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RESEARCH ARTICLE

Evaluation of Growth and Performance of Micro, Small and Medium Enterprises: A Study of Uttarakhand Region, India.

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Abstract

MSMEs continue to be the backbone of the economy for countries like India where the problem of unemployment is steadily escalating and the agriculture land holdings continue to shrink. The State of Uttarakhand in India is looking at sustainable and inclusive industrial growth as it faces an acute problem of migration from the hilly terrain to the plains due to lack of employment and business opportunities. The purpose of this paper is to comprehensively analyse the growth and performance of MSMEs and to explore the reasons responsible for hindering their growth.

A descriptive study was conducted with the help of secondary data retrieved from MSME Annual Reports, Fourth All India Census Report, CII report, newspapers etc. The various MSME annual reports and data pertaining to Uttarakhand State in India were explored.

The study is based on extensive review which significantly contributes in directing the stakeholders to take appropriate measures for speedy development of the region. Various suggestive measures for accelerating the growth of enterprises and to foster an environment of entrepreneurial outlook has been provided in this study.

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Introduction:-

Globally the MSME segment development has shown mixed results depending on various policies and initiatives undertaken by developing and developed economies during their critical economic lifecycle. Micro, Small and Medium Enterprises (MSMEs) have played a significant role in the economic and social development of the nation. All the nations have realized that an inclusive and sustainable growth of any country is possible only by encouraging the stakeholders for undertaking new venture creation. A catalyst for socio-economic transformation of the country, the MSME sector is critical in meeting the national objectives of generating employment and discouraging rural-urban migration. Of the many challenges impeding the growth and development of MSMEs, limited access to financial resources, lack of infrastructure support and inadequate linkages to domestic and global markets, etc. are few of the bottlenecks that make these enterprises vulnerable, particularly in the period of economic downturn.

A study based on evidence from a number of developing countries indicated that small enterprises with a lower level of investment per worker tend to achieve a higher productivity of capital than do the larger, more capital intensive enterprises (UNIDO, 1969). Formation and sustenance of MSMEs require entrepreneurial intent and action. This intent and action is influenced by myriad of factors. Extant literature indicates that entrepreneurship is a complex interplay of social, cultural, behavioral, economic, political, geographic and demographic factors (Berger B, 1992).

The growth of MSME sector is inevitable in all the states throughout India. Almost all the regions have realized the importance of MSME in pushing the local economy and the regional development. The MSME sector of India is

today at the gateway of global growth on the strength of competitive and quality product range. Nurturing competitive MSME would help in absorbing new technologies and improving productivity in manufacturing sector, with stimulation of growth of dynamic clusters as a key to such approach. As per the available statistics (4th Census of MSME sector), this sector employs an estimated 59.7 million persons spread over 26.1 million enterprises in the country. It is estimated that in terms of value, MSME sector accounts for about 45% of the manufacturing output and around 40% of the total exports of the country. (Report of Ministry of MSME, Government of India, 2014). While most of the sector is un-organized, initiatives to have more enterprises registered are well underway.

To maintain its niche in the international and global markets, MSMEs are required to remain globally competitive by continuously updating themselves to meet the challenges emerging out of changes in technology, changes in demands, emergence of new markets, etc. In recent years, the MSME sector has consistently registered higher growth rate compared to the overall industrial sector. With its consistent growth performance and abundant high skilled manpower, India provides enormous opportunities for investment, both domestic and foreign. To exploit this potential, M/o MSME and its organisations, through its various Schemes and Programmes, are providing support to the Indian MSME sector by giving them exposure of the international market; foreign technology; sharing of experiences and best management practices in the international arena. In continuation of this endeavour, M/o MSME has entered into long term agreements, Memorandum of Understanding/Joint Action Plan with 17 countries viz., Tunisia, Romania, Rwanda, Mexico, Uzbekistan, Lesotho, Sri Lanka, Algeria, Sudan, Cote d'Ivoire, Egypt, Republic of South Korea, Mozambique, Botswana, Indonesia, Vietnam and Mauritius. Besides, different organisations under this Ministry have also been maintaining close interaction with their counterparts in the foreign countries for the development of Indian MSMEs (MSME Annual Report 2014-2015).

