

An Empirical Study of Growth Prospects of Micro, Small and Medium Enterprises in The Development of Uttarakhand

Sonia

Research Scholar, Faculty of Commerce, Km. Mayawati Govt. Girls P.G. College, Badalpur, G.B. Nagar

Dr. Arvind Kumar Yadav

H.O.D., Faculty of Commerce, Km. Mayawati Govt. Girls P.G. College, Badalpur, G.B. Nagar

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Abstract

Micro, small and medium enterprises (MSMEs) in India and abroad have demonstrated considerable strength and resilience in maintaining a consistent rate of growth and employment generation during the global recession and economic slowdown. MSME is second largest employment provider after agriculture sector in India. It provides 80 % of jobs in the industry with just 20% of the investment. They also check rural urban migration by providing people living in isolated area with a sustainable source of employment. In India it contributes about 31% to the nation's GDP, 45% share in overall exports and 34% share in the manufacturing output as per 2017 reports. For all developing countries like India where poverty, unemployment and underemployment are the major problem of millions of people, the Micro, Small & Medium enterprises (MSMEs) has often been act as a growth engine by providing immediate largescale employment, with lower investments. More than 65 million micro, small, and medium enterprises (MSMEs) in the country form the backbone of the economy. The segment is in dire need of relief packages, support in working capital loans, and strengthening or fixing of supply chains which have been disrupted, among other needs. MSMEs in India are not only important for their contribution to the Gross Domestic Product (GDP) which is around 30 percent but also for mass employment they create. The Uttarakhand government has generated its MSME policy, which means to support enterprise, end outward movement and realize comprehensive advancement in the state, particularly in the remote and flood-hit hill zones. The MSME policy of Uttarakhand offers a few incentives like interest subsidy and VAT reimbursement, capital investment subsidy. In this research paper I focused on whole MSME Act 2006, worldwide trends in the SME Sector. Along with this I also focused of Role of MSME in Indian Economy.

Keywords: MSMEs, SIIDCUL, IAU, Large Scale Employment.

Classification-JEL : L52, O14

1. INTRODUCTION

Indian economy during the recent years has shown an appreciable growth performance by contributing to creation of livelihood

opportunities to millions of people, in enhancing the export potential and in increasing the overall economic growth of the country. Prompt and appropriate fiscal stimulus, effective monetary

policy and huge capital inflows were greatly instrumental in the bounce back situation of the economy. Industrialization is an effective means to lead the economic and social progress in developed as well as developing countries around the world. Throughout the world MSMEs have been considered as a backbone for industrial development. As a catalyst for socio-economic transformation of the country, the MSME sector is extremely crucial in addressing the national objectives of bridging the rural-urban divide, reducing poverty and generating employment to the teeming millions. It is therefore, essential that India adopts a suitable policy frame work that provides the required impetus to seize the opportunities and create an enabling business environment in order to keep the momentum of growth and holistic development. It is equally important that the MSME sector must address the infrastructural deficiencies and is well empowered to meet the emerging challenges for its sustainable growth and survival in a globally competitive order.

2. REVIEW OF LITERATURE

Anuradha, J. (2014) Problems and Prospects of Micro, Small and Medium Enterprises (MSME'S) In India in the Era of Globalization. With the introduction of reform measures in India since 1991, the Govt. has withdrawn many protective policies for the Micro, Small and Medium Enterprise (MSMEs) and introduced promotional policies to increase competitiveness of the sector. Though globalization process has expanded the market facilitating supply of superior technology, this has also forced the MSMEs to face ruthless competition from large domestic firms and the MNCs. The sector has undergone several changes regarding definition. The current paper is an attempt to critically analyse the definitional aspect of MSMEs and explore the opportunities enjoyed and the constraints faced by them in the era of globalization.

Rao, K. and Noorinasab, A. (2014) Growth and development of MSME's in India.

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Veerappan, N. and Sathishkumar, D. (2016) Impact of industrial policy on small scale industries (SSI): An exploratory study on Indian SSI. Small scale industries (SSI) play a major role in economic development of India. Tamilnadu is one of the developed states in terms of industrial production in India. Erode district is industrial developing district in the state. The success and failure of SSI is determined by industrial policy for SSI. Micro, small and medium enterprise (MSME) department announced industrial policy every year. The main focus on the industrial policy is creating awareness and effective utilization of incentives and subsidies. But there is a gap between the content and the usage of industrial policy. So, there is a need to measure impact of industrial policy on SSI.

