bengal	Business	166	1.00	0.77	0.55	2.32	40,448
	Industry	57	1.00	2.68	0.79	4.47	25,804
	Service	73	1.00	0.49	0.18	1.67	51,160
	All	**296**	**1.00**	**1.07**	**0.50**	**2.57**	**40,125**
All States	Business	3,549	1.00	0.36	0.51	1.87	45,915
	Industry	852	1.00	0.70	0.42	2.12	38,692
	Service	1,338	1.00	0.49	0.57	2.06	55,057
	All	**5,766**	**1.00**	**0.44**	**0.51**	**1.95**	**46,559**

Source: IAMR (2006).

Table 12 : Distribution of beneficiaries by amount of increase in annual personal income

State	Additional annual income range Rs.						
	1-10,000	10,001-25,000	25,001-50,000	Above 50,000	No increase	Not reported	Total
Arunachal Pradesh	0	0	0	0	88	57	145
Gujarat	101	48	32	07	168	1,273	1,529
Karnataka	338	744	418	169	157	1,980	3,806
Sikkim	03	04	03	0	03	53	66
Uttar Pradesh	272	515	404	53	107	3,623	4,993
West Bengal	37	72	40	30	42	311	532
All States	**751**	**1,383**	**904**	**259**	**477**	**7,297**	**11,071**

Source: IAMR (2006).

It is clear from the preceding analysis that a large number of units are sick or non-functional (48 percent) and reporting huge losses and profits turning out to be only at minimum threshold levels, quality of employment and income appears to be precarious that evidently take one to conduct research enquiry that what are the probable reasons for not getting these enterprises off the ground. This we will take up in the next section.

Reasons for Poor Performance

There are numerous factors that results in poor performance of the enterprises either emanating from supply side or from demand side or such factors can operate from both the sides. Often, capital or access to capital is regarded one of the most critical factors for lack of enterprise development. The question arises that when capital is provided (in the form of loan and subsidy) by the development agency then why the enterprises continue to slog at lower end of subsistence margin. What are the factors that hinder enterprise development? We shall examine some of the issues through the evidence available from survey results.

We have seen in the preceding chapter that only 52 percent units are functional and remaining are either non-functional or including closed down units. This is one of the most distress observable facts that a huge amount of money is dead without any returns in such units.

(i) Intensity of closure units

It can be noted that 14 percent are reported closed of the total units and intensity of closure units is highest in Sikkim (44 percent) and lowest in Gujarat (9 percent) (Table13). When closure units are expressed in terms of non-functional units then proportion of closure units shoots up to 29 percent, highest being in Sikkim (67 percent) and lowest in Gujarat (19 percent).

Tough competition, sickness, domestic problems and inadequate finance are attributed the major reasons for closure of units. Tough competition in the product market is reported as one of the major reasons for closure of the units. It so happens that many units simply spring up without demand analysis that results in division of limited segment of market among many enterprises.

(ii) Reasons for closure

Some of the units could not be started off even after receiving loans. The major economic reasons surfaced are inadequate finance, lack of skills and lack of business management (Table14).

There have been instances of diversion of funds for which the loan was sanctioned and given to entrepreneurs for setting up enterprises. Such irregularity is more pronounced in business activity than others and Uttar Pradesh and Karnataka are observed to have been most notorious cases in diversion of funds (Table15). Diversion of funds is matter of serious concern and it indicates lack of monitoring mechanism and auditing in place.

Table 13 : Closedunits by reasons for closure

Reason for closure	Number of closed units						
	Arunachal Pradesh	Gujarat	Karnataka	Sikkim	Uttar Pradesh	West Bengal	All
1. Got regular wage employment	6	6	64	-	23	9	108
2. Tough competition	7	23	248	4	332	66	680
3. Lack of demand	12	24	113	4	194	41	388
4. Inadequate finance	5	-	166	10	237	42	460
5. Sickness	2	59	156	5	270	25	517
6. Domestic problems	1	23	157	3	371	25	580
7. Lack of skills	4	-	48	6	109	18	185
8. Other	29	57	113	11	142	67	419
Total no. of closed units	**40**	**132**	**441**	**29**	**764**	**115**	**1521**

Note: In many cases there were multiple reasons. Hence total of columns may not tally with the last row.

Source: IAMR (2006).