Objectives of the study:-

The main objectives of the present study are:-

- To examine the growth and performance of MSMEs in Uttarakhand State.
- To understand the problems of MSMEs hindering growth in the region.
- To suggest measures to enhance the competitiveness of MSME.

Research Methodology:-

The present study is descriptive in nature. The study is based on the secondary data collected from various Annual MSME reports, Fourth All India Census Report, and various other journals and newspapers. The relevant data of MSMEs' growth and performance collected and presented, belong to post introduction of MSMED Act, 2006 only. To examine the performance of MSMEs in India, the available data have been processed and presented in suitable tables and graphs.

Definition of MSME:-

Micro, Small and Medium Enterprises (MSMEs) defined by Micro, Small and Medium Enterprises Development Act, 2006, relates to all enterprises engaged in production of goods pertaining to any manufacture or industry specified in first schedule to Industries (Development & Regulation) Act, 1951 & other enterprises engaged in production and rendering services subject to limiting factor of investment in plant & machinery and equipment respectively. The MSMED Act 2006 made a paradigm shift from industry to enterprise for its wide coverage and has redefined the manufacturing and service enterprises depending on the investments in plant & machinery and equipments, respectively. Earlier this sector was known as small scale industries. On 9 May 2007, subsequent to an amendment of the Government of India (Allocation of Business) Rules, 1961, the erstwhile Ministry of Small Scale Industries and the Ministry of Agro and Rural Industries were merged to form the Ministry of Micro, Small and Medium Enterprises (M/o MSME).

In accordance with the provision of Micro, Small & Medium Enterprises (MSME) are classified in two categories:

Manufacturing Enterprises: The manufacturing enterprises are engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries. The Manufacturing Enterprises are defined in terms of investment in Plant & Machinery.

Service Enterprises: The service enterprises are engaged in providing or rendering of services and are defined in terms of investment in equipment.

Enterprises	Investment in plant& machinery	Investment in equipment
Micro Enterprises	Upto Rs.25lakh	Upto Rs 10 Lakh
Small Enterprises	Above Rs25lakh & upto Rs.5 crore	Above Rs.10 lakh and upto Rs.2 crore
Medium Enterprises	Above Rs.5 crore & upto Rs.10 crore	Above Rs.2 crore and upto Rs.5 crore

Source - Ministry of Micro, Small and Medium Enterprises (MSME's)

Status of MSME in Uttarakhand State:-

The State of Uttarakhand is divided into 13 districts, i.e. Nainital, Udham Singh Nagar, Almora, Pithoragarh, Champawat, Bageshwar, Chamoli, Uttarkashi, Rudraprayag, Dehradun, Pauri, Tehri and Haridwar.

According to Industry Association of Uttarakhand (IAU), more than 19,000 registered micro, small and medium enterprises (MSMEs) causing an estimated Rs531.20 crores loss to the sector, were hit in the natural disaster which ruined the Uttarakhand State in 2013. The types of business activities which were affected due to floods include Pharmaceuticals, Hotel Industry, Tour & Travel operator, Eateries, Cabs, Food Processing, Agriculture, Tourism Industry, Hotel Restaurant, Fabrication, Handloom and handicrafts.