3. OBJECTIVES OF THE STUDY

- To Explain the meaning of MSMEs.
- To Evaluate policies of MSMEs in Uttarakhand.
- To Identify the role of MSME on Indian Economy
- Role of SIIDCUL in the development of Uttarakhand.

4. RESEARCH METHODOLOGY

This paper is quite descriptive in nature and data used for the present study have been

collected mainly from secondary sources especially from the annual report published by Ministry of Micro, Small and Medium Enterprises for various years. Along with this for more secondary sources we also used books, magazines, articles in newspaper and e-mail.

5. MEANING OF MICRO, SMALL AND MEDIUM ENTERPRISES [MSME]

MSME stands for Micro, Small, and Medium Enterprises. In accordance with the Micro, Small, and Medium Enterprises Development (MSMED) Act in 2006, the enterprises are classified into two divisions.

a) Manufacturing enterprises– The enterprises engaged in the manufacture or production of goods (as per Development and Regulation) Act, 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use.

b) Service Enterprises– The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment. In the month of February 2018, the Union Cabinet chaired by the Prime Minister Shri Narendra Modi has approved a change in the definition of the MSMEs.

Table 1 : MSME definition based on investment, MSME Act, 2006

MANUFACTURING SECTOR	
Enterprises	Investment in plant and machinery
Micro Enterprises	Does not exceed twenty-five lakh rupees
Small Enterprises	More than twenty-five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
SERVICE SECTOR	
Enterprises	Investment in equipment
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

6. SIGNIFICANCE OF MSMED ACT 2006

With the enactment of MSMED Act 2006, the paradigm shift that has taken place is the inclusion of services sector in the definition of Micro, Small and Medium Enterprises, apart from extending the scope to Medium Enterprises. The illustrative lists of enterprises that are engaged in providing or rendering services are:

- Small road and water transport operators (original investment in vehicles up to Rs.200.00 lacs under Priority sector)
- Retail trade (with credit limits not exceeding Rs.20.00 lakhs)
- Small business (whose original cost price of the equipment used for the purpose of business does not exceed Rs.20.00 lakhs)
- Professional and self-employed persons (whose borrowing limits do not exceed Rs.10.00 lakhs of which not more than Rs.2.00 lakhs should be for working capital requirements except in case of professionally qualified medical practitioners setting up of practice in semi-urban and rural areas, the borrowing limits should not exceed Rs.15.00 lakhs with a sub-ceiling of Rs.3 lakhs for working capital requirements).

7. WORLDWIDE TRENDS IN THE SME SECTOR

- Japan– SMEs employ 70% of the wage earners and contribute 55% of the value-added.
- Thailand– SMEs employ 60.7% of the population while contributing 38% to the GDP.
- China– SMEs contribute to over 68% of the exports – in the last 20 years created more SMEs than the total number of SMEs in Europe and the US combined.

In China, an industrial SME is defined as having up to 2,000 employees, while a small business has less than 300 employees and a medium-sized business has employees between 301 and 2,000.

8. ROLE OF MSME IN INDIAN ECONOMY

The MSMEs constitute over 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. The MSMEs play a vital role in the overall growth of industrial economy of the country. Some points of role of MSMEs in Indian Economy are as under: -

- a) To Generate Large Scale Employment: In India, capital is scarce and labour abundant. MSMEs are thought to have lower capital-output and capital-labour ratios than large-scale industries, and therefore, better serve growth and employment objectives. The MSME sector in India has grown significantly since 1960 – with an average annual growth rate of 4.4% in the number of units and 4.62% in employment (currently employing 30 million). Not only do MSMEs generate the highest employment per capita investment, but they also go a long way in checking rural-urban migration by providing people living in isolated areas with a sustainable source of employment
- b) To Sustain Economic Growth and Increase Exports: Non-traditional products account for more than 95% of the MSME exports (dominating in the export of sports goods, readymade garments, plastic products etc.). Since these products are mostly handcrafted and hence eco-friendly, there exists a tremendous potential to expand the quantum of MSME led exports. Also, MSMEs act as ancillary industries for Large Scale Industries providing them with raw materials, vital components and backward linkages e.g. large-scale cycle manufacturers of Ludhiana rely heavily on the MSMEs of Malerkotla which produce cycle parts

- c) Making Growth Inclusive: MSMEs are instruments of inclusive growth which touch upon the lives of the most vulnerable and marginalized. For many families, it is the only source of livelihood. Thus, instead of taking a welfare approach, this sector seeks to empower people to break the cycle of poverty and deprivation. It focuses on people's skills and agency. However, different segments of the MSME sector are dominated by different social groups.