Table 14 : Reasons for not starting units after receiving loans

State	Lack of demand / orders	Shortage of raw material	Lack of skills	Lack of business mgt.	Inadequate finance	Domestic problems	Others
Arunachal Pradesh	0	0	0	0	0	0	0
Gujarat	0	0	5	1	3	3	0
Karnataka	1	0	0	0	2	0	2
Sikkim	0	0	0	0	0	0	0
Uttar Pradesh	10	9	24	26	21	25	22
West Bengal	1	0	0	0	2	3	4
All States	13	9	29	29	35	40	43

Source: IAMR (2006).

Table 15 : Number of cases of diversion of funds by activity

Activity	Number of cases of diversion of funds						
	Ar. Pr.	Gujarat	Karnataka	Sikkim	U.P.	West Bengal	All States
Business	1	1	58	3	224	3	280
Industry	1	1	12	-	32	-	46
Service	1	-	20	-	34	-	55
All	3	2	90	3	280	3	381

Source: IAMR (2006).

Table 16 : Regularity in repayment of loans

State	Number and percentage of beneficiaries		
	Regular	Not regular	No response
1. Arunachal Pradesh	4 (2.7)	105 (72.4)	36 (24.8)
2. Gujarat	881 (70.9)	193 (15.5)	169 (13.6)
3. Karnataka	1,466 (38.7)	1,568 (41.4)	772 (19.9)
4. Sikkim	12 (18.2)	48 (72.7)	6 (9.1)
5. Uttar Pradesh	1,982 (39.7)	1,586 (31.8)	1,425 (28.5)
6. West Bengal	173 (32.5)	327 (61.5)	32 (6.0)
All States (Average)	**4,518 (42.0)**	**3,827 (35.5)**	**2,421 (22.5)**

Source: IAMR (2006).

Table 17 : Reasons for delayed or non-repayment of loans

State	Number of beneficiaries by reasons for irregular or non-repayment						
	Unit not started	Closure	Losses	Diversion of funds	Inadequate income	Willful defaulter	Others
Arunachal Pradesh	21	40	17	3	25	2	2
Gujarat	12	132	34	2	224	10	84
Karnataka	49	441	379	90	537	99	73
Sikkim	-	29	5	3	14	1	1
Uttar Pradesh	103	764	204	280	396	73	148
West Bengal	8	115	54	3	182	47	9
All States	**193**	**1,521**	**693**	**381**	**1,378**	**232**	**317**

Note: Several beneficiaries gave multiple reasons. As such, the totals of rows exceed the number of beneficiaries making irregular payments.

Source: IAMR (2006).

Table 18 : Number of beneficiaries by type of assistance needed to revive closed units

State	Number of beneficiaries requiring for revival of closed units		
	Financial help	Access to markets	Type of assistance not specified
Arunachal Pradesh	6	4	14
Gujarat	1	0	0
Karnataka	37	17	12
Sikkim	3	2	0
Uttar Pradesh	58	18	11
West Bengal	30	14	08
All States	135	55	35

Source: IAMR (2006).

Diversion of funds is associated by irregularity of repayment of loans. Out of total respondents, almost 36 percent beneficiaries are not regular in repayment of loans and only 42 percent are repaying loans on regular basis. Intensity of irregularity of repayment of loans is in particular very high in Arunachal Pradesh, Sikkim and West Bengal (Table16). This makes enterprises not only low creditworthy but makes the scheme ineffective and inefficient.

Reasons for delayed or non-payment of loan stated by the respondents are presented in Table17 below. It can be observed that closure; inadequate incomes and losses are predominant factors responsible for non-repayment of loans. This pattern follows broadly in all the states with Uttar Pradesh reporting diversion of funds to a higher extent. Only 26 percent beneficiaries have repaid their full loan amount and 19 percent cases are such who have not repaid any loan. Also, percentage of disbursed loan repaid of functional units is as low as 6 percent in Arunachal Pradesh, 36 percent in West Bengal and 55 to 58 percent in Sikkim and Karnataka and 86 percent in Uttar Pradesh (IAMR, 2006).

(iii) Assistance needed for revival

There does not appear to have made any efforts either on the part of beneficiaries or DICs or even Banks to revive the closed units. Nor any efforts were made to mount any diagnostic study with a view to knowing possible reasons for closed units. Some indications are available from the PMRY Survey results showing that financial help and marketing are the critical factors needed for revival for these units. Only 66 beneficiaries out of the 441 closed units in Karnataka and 87 of the 764 in Uttar Pradesh, for instance, responded (Table18).