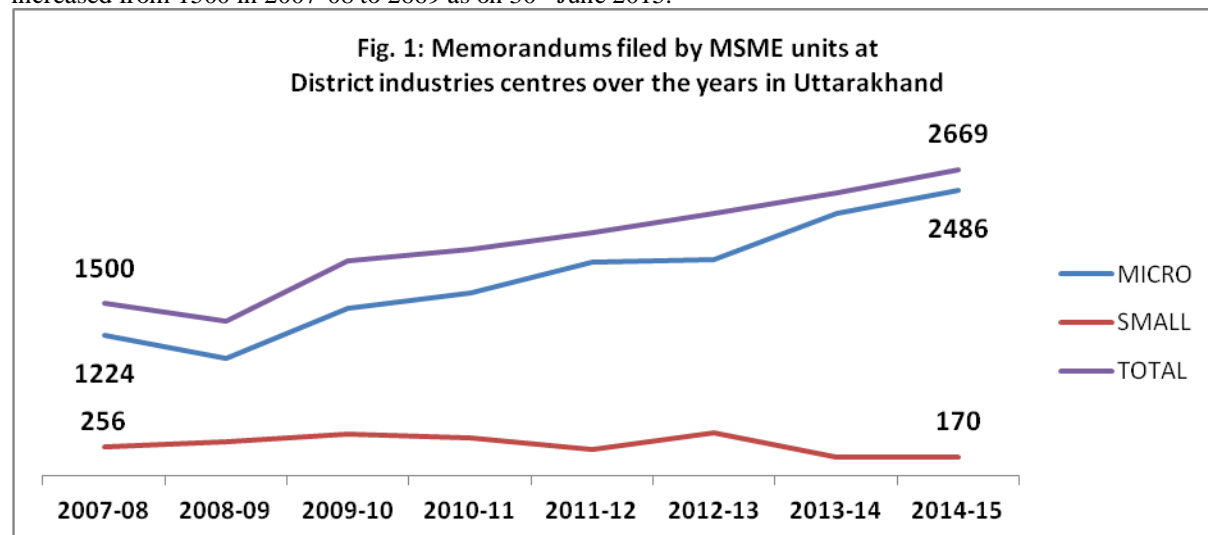
Since then , the overall growth rate of MSMEs in Uttarakhand has not been remarkable.

Table1

Distribution of no. of SME Enterprises and Employment in Uttarakhand			
	REGISTERED SECTOR	UNREGISTERED SECTOR	TOTAL
NO. OF ENTERPRISES	0.24 lakhs	3.51 lakhs	3.75
EMPLOYMENT	0.8 lakhs	6.16 lakhs	6.96
Distribution of Principle Characteristics of SME sector			
	Enterprises	Employment	Market Value of Fixed Assets
Uttarakhand	2.23 lakhs	4.42 lakhs	6014.98 crores

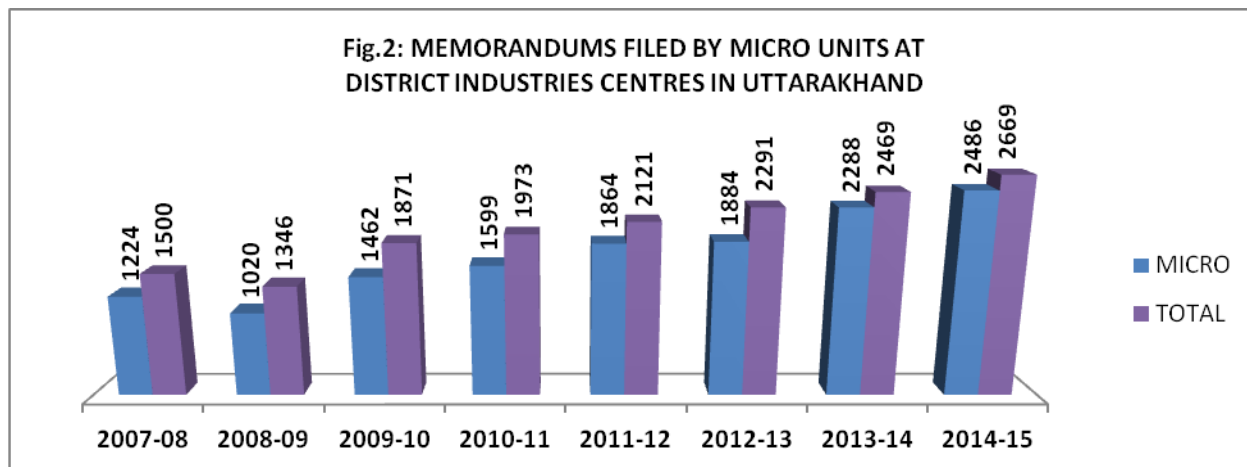
Source: Annual report 2014-15, Ministry of MSME, New Delhi

As depicted in Figure 1, data pertaining to Filing of the Entrepreneurs Memorandum (EM-II) could be assessed. Filing of EM-II is with the District Industries Centre is an indicator of the MSMEs registered and established in the region. According to the Directorates of Industries, the position of EM-II filed every year in Uttarakhand has increased from 1500 in 2007-08 to 2669 as on 30th June 2015.



