



## CHALLENGES FACED BY MSMEs IN KERALA

**Resmi Annie Thomas**

*Assistant Professor, Catholicate College Pathanamthitta.*

### **Abstract**

*MSME plays a critical role in the Indian economy by creating employment opportunities to the educated unemployed. Thus it contributes to the total GDP of any nation. The industries in Kerala include both registered and unregistered. Both are increasing considerably. This paper focuses on the challenges faced by selected registered and unregistered units. The objectives of the study are i) to study the problems faced by the selected units ii) to analyze the economic and social empowerment of the units. The study is undertaken in Pathanamthitta. Both primary and secondary data are used. Primary data is enumerated from a field survey in the selected region. Secondary data is collected from DIC's reports and other documents. The researcher has used appropriate statistical methods using SPSS17.*

**Key words:** *MSME, Socio Economic Empowerment, Challenges.*

### **Introduction**

The MSME sector is an important pillar of Indian economy as it contributes greatly to the growth of Indian economy with a vast network of around 30 million units, creating employment of about 70 million, manufacturing more than 6000 products, contributing about 45% to manufacturing output and about 40% of exports, directly and indirectly. Despite the significant contributions of the MSME sector, the sector continues to face certain constraints like, as pointed out in PM's Task Force Report, 2010, availability of adequate and timely credit, high cost of credit, collateral requirements, access to equity capital and rehabilitation of sick enterprises, etc. It thus emerges that adequate, timely and affordable credit is one of the bigger issues for the MSME sector.

At present, a literature survey indicates that no study for the estimation of credit gap for the MSME sector is available in India. However, the National Commission on Enterprises in the Unorganised Sector (NCEUS) had estimated the credit gap only for the micro enterprises at 73% as at end March 2012-the terminal year of the 11th Five Year Plan, with the caveat that the number of such unorganized micro enterprises was estimated at 70 million with an average credit off take of 1.23 lakh per enterprise. This is in contrast to the MSME sector, which is estimated to have 32.2 million enterprises with an average credit off take of ` 7.16 lakh as at end March, 2012, based on scheduled commercial banks data on number of MSME accounts.

The Indian MSME sector has remained mostly tiny, technologically backward and lacking in competitive strength. The business environment has been changing drastically in recent times. MSMEs can play an equitable role only if they run on sound lines. They are suffering from a number of problems; more or less common to a wide range of enterprises. All industrial units, small or large have to sustain themselves on their own competitive strength and also be commercially viable.

### **Review of Related Literature**

**Rathod (2007)** evaluated the impact of globalization on small scale industrial sector and found that this sector exhibiting a striking export performance and showed export had grown up to double digit from the last ten years. The study concluded that both opportunities and challenges were raised as the impact of globalization on Indian Industry as a whole and the small scale sector in particular. The study found that a major portion of our exports would have to gear up to the new era of boundary less economy. Author suggested that there was need for simplified legal and regulatory framework, good governance, sufficient and accessible finance, suitable infrastructure and competitive environment for the development of this sector.

**Sivalingam .(2008).** He analyzed the performance of micro and small enterprises in Tamilnadu for the period of 1991-92 to 2007-08 by applying regression model. The results based on the trend line shows an annual average increase in MSME units, investment, employment and production. However changes are visible in textile, leather and automobile sectors because due to pressure of competition from domestic and international market. Further analysis shows micro and small enterprises have recorded good performance and meet the expectations of the planner in future as far as employment generation is concerned. Hence, the policy interventions should be based on support of infrastructure, direct catalytic subsidy, technical, information and marketing.



**Dixit and Pandey (2011)** applied co-integration analysis to examine the causal relationship between SMEs output, exports, employment, number of SMEs and their fixed investment and India's GDP, total exports and employment (public and private) for the period 1973-74 to 2006-07. Their study revealed the positive causality between SMEs output and India's GDP.

**Singh (2012)** analyzed the performance of Small scale industry in India and focused on policy changes which have opened new opportunities for this sector. Their study concluded that SSI sector has made good progress in terms of number of SSI units, production & employment levels. The study recommended the emergence of technology development and strengthening of financial infrastructure to boost SSI and to achieve growth target.

### **Need and Significance of the study**

Kerala is the only state in India, where women outnumber men. Kerala has made significant progress in the field of social development and this is reflected in the highest literacy among youth. Hence the significance of MSME could be easily convinced among them. This helped them to venture into enterprises with skill and confidence. The present study is an attempt to know the challenges faced by the MSMEs in Kerala. Two modes of functioning of MSMEs are prevalent in the state: one is registered under DICs and the other is unregistered. The commercial activities of MSMEs are primarily focused on any income generating activity that they undertake by using the available resources. With this background, the study attempts to assess the problems faced by MSMEs in Kerala

### **Statement of the Problem**

The study is meant to compare and analyze the challenges of the MSMEs that are registered and unregistered. It also explains the problems faced by MSMEs and analysis is done on the selected parameters. Hence the study is entitled as "Challenges faced by MSMEs in Kerala".

### **Objectives**

The objectives of the study are

1. To study the problems faced by MSMEs in Kerala
2. To analyze the economic and social empowerment of the MSMEs both registered and unregistered

### **Hypotheses**

(H1): There is significant difference between the problems faced by registered and unregistered units.