9. EVOLUTION AND PERFORMANCE OF THE MSME SECTOR IN INDIA

Later, large-scale firms come to dominate the size distribution, making up a greater share of output, employment, and value-added because of scale economies, managerial efficiency, better access to finance and infrastructure, and a favourable tariff structure. In India, the MSME sector is the second largest manpower employer, after agriculture and the output from this sector alone constitutes 40 percent share of the value added in the manufacturing sector and one third of national exports. The importance of Micro, Small and Medium enterprises (MSME) for its contribution in the Indian economy growth is a matter of record and needs no further elaboration. For better understanding we could divide it into three parts:

- a) Pre- Liberalization
 - During the post-Independence period, small firms were expected to play an important role in the development process, especially in absorbing surplus labour and achieving an equitable income distribution. This is the traditional stylized role assigned to small industries.
 - At the beginning of the industrialization process, flexibility in production and the ability to offer differentiated products allow smaller firms to grow rapidly.

- Later, large-scale firms come to dominate the size distribution, making up a greater share of output, employment, and value-added because of scale economies, managerial efficiency, better access to finance and infrastructure, and a favorable tariff structure.

b) Post- Liberalization

- The growth rate of MSME, on an average, has declined considerably in terms of units and even employment but has improved marginally in terms of output and exports, in the post-liberalization period compared to the pre-liberalization period.
- This could be probably due to – (a) With the threat of competition, new MSME units would not have come up as significantly in the liberalization period as compared to the pre-liberalization period (b) The new MSME units that came up after liberalization may have been much more capital intensive than those that have come up in the past – with some proportions of the existing MSME units having modernized themselves to rely less on labor and also to take advantage of developments in the global market (c) Unable to face the competition some MSMEs exited the market, thereby affecting MSME employment and output initially.
- However, though it appears that the MSME growth performance (in terms of employment, output, and exports) might have suffered initially it has been able to recover impressively subsequently in the decade of 2000s.
- The share of the registered MSMEs in India's GDP more than doubled during this period and its share in total organized sector employment increased to 34% during the same period. Although the share of registered MSME exports

declined sharply initially, it bounced back to 12% in 2006-07.

- The improved economic health of registered MSME sector is reflected in another parameter i.e. industrial sickness. Sickness in the registered MSME sector has declined both absolutely and relatively. This may be the outcome of improvements in management deficiencies, insufficient financial control, research and development, obsolete technology, inadequate demand, shortage of raw materials, infrastructure bottlenecks, etc.

c) Others

There are two more issues concerning MSME performance:

- Ancillarisation– the promotion of inter-firm linkages between large firms and MSME through subcontracting and ancillarisation in both public and private sectors has been an important dimension of India's MSME policy. Any growth of ancillarisation and sub-contracting would be advantageous to the MSME sector by way of assured marketing, covered technical assistance, finance, and supply of raw materials and training. During this period the percentage of ancillary units increased from 5 percent. Note that however a significant proportion of MSME subcontracting and ancillarisation are informal in nature. The growing inter-firm linkages, formal as well as informal, would have benefited the economic performance of the MSME sector.
- The degree of internationalization– the world over, an export strategy has been the primary foreign market entry mode adopted by MSMEs in their internationalization efforts – this has been observed in the Indian context as well. At the national level, several factors contributed to the increasing trend of MSME internationalization like –

structural shift in the composition of MSME exports from traditional to non-traditional items, modes of entry such as MNCs and e-Commerce etc.