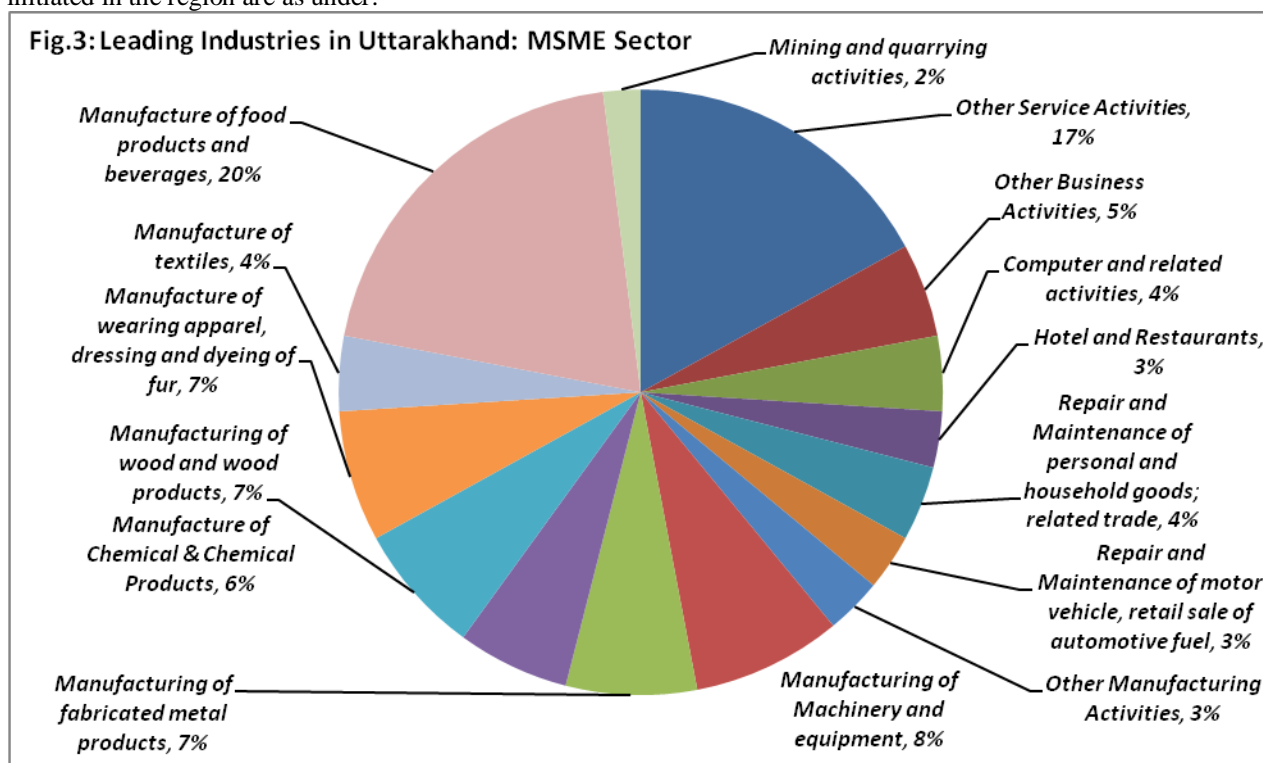
As shown in Figure 2, the State has seen an 80% growth in Small and Medium Enterprises(SME) registrations in the last eight years of which the major share has gone to the micro units. More than 90% of units registered are under Micro sector emphasizing the need for focused micro enterprise growth. Most of these units presently exist in scattered clusters of hotels, resorts, tourist services, food processing units and automobile workshops. Natural Disaster in 2013 has seriously affected the business units in the state and the districts of Uttarkashi, Rudraprayag, Chamoli, Tehri, Pauri, Almora and Pithoragarh have suffered the most. As the businesses limp back to normal, these units need State support for funding and infrastructure. The Assocham Secretary in his address to the SME's

Conference on Banking and Financial Solutions for Sustainable Growth in Dehradun had said that 25% of small and medium enterprises in Uttarakhand have shut shop due to absence of proper incentives from the government (Economic Times, April 25, 2013). The Industry has demanded a dedicated corpus towards providing affordable finance. Now although with the Central Govt.'s push for the sector, public sector banks are increasing exposure to the sector but issues related to collateral and margin remain as constraints.