(H2): There is significant difference between the economic and social empowerment of the MSMEs both registered and unregistered

### **Methodology**

Challenges faced by MSMEs in Kerala is an attempt to know the challenges faced by both registered and unregistered units and it also tried to know the socio economic empowerment of MSMEs that are registered and unregistered. To accomplish the task, the investigator selected survey method by using structured questionnaire. The investigator resorted to mixed sampling technique. The total number of MSMEs in Pathanamthitta is nearly 500 and out of these a sample of 100 MSMEs from Pathanamthitta is selected. 50 registered and 50 unregistered units are given the questionnaire. The parameters considered for the study include (i) Problems listed include Lack of availability of adequate and timely credit, High cost of credit, Collateral requirements, Limited access to equity capital, Procurement of raw materials at a competitive cost, Problems of storage, designing, packaging and product display and Lack of access to global markets (ii) Social and economic empowerment parameters such as leadership quality, group cohesiveness, employment opportunity, financial management skills and standard of living. The statistical techniques used in the analysis of data are Descriptive statistics such as Mean, Standard Deviation and Inferential statistics such as Test of significance of the difference between mean scores of large independent sample. SPSS17 & EXCEL is used for calculations.

### **Limitations**

The researcher has confronted time and finance constraints. The study is delimited to selected variables of problems and social and economic empowerment.

### **Analysis and Discussion of Results**

**(H1): There is significant difference between the problems faced by registered and unregistered units.**

**Table I, Test of significance of difference in mean scores of various problems faced by registered and unregistered units.**

| Variable  | Units        | N  | M       | Standard deviation | 't' value | Level of significance |
|---|--------------|----|---------|--------------------|-----------|-----------------------|
| Lack of availability of adequate and timely credit            | Registered   | 50 | 70.4600 | 18.94806           | 3.190     | P<0.01                |
|   | Unregistered | 50 | 57.1600 | 22.59164           |           |                       |
| High cost of credit   | Registered   | 50 | 72.9000 | 11.63431           | 2.882     | P<0.01                |
|   | Unregistered | 50 | 64.4200 | 17.24859           |           |                       |
| Collateral requirements                                       | Registered   | 50 | 61.6200 | 14.23260           | 3.353     | P<0.01                |
|   | Unregistered | 50 | 50.4800 | 18.69218           |           |                       |
| Limited access to equity capital                              | Registered   | 50 | 65.1600 | 15.57649           | 2.604     | P<0.05                |
|   | Unregistered | 50 | 56.5200 | 17.54090           |           |                       |
| Lack of access to global markets                              | Registered   | 50 | 58.8600 | 24.90636           | 4.190     | P<0.01                |
|   | Unregistered | 50 | 38.7600 | 23.02754           |           |                       |
| Procurement of raw materials at a competitive cost            | Registered   | 50 | 59.9200 | 21.46173           | 2.215     | P<0.05                |
|   | Unregistered | 50 | 50.5800 | 20.70403           |           |                       |
| Problems of storage, designing, packaging and product display | Registered   | 50 | 49.7800 | 15.88773           | 2.922     | P<0.01                |
|   | Unregistered | 50 | 41.5600 | 11.97474           |           |                       |

Table I indicate that the obtained t value with respect to various problem variables of registered and unregistered units is significant at 0.01 and 0.05 levels. Hence it means that group wise difference observed is significant for all factors.

**(H2): There is significant difference between the economic and social empowerment of the MSMEs both registered and unregistered**

**Table II, Test of significance of difference in mean scores of various economic and social empowerment of the MSMEs both registered and unregistered**

| Variable                    | Units        | N  | M       | Standard deviation | 't' value | Level of significance |
|-----------------------------|--------------|----|---------|--------------------|-----------|-----------------------|
| Leadership quality,         | Registered   | 50 | 70.4600 | 18.94806           | 4.210     | P<0.01                |
|                             | Unregistered | 50 | 50.1800 | 28.30208           |           |                       |
| Group cohesiveness,         | Registered   | 50 | 72.9000 | 11.63431           | 4.373     | P<0.01                |
|                             | Unregistered | 50 | 54.3800 | 27.59761           |           |                       |
| Employment opportunity      | Registered   | 50 | 61.6200 | 14.23260           | 4.884     | P<0.01                |
|                             | Unregistered | 50 | 41.5400 | 25.34916           |           |                       |
| Financial management skills | Registered   | 50 | 65.1600 | 15.57649           | 4.635     | P<0.01                |
|                             | Unregistered | 50 | 44.9800 | 26.55644           |           |                       |



|                 |    |              |    |         |          |       |        |
|-----------------|----|--------------|----|---------|----------|-------|--------|
| Standard living | of | Registered   | 50 | 58.8600 | 24.90636 | 7.565 | P<0.01 |
|                 |    | Unregistered | 50 | 23.8800 | 21.18398 |       |        |

Table II reveals that the obtained t value with respect to various socio economic empowerment variables of registered and unregistered MSMEs is significant at 0.01 levels. Hence it means that group wise difference observed is significant for all factors.

### Discussion of Results

**(H1): There is significant difference between the problems faced by registered and unregistered units.**

Hypothesis I reveals that the obtained t value with respect to various problem variables of registered and unregistered units is significant at 0.01 and 0.05 levels. Hence it means that group wise difference observed is significant for all factors. Registered members face more challenges.

**(H2): There is significant difference between the economic and social empowerment of the MSMEs both registered and unregistered**

Hypothesis II reveals that the obtained t value with respect to various socio economic empowerment variables of registered and unregistered MSMEs is significant at 0.01 levels. Hence it means that group wise difference observed is significant for all factors and registered units have greater socio economic empowerment compared to unregistered units.

### Conclusion

The potential of MSMEs in developing as local financial intermediaries to reach the poor through bank has gained recognition and showed an improved performance. From the analyses and discussion it is concluded that the influence of MSME in socio economic empowerment is unbeatable. The comparison of registered units and unregistered units also gives a picture that social empowerment and economic empowerment is possible through by being a member of MSME and this can be considered as a way for poverty alleviation and better living conditions.

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