Evidences from the survey are only indicative and in no way exhaustive and therefore it is difficult to conclude precisely the reasons for mortality of units and revival strategy needed. It would require a detailed diagnostic study as why substantially large numbers of units are languishing and what really prevents government to formulate revival strategy. We examine some of these issues within the framework of economic logic and a policy perspective what in follows in the next section.

Strategy and Policy Implications

(i) What are the lessons from PMRY?

We have noted in earlier sections that experiences of PMRY are not very encouraging in terms of utilisation of capital, survival of units, product base, profitability, training and skills, employment and incomes.

Investment is not sufficient to make any dent on scale of production and often the ceiling amount of loan is predetermined. Whatever investment has been made available to the units that do not seem to be either efficiently utilised or being managed professionally. Even in advancing loan collateral are insisted upon by the banks (16 percent). Cases of diversion of funds are also reported. Mortality rate of units varied lowest between 9percent in Gujarat to highest 44 percent in Sikkim. Out of total respondents, almost 36 percent beneficiaries are not regular in repayment of loans and closure, inadequate incomes and losses are predominant factors responsible for non-repayment of loans.

Study indicated that very few were technically qualified or even informally trained. Duration of training is low and insufficient to internalise the skills imparted. Training did not include aspects like financial management and quality in production of goods and services and motivation for repayment of loans. A large majority of units (64 percent) have been reported as loss making and only 36 percent units are reported as profit making considering all the units. Profit turns out to be too low and is lower (or no better) than average daily wage rates for unskilled workers. Average employment generated per unit turns out to be 1.95 with little variance across activities. It remains somewhat obscure to judge the quality of employment without relating to wage rates that are not available. Out of those reporting, almost 57-58 percent beneficiaries had increase of income in the range of Rs. 10 thousand to 25 thousand per annum, which turns out to be equal or even below to the prescribed minimum wages per day for unskilled workers.

(ii) Strategy for promotion of enterprises

Enterprise development has numerous advantages in terms of promotion of employment and incomes generation, helps utilisation of the local resources, easing the pressure on scarce capital, stops distress form of out migration, brings about decentralised form of production of goods and services, promote equity and can have significant spin off for the local economy that may generate forward and backward linkages.

However, enterprise development has to be seen in a holistic perspective and to be dovetailed within the frame of local economy that might present opportunities (say, niche products), constraints in terms of natural and human resources. It is prerequisite that enterprises are properly identified and developed. This will require undertaking techno-economic survey that might indicate the possibilities of enterprises to be promoted on sustainable basis. For identification and promotion of enterprises, a variety of constraints and handicaps are generally encountered that primarily emanate from physical conditions, lack of infrastructure or even personal constraints. Some of the constraints (i.e. physical) are given while other constraints can be mitigated by entrepreneurs themselves and by promotional agencies and by government policy makers. Within constraints it provides specific guidelines as what ought to be the essential characteristics of viable products, process of product identification and complete business plan for prospective entrepreneurs. With appropriate policy interventions it is possible to develop enterprise-based activities that would provide higher income through processing and value addition and help develop upstream and downstream linkages necessary to generate internal momentum of growth (Papola et. al., 2005).

Constraints of enterprise development however need to be construed within the frame of demand and supply sides. Supply side interventions are provision of credit, technology, marketing, skill development etc and demand side factors typically are macro-economic environment, regulatory and institutional frameworks and government policies etc.

It has been observed that sometimes fixed capital is provided under the scheme but no provision is made for working capital and if capital is provided then no provision for skill training or marketing. This has been mostly observed that schemes launched by the government machinery emphasise few limited supply of inputs rather than providing all the support services in an integrated manner (Papola, 1998). However, in the present scheme such lacunae have been surmounted to a large extent yet it suffers from demand side constraints. Supply side interventions might be accessible yet demand of goods and services might be still declining or facing constraints. Then question arises how to enhance the productive capacity of micro-enterprises. It is important that in a competitive environment only those enterprises should be promoted which have potential for growth or having high market demand.