Data source for Fig.1 & 2: - State Directorate of Industries, Dehradun, Uttarakhand

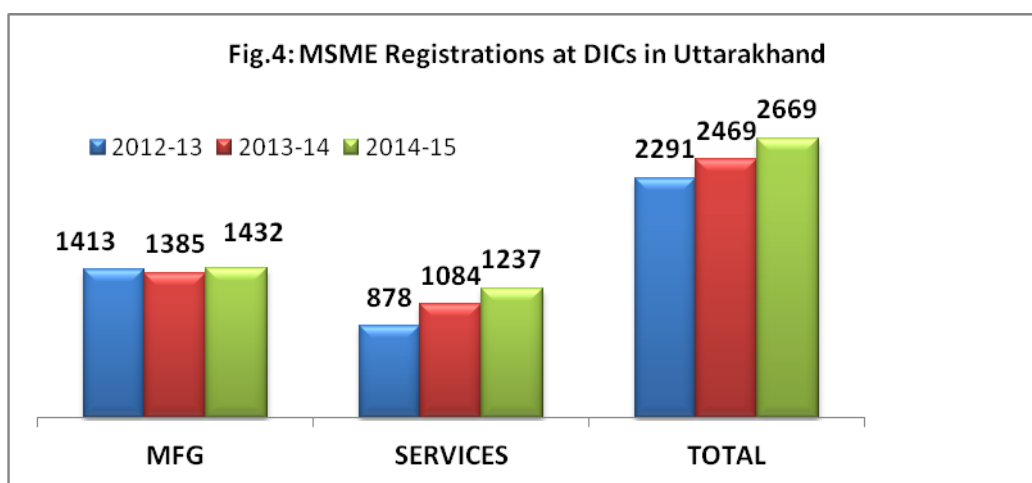
There are various activities taken up by the stakeholders in this region. Some of the leading industrial activities initiated in the region are as under:



Data source: MSME Annual report, 2013-14

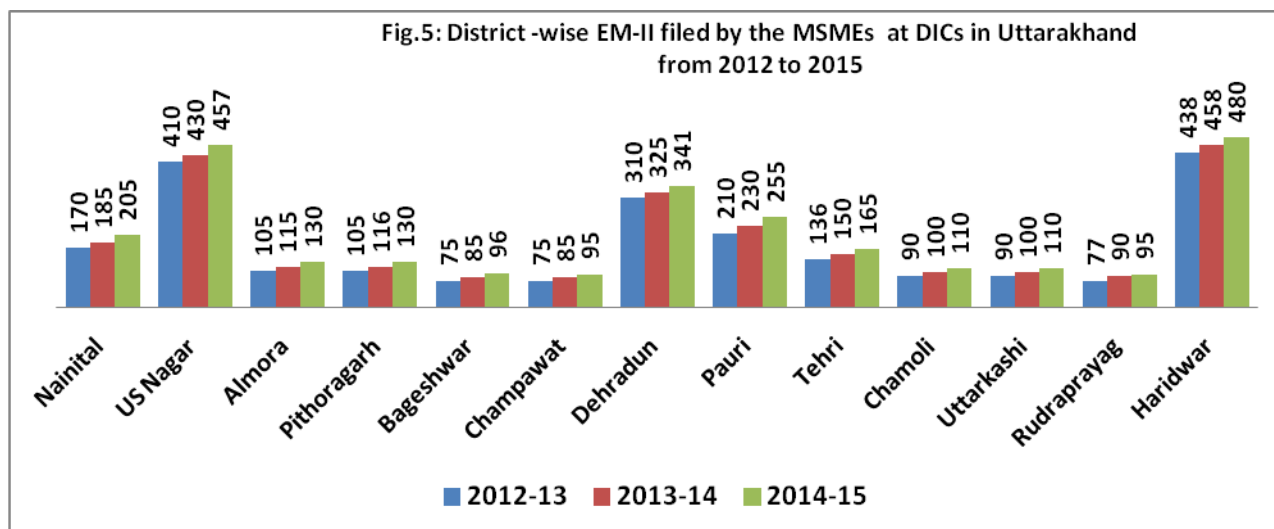
From Fig 3, it is evident that manufacturing of food products and beverages account for the largest share among other activities in the State. This is due to the rich agricultural resources available in the region. Since a large part of population still thrives on agriculture with a cultivated land area of 7.67 lakh hectares, there is immense potential in the State to develop agri-processing and storage based industries. The agro-climatic conditions of Uttarakhand support horticulture-based industries which have shown increased activity over the last decade. The second largest share comes from other services activities in the region owing to the state relying on the tourism industry. The

