

GROWTH AND PROBLEMS OF MSMEs IN KARNATAKA WITH SPECIAL REFERENCE TO UTTAR KANNADA DISTRICT

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***Abstract:** The Micro, Small Medium Enterprise (MSME) Sector is the most vibrant and dynamic sector of our country. It is recognized as an engine of economic growth all over the world. By employing 40% of India's labour force and contributing 45% of India's manufacturing output, MSME's have been regarded as the backbone of our economy. At present 4.4 million MSME's in India accounts for about 40% of the country's Exports. The MSME Sector plays an important role in the form of balanced and inclusive growth and further it is helpful in reducing the regional disparities. During the initial phase MSME's have faced so many problems, but now no government can ignore this sector. In this paper the researcher has pointed out growth aspects as well as the major problems of the MSME's Sector at the state level and at the regional level.*

***Keywords:** MSME, GDP, Growth, Vibrant, economy, performance, development.*

INTRODUCTION

The Micro, Small and Medium Enterprises (MSME'S) Play a vital role in Propelling economic growth not only in developing countries but also in many advanced countries. It ensures sustained livelihood, fair distribution of income and balanced regional development. The development of our country is not only dependent on the growth of large scale industries but also it is largely dependent on MSME's which is considered as the backbone of the nation. By providing employment to about 40% of India's workforce, MSME's play a vital role in generating employment in rural and semi-urban places of our country. During 2011-12, 447.73 lakh MSME's of our country have contributed about 45% of India's manufacturing output and accounted for 40% of the country's exports. They produce more than 8000 varieties of goods to the domestic and international market. MSME's are complementary to large Scale industries as ancillary units and contribute enormously to the socio-economic development of the country. Hence MSME's are consider as an engine of economic growth. But during

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the LPG era, the MSME Sector in our country is facing many problems and challenges. In this regard they are in need of consultancy services to upgrade their competencies in the field of marketing, finance, technology, organization strategies etc.

Karnataka State stands at seventh place in terms of Gross state Domestic Product (GSDP) in India's GDP. The state has a great potential to accelerate its economic growth through the development of MSME's. The State Government has considered Growth of MSME'S as means to eradicate the burning problems like poverty and unemployment. Growth of MSME's and other industries Promotes higher capital formation improves level of per capita income and absorbs surplus labours of agriculture sector. The new industrial policy of Karnataka purposed to form at least five industrial areas every year. During 2013-14 25,966 MSME's were working in the state and provided direct employment to 1, 67,347 persons.

Uttar Kannada is one of the biggest districts of Karnataka state with abundant natural resources. The district has unique geographical features with thick forest, perennial revivers, rich flora and fauna and a long coastal belt of about 140 kms. The district is bordered by the state of Goa and Belgaum district to the north, Dharwad and Haveri districts to the east, Shimoga and udupi districts to the South and the Arabian Sea to the west. In Uttar Kannada district also MSME's play an important role along with agriculture in shaping the livelihood of the people. At the end of 2012, there were 8956 registered MSME's workings in the district with an employment of 43,450 workers.

Definition of MSME:- periodically the government has defined and redefined Small Scale Industries (SSI) before 2006. But, recognizing the growth potential of this sector and to give more scope and coverage to the small-Scale sector, the government as passed Micro, Small, Medium, and Enterprise Development (MSMED) Act in 2006. As per this act, the small-scale sector includes both manufacturing and service sectors and recognized as an "enterprise". The Manufacturing and service enterprises of MSME's have been classified on the basis of amount of investment in plant and machinery and equipments respectively, which is shown below in a tabular form.

Table 1
Classification of MSME's

| <i>Description</i> | <i>Manufacturing Enterprises</i> | | <i>Service Enterprises</i> | |
|--------------------|---|--|--|---|
| | <i>(Investment in plants and Machinery)</i> | | <i>(Investment in equipments)</i> | |
| Micro Enterprise | Up to Rs. 25 lakhs | Up to \$ 62 500 | Up to Rs. 10 lakhs | Up to \$ 25000 |
| Small Enterprise | Above Rs. 25 lakhs and up to Rs. 5 crore | Above \$ 62500 and up to \$ 1.25 million | Above Rs. 10 lakhs and up to Rs. 2 crore | Above \$ 25000 and up to \$ 0.5 million |
| Medium Enterprise | Above Rs. 5 crore and up to Rs. 10 crore | Above \$ 1.25 million and up to \$ 2.5 million | Above Rs. 2 crore and up to Rs. 5 crore | Above \$ 0.5 million up to million \$ 1.5 million |

Source:- Annual report of MSME

Objectives of the Study

The researcher aims at studying the following specific objectives.