It has been observed that micro enterprise have to face competition both in the product and labour markets from the formal sector enterprises, particularly from the larger units who have advantage of economies of scale. It would therefore unwise to promote all sorts of enterprises, which cannot survive for long. It has been noted that enterprises having linkages

with formal sector enterprises (viz, suppliers or service providers) have better prospects for growth. There are micro enterprises, which are well integrated with large units in the formal sector by way of subcontracting or putting out of certain activities that are produced solely by micro enterprises. These units always perform better and have higher chances for survival. It is important from the policy point of view to promote such enterprises. Most of the micro-enterprises use non-modern, second hand and domestically produced machineries (Mamgain and Awasthi, 2001). Such technology generates little or no surplus for reinvestment that in turn makes enterprises to operate in a limited resource base. When technology is non modern the product diversification will be narrow range and without improved products or product mix the demand for such goods and services are bound to be limited for wider markets. And such goods and services produced are likely to be for final consumption rather than as an input for large industries. Also, skill level is low and skills are mostly acquired through informal routes and such training does not face the problem of relevance in the context of a competitive environment. But then issue is whether such skill formation processes is necessarily productive. It is often observed that such training is appropriate to low productivity enterprises. Obviously, when technology used is non-modern, skill level is low and products are within narrow horizon for meeting the final consumption and this will lead obviously to low labour productivity. This all makes low initial endowments base for growth of these enterprises.

Here the case of Chinese Township and Village Enterprises (TVEs) provides some useful lessons. Liberalisation policies have provided dynamism to small and micro enterprises and these enterprises have grown remarkably over the years in terms of value addition, total factor productivity, exports and creating employment. Notwithstanding certain problems, small enterprises are the most vibrant element in the national economy and helped transformed the rural Chinese economy (Wang andYao, 2001; Kabra, 2005). We have clearly to learn the lessons that why small enterprises elsewhere have made remarkable progress and also to unlearn the lessons from within own country that why enterprises have not taken off the ground despite of meticulously designed programme.

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Annexure-1

Annexure Table 1: Distribution of units by activity and functioning status

State	Activity	Number of units			
		Functioning units	Non-functioning units	Status not available	All units
Arunachal Pradesh	Business	18 (30.0)	42 (70.0)	2	62
	Industry	9 (30.0)	21 (70.0)	1	31
	Service	13 (26.5)	36 (73.5)	3	52
	Not reported	-	-	-	-
	Total	**40 (28.8)**	**99 (71.2)**	**6**	**145**
Gujarat	Business	301 (75.4)	98 (24.6)	161	560
	Industry	308 (75.9)	98 (24.1)	105	511
	Service	231 (77.5)	67 (22.5)	160	458
	Not reported	-	-	23	23
	Total	**840 (76.2)**	**263 (23.8)**	**426**	**1,529**
Karnataka	Business	1,271 (65.8)	661 (34.2)	368	2,300
	Industry	140 (67.6)	67 (32.4)	49	256
	Service	707 (72.3)	271 (27.7)	167	1,145
	Not reported	27 (77.1)	35 (22.9)	24	86
	Total	**2,154 (67.5)**	**1,034 (33.5)**	**618**	**3,806**
Sikkim	Business	12 (25.0)	32 (75.0)	4	48
	Industry	5 (71.4)	2 (26.6)	-	7
	Service	6 (54.5)	5 (45.5)	-	11
	Not reported	-	-	-	-
	Total	**23 (37.1)**	**39 (62.9)**	**4**	**66**
Uttar Pradesh	Business	1,781 (56.7)	1,361 (43.3)	481	3,623
	Industry	333 (52.7)	299 (47.3)	67	699
	Service	308 (52.6)	277 (47.4)	79	644
	Not reported	2 (66.7)	1 (33.3)	4	7
	Total	**2,424 (55.6)**	**1,938 (44.4)**	**631**	**4,993**
West Bengal	Business	165 (65.2)	88 (34.8)	48	301
	Industry	57 (68.7)	26 (31.3)	20	103
	Service	73 (78.5)	20 (21.5)	35	128
	Not reported	-	-	-	-
	Total	**295 (68.8)**	**134 (21.2)**	**103**	**532**
All States	Business	3,548 (60.9)	2,282 (39.1)	973	6,803
	Industry	852 (62.4)	513 (37.6)	144	1,509
	Service	1,338 (66.4)	676 (33.6)	324	2,338
	Not reported	29	36	51	116
	Total	**5,776 (62.2)**	**3,517 (37.8)**	**1,839**	**11,071**

*Figures in brackets are percentages to the total of cols. 3 and 4.

Source: IAMR (2006).