Uttarakhand Tourism Board has been established with a view to promote more private sector partnerships in the sector and schemes like Veer Chandra Garhwali Tourism promotion scheme have been floated. The disaster in 2013 created a huge setback for the industry but it has bounced back well with an impressive growth in tourist footfall in 2015. Manufacture of wood and wood products accounts for only 7% in the chart. Though Uttarakhand has dense forest and is rich in natural resources extracted from the trees still the wooden activity is not very promising. There is scope for encouraging activity in this sector. Similarly apparel and dyeing also have vast scope provided the constraints are duly met in the region. Handloom industry is critical for employment generation in rural areas. The government has to give a great push to tap the potential of these skill-rich industries by way of infrastructure support, training, design development, new techniques, packing, marketing events and exhibitions. Good literacy levels (78.8%) and presence of high quality academic institutions (at Dehradun, Nainital, Mussorie) in the State makes it suitable for knowledge sector industries as biotechnology and IT. After major investment into manufacturing by major industrial houses in the key industrial estates of Haridwar and Pantnagar, the SME activity has got a push. The government is planning further development of industrial areas at Hampur in District Udham Singh Nagar and in the industrial town of Selaqui in District Dehradun.



Data source: Annual MSME Report, 2014-15

As depicted in Figure 4, The State has industrial activity in both the sectors of manufacturing and service. Major manufacturing activity involves manufacture of Machinery & Equipment, Paper and Paper Products, Auto Components, Drugs & Pharmaceuticals, Chemicals and Chemical Products, Electrical Machinery & Apparatus, Food Products and Beverages, Medical, Precision and Optical Instruments etc. Since majority of the State has hilly topography and so does not encourage setting up of heavy manufacturing units, immense potential lies in the service sector of tourism, Information & Communication Technology, Biotechnology, Education, Automobile repairs, Cold Storages etc. The chart shows that both manufacturing and services sector have seen active interest at District Industry Centers(DIC).



Data source: - State Directorate of Industries, Dehradun, Uttarakhand

As depicted in Figure 5, the top five Districts in terms of number of EM-II filed by the MSMEs during 2014-15 are Haridwar, US Nagar, Dehradun, Pauri and Nainital. These Districts together account for 65.12% of the total number of E-II filed. Champawat, Rudraprayag and Bageshwar are the districts where least EM-II were filed during the year. This further represents that out of thirteen districts in the state only five districts have shown progress in terms of establishing industries in their districts. The district trio of Dehradun, Haridwar and US Nagar account for major share of the total income of the State. It shows that a vast chunk of population is still to come under the fold of industrial activity and inclusive growth especially for people in the hilly terrain still remains a challenge.

Incentives for the Sector in Uttarakhand:-

The Uttarakhand State government has taken several steps for strengthening the MSME sector in the state. The state government of Uttarakhand announced a special Hill Policy in 2008 for promoting and enhancing growth in the backward regions of the state especially in the hilly terrains. This policy has now been in force for over seven years and is aimed at attracting entrepreneurs to invest in the state for setting up industrial units and thereby creating opportunities of employment for a large section of youth population who flee to industrial areas in search of employment. Only non-polluting industries which are classified under green and orange category are eligible for benefits under the scheme. These include those declared as thrust industries by Government of India namely services (fuel stations, tourism, bio-technology, agriculture, medical/health, education/training, warehousing etc). Since, marketing and distribution is one of the key challenges for small entrepreneurs, the government facilitates trade and promotion by organizing various exhibitions/fairs at state as well as national level and providing participation at concessional rates of entry fee.