10. POLICIES TOWARDS MICRO, SMALL AND MEDIUM ENTERPRISES [MSME] IN UTTARAKHAND

India at present faces extreme difficulties caused by provincial to-urban migration. This looming emergency is aggravated by the absence of state support to MSME new companies. To help wipe out these two basic issues, the Uttarakhand government has taken an active and propelled a MSME policy, characterized by the assorted needs of various districts of the state. India at present faces extreme difficulties caused by provincial to-urban migration. This looming emergency is aggravated by the absence of state support to MSME new companies. With the goal of putting a stop to outward migration, boosting business enterprise and to achieve far-reaching general advancement in the state, especially the remote and flood-hit territories, the administration of Uttarakhand has declared its micro, small and medium enterprises (MSME) policy. Measures are being taken to build up a solid gadget producing biological system in the state, and real consolidations have been made to the policy for this reason. in spite of the fact that locales with ports are seen by organizations to be more advantageous than bumpy zones, the impetuses that the state's MSME policy offers are sufficiently appealing to draw real investments to this district.

It is obvious from Uttarakhand's MSME policy that it is working towards boosting the electronic manufacturing base in the state, in accordance with the 'Make in India' crusade. The MSME policy of Uttarakhand focusing on a development rate of 15%, year-on-year, in the MSME segment in Uttarakhand. The main objective of Uttarakhand's MSME policy is to promote investment in MSME sector by providing incentives to MSMEs, promoting

investment and making the state an industrial hub. It essentially aims to use local capital and to generate employment opportunities for educated jobless people as well as promotes self-employment, talent development education etc. The policy will stay effective till the year 2020. Much state-of-art manufacturing elements have come up in Uttarakhand, and the locating up of local manufacturing units will certainly assist to save on the costs of obtaining merchandise from other states or district.

11. IMPACT ON EMPLOYMENT IN UTTARAKHAND BY MSNEs

Creating job openings in Uttarakhand is the highest need for the state. There is a considerable measure of activities concentrated on boosting work in the region to stop the outbound migration of the young. Policy means to build up the remote sloping districts and expedite them standard with the fields, as far as advancement. MSME policies of Uttarakhand advancing little substances in remote regions so as to give local jobs. One of the prime territories of the centre is to create neighbourhood employment opportunities with the goal that gifted youth of the state don't migrate out. This policy additionally advancing nearby business. Moreover, and plan to create jobs for more than 200,000 youngsters in the coming years.

Keeping in mind the end goal to screen the usage of this policy an approved board of Uttarakhand, is being set up. This policy will support existing MSMEs, and in addition give a phase to the new ones to rise, along these lines guaranteeing the general development of the state. Expressing that the peaceful condition of Uttarakhand offers a colossal extension for enterprises. The MSME policy is being redrafted to make it more alluring for neighbourhood business visionaries so they get more openings.

12. SUBSIDY AND RELAXATION IN TAX ACCORDING TO CATEGORY

In 2014 the Uttarakhand Cabinet has put its seal of approval on the draft of the new

micro, small and medium enterprises (MSME) policy. The decision was taken at a meeting at the secretariat here on Wednesday, government officials said. In the policy, areas for incentives have been divided into categories A and B in the state. Backward districts such as Pithoragarh, Uttarakashi, Chamoli, Champawat, Rudraprayag and Bageshwar have been kept in the category A where the capital subsidy will be 40 per cent. In the category B, districts such as Tehri, Pauri and Almora have been included, and the capital subsidy will be 30 per cent. The interest subsidy in the category A will be 12 per cent while it will be 10 per cent for B. The new policy also envisages power subsidy. MSMEs in the category A will also be entitled to 100 per cent relaxation in value-added tax (VAT) in the first five years. But such relaxation will be 75 per cent for the category B. Similarly, transport subsidy will also be provided in graded manner. The government will also provide all support to cluster development schemes of the central government and set up mini tool rooms. The development of a land bank is another hallmark of the new policy. At least 25 per cent of the areas in new industrial estates, developed by the State Industrial Development Corporation of Uttarakhand Limited (SIDCUL), will be reserved for MSMEs. SIDCUL would also provide land to MSMEs at a concession rate. The policy also calls for providing awards to best MSMEs on the basis of their performances in growth and profit.