In May 2015, the State Government announced the much awaited incentive schemes for MSMEs in the State. According to State Directorate of Industries, Dehradun, the scheme elaborated:

- Subsidy on capital investment, interest subsidy and VAT reimbursement until March 31, 2020, although the incentives that fall under this policy can be utilized till March 31, 2025.
- For better implementation of this policy, it is divided into four prime categories-A, B, C, D. A is the most backward and D is the best developed.
- The capital investment subsidy is 40 percent for districts under category A, 35 percent for category B, 30 percent for category C and 15 percent in category D regions.
- The interest subsidy is 10 percent, 8 percent and 6 percent in Categories A, B, and C respectively. However, no interest subsidy is offered to MSMEs located in Category D.
- As per the policy, formulated by the department of MSMEs and the Industries Association of Uttarakhand, the state government will render support to create the infrastructure, facilitate the cluster development schemes of the centre, set up small tool rooms and build up a land bank so that land can be provided to MSMEs at a concessional price.
- The policy also focuses on skill development among the youth of the state.

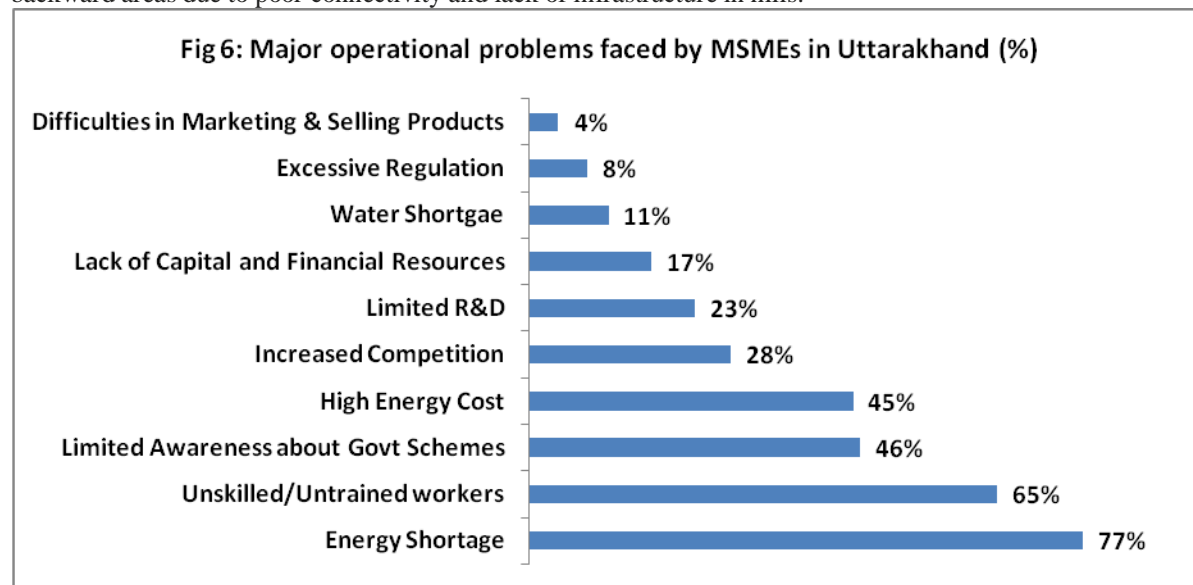
Other Government Initiatives in strengthening MSME Sector:-

The government has taken various steps in strengthening the MSME sector. According to M/o MSME, following initiatives have been taken recently:

- E-office initiative has been introduced to achieve paperless office in the Ministry. Movement of e-files has been started and digitalization of existing physical files for converting the same into electronic files is under process.
- A National Portal for filing of EM-I and EM-II is ready for launch. A Video Conference with all States and UTs was held recently wherein it was found that out of 658 districts and 644 DICs, very few are having online system which is workflow based system of filing. States are being encouraged to adopt National Portal and share the database for decision support system and planning for MSMEs. This will allow the MSMEs to register online, making it easier to do business.
- Virtual Cluster web portal has been made available at www.msmevirtualclusters.in. It will provide facilities like common application forms, credit scoring models etc. and a platform for Industry-Academia linkages. So far 121 Domain experts, 212 academic institutions and 25530 MSME enterprises have been registered.
- An Employment Facilitation Portal set up by NIESBUD was launched by the Minister (MSME) on 11th July, 2014. This enables matching of job providers and job seekers. So far 10,151 youth seeking jobs and 191 employers have been registered. This is being linked to MSME Training Data-base in a searchable format as Career Centre.
- B2C web portal of NSIC was launched on 31st July, 2014. This portal will market MSME products exclusively.
- All the forms and guidelines of the schemes implemented by the Ministry have been placed on the website. Online applications have been introduced in respect of large number of schemes and it would be the endeavor of the Ministry to cover all the schemes.

Major Issues concerning MSME Sector in Uttarakhand:-

Despite their economic significance, SMEs face a number of bottlenecks that prevent them from achieving their full potential. Since 2009, industries have not been showing any enthusiasm towards the hill state. Though Uttarakhand has been able to attract industry investment, but manufacturing industries have maintained distance from the backward areas due to poor connectivity and lack of infrastructure in hills.



Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July- September 2013)

As evident from Fig 6, the PHD Chamber Survey results show that availability of energy and its cost are a major issue with the entrepreneurs in Uttarakhand while skill and training levels of available workforce is another issue of great concern. The power distribution arm of Uttarakhand is reeling under financial losses but now the State has signed a Statement of Reforms in the power sector with the Central Government which is expected to ramp up power generation and procurement as well as harness local energy sources and renewable energy. With good institutional setup and high literacy rates, the State has the ability to address the issue of skill development so that youth population can find opportunities away from traditional sectors.

Suggestive Measures for accelerating the growth in this sector:-

To accelerate the growth of MSME in the Uttarakhand State, it is important for the stakeholders in the economy to come forward and take initiatives. Following steps may augment the formation and position of MSME in the State:

- Adoption of Cluster Development Approach may be beneficial for enhancing sustainable growth in MSME sector. The purpose of cluster approach is to organize the traditional industries and artisans into clusters to make them competitive and provide support for their long term sustainability and economy of scale. This way sustained employment for artisans and rural entrepreneurs can be ensured. Cluster approach would also help in providing support for new design intervention, packaging and improved marketing.
- Establishment of Technology Centre may be another way for helping this sector. Since Uttarakhand has only one technology centre at Ramnagar few more centres should be established so that even hilly regions may take advantage of its resources.
- Rural Outreach Programme may play a key role in boosting this sector. The academic institutions can come forward to contribute by including Rural Outreach Programme in the curriculum and awarding certain credits to the course. Faculty and students can share their intellectual and technical resources in helping the villagers to come out with an innovative idea and helping them in establishing the small unit within their village. This way at least one village may be developed and sustained for livelihood.
- Centre's policy of "Make in India" may foster development in the sector by attracting foreign companies to invest in the State.
- Encouraging traditional and heritage industry by providing incentives especially to the women entrepreneurs can strengthen the backward regions.
- Spreading skill training among unemployed youths in the State can foster growth in this sector.
- Launching Micro-credit schemes specifically for service sector micro units can play significant role in poverty alleviation and regional development.

Conclusion:-

For the holistic development of Uttarakhand, especially in the hill regions, creation of feasible employment opportunities in MSMEs is critical. Migration of residents from hilly areas to plains has led to societal crisis in the hills and increased stress on resources and infrastructure in plains. The most crucial factor for the development of any business is the development of entrepreneurial skills. The State has to aim towards MSME penetration across all the thirteen districts for which entrepreneurship development programs need to be catered to the aspiring entrepreneurs along with State assistance in providing adequate resources and incentives.

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