13. STATE INFRASTRUCTURE AND INDUSTRIAL DEVELOPMENT CORPORATION OF UTTARAKHAND LIMITED (SIIDCUL)

SIIDCUL which is a Government of Uttarakhand Enterprise, was incorporated as a Limited Company in the year 2002 with an authorised share capital of Rs. 50 Crores by Government of Uttarakhand. It was established primarily with an objective of providing overall industrial development of the state by developing necessary infrastructure and industrial in the state of Uttarakhand directly or

through special purpose vehicles, investments assisted companies etc. At SIIDCUL, our commitment is towards 'Ease of Doing Business' by providing an investor-friendly & transparent mechanism which completely eliminates any physical touch point. A fully automated land allotment process through single window clearance system and our Siidcul Smart City application has been to bring in speed and accountability to the land allotment process and other processes of SIIDCUL. GIS has also been incorporated within the smart city application providing plot status and availability as well as the provisions of infrastructure like road connectivity, water connection, electricity infrastructure and sewerage connection etc of all the industrial estates in an interactive representation equipping investor with reliable information to take informed decisions. SIIDCUL has developed 7 world Integrated Industrial Estate (IIEs) facilitating and promoting industrial and economic development. IIEs have industrial, Institutional, commercial and residential facilities incorporated within ensuring access to hospital, schools, banks, malls and hotels. Besides the State Government, SIIDCUL has equity participation from UBI, OBC and SIDBI. Concessions available for Industrial ventures in Uttarakhand along with the proactive govt. and facilitative environment has led to more than 1500 companies investing in SIIDCUL areas. The facilities in Integrated Industrial Estates include dedicated 220 KV Substation with a string of feeder substations, Common Effluent Treatment Plants, 60 mt. roads, All modes of connectivity, logistic centres, zonal distribution of Industries, residential and commercial areas. Specialized Theme Parks are also contemplated within these Estates so as to garner all benefits of a cluster-based development. In the near future SIIDCUL is also planning to develop IIEs in the vicinity of the proposed Amritsar Kolkata Industrial Corridor, Facilitating seamless connectivity with the northern and eastern corners of the country. Our aim is to bring Uttarakhand to the forefront of industrial progress and push the state to be

the most industrially developed state in the country and contribute towards the holistic development of the India as a whole. SIIDCUL ensures the speediest clearances to enable the shortest lead time in setting up industrial projects. At present, SIDCUL has fully developed Integrated Industrial Estates in the following areas:

1. Integrated Industrial Estate at BHEL Haridwar,
2. Integrated Industrial Estate at Pantnagar,
3. IT Park, Dehradun
4. Pharma City - Selaqui, Dehradun
5. Growth Centre at Pauri,
6. Integrated Industrial Estate at Sitarganj.

14. CONCLUSION

The Micro, Small and Medium Enterprises occupies strategic importance in terms of output (about 45% of manufacturing output), exports (about 40% of the total exports) and employment (about 69 million persons in over 29 million units throughout the country) based on the Planning Commission. It is observed worldwide that as income increases the share of the informal sector decreases and that of the formal SME sector increases. Small Scale Industries (SSI) has been renamed as Micro, Small and Medium Enterprises (MSMEs) with the introduction of MSMED Act, 2006. The importance of SSIs / MSMEs in developing economies also arises from the realization that the entrepreneurship and a dynamic SME sector are important for restructuring economies and for combating poverty. The importance of Micro,

Small and Medium Enterprises (MSME) sector is well recognized from its significant contribution to the socio-economic objectives of growth in generation of employment, output, exports and fostering entrepreneurship. As per the MSNE policy of Uttarakhand, invented by the department of MSMEs and the Industries Association of Uttarakhand (IAU), which symbolize the interests of MSMEs, the state administration will provide hold up to create the transportation, ease the cluster progress schemes of the Centre, set up little apparatus rooms and develop a land bank so land can be given to MSMEs at a concessional cost. The policy additionally centres on abilities improvement among the young of the state. An empowered committee headed by the chief minister is being set up for the effective monitoring of the policy implementation. Significantly, the policy was prepared by the department of MSME and the Industries Association of Uttarakhand (IAU) by incorporating suggestions from various business chambers. In the new policy, areas in Uttarakhand for incentives have been divided into categories A and B. Areas lying in the category A will be entitled to get 40%, while those in the category B will receive 30%. Category A will also be entitled to 100% relaxation in VAT in the first five years. Such relaxation will be 75% for the category B. The new policy also envisages power subsidy. The policy also calls for providing awards to best MSMEs on the basis of their performances in growth and profit.

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