- (i) To examine the growth performance of the MSME's at the state level and at the regional level.
- (ii) To analyze the growth trend of MSME's in the District.
- (iii) To know the contribution of MSME's in economic development.
- (iv) To Study the problems faced by the MSME sector.
- (v) To Suggest a few policy measures.

DATA BASE AND METHODOLOGY

This research paper is based on primary as well as secondary data. The published data are collected from the various sources like the annual reports of ministry of MSME, articles published in the various Journals, Books, Research papers and different websites related to the topic. while studying the problems of the MSME at the district level the selected owners of the MSME's were contacted through the interview schedules. The data so collected are presented in the study in form of table, graph, diagrams etc. To analyze the growth rate of the MSME's in the district, trend projection method is also used.

Growth Performance of MSME's in India

At the National level MSME's have recorded a phenomenal growth in terms of production; employment and an export which is revealed throw the following table

Table 2
Growth performance of MSME's in India

| <i>Year</i> | <i>Total MSME in lakh No.</i> | <i>Fixed Investment Rs. Crore</i> | <i>Production Rs. in Crore</i> | <i>Employment in Lakh</i> | <i>Exports Rs. Crores</i> |
|-------------|-------------------------------|-----------------------------------|--------------------------------|---------------------------|---------------------------|
| 2001-02 | 105.21 | 154349 | 282270 | 249.33 | 71244 |
| 2002-03 | 109.49(4.06) | 162317(5.16) | 314850(11.54) | 260.21(4.36) | 86013(23.73) |
| 2003-04 | 113.95(4.07) | 170219(4.87) | 364547(18.78) | 271.42(4.31) | 97644(13.53) |
| 2004-05 | 118.59(4.07) | 178699(4.98) | 429796(17.90) | 282.57(4.11) | 124417(27.41) |
| 2005-06 | 123.42(40.7) | 188113(5.27) | 497842(15.83) | 294.91(4.37) | 150242(20.76) |
| 2006-07 | 261.01(111.48) | 500758(264.70) | 709398(42.79) | 594.61(101.62) | 152538(21.50) |
| 2007-08 | 272.79(4.51) | 558190(11.42) | 790759(11.47) | 626.34(5.34) | 202017(10.67) |
| 2008-09 | 285.16(4.53) | 621753(11.39) | 880805(11.39) | 659.35(5.27) | NA |
| 2009-10 | 298.08(4.53) | 693835(11.59) | 982919(11.59) | 695.38(5.46) | NA |
| 2010-11 | 311.52(4.52) | 773487(11.48) | 1095758(11.48) | 732.17(5.29) | NA |
| 2011-12 | 447.73(43.72) | 1176939(52.16) | 1834372(67.40) | 1012.59(38.24) | NA |

Source: Ministry of MSME, Annual report 2011-12 and 2012-13.

Note: figures in the bracket indicates percentage growth over the previous year.

From the table 2, it is clear that the total number of MSME's have increased from 105.21 lakh in 2001-02 to 447.73 in 2011-12, which is almost 4 times increase over the decade. The fixed capital investment in MSME's have increased from Rs. 154349 crore in 2001-02 to 176939 crore in 2011-12, which indicates a huge investments in this sector over the last ten years.

The production of these industries increased by 11.54 percent in 2001-02 to 2002-03. But it has increased by 67.40 percent between 2010-11 and 2011-12, which is remarkable one.

There is a significant increase in the employment opportunities in MSME's. For instance, total number of people employed in 2001-02 was 249.33 lakh, which has gone up to 1012.59 lakh by 2011-12. At the same time experts of MSME sector also increased by 10 percent.

Table 3
Contribution of msme in total industrial production and GDP
(in % at 1999-2000 Prices)

| <i>Year</i> | <i>% Share in total Industrial Production</i> | <i>% Share in Total GDP</i> |
|-------------|---|-----------------------------|
| 2000-01 | 39.71 | 6.04 |
| 2001-02 | 39.12 | 5.77 |
| 2002-03 | 38.89 | 5.91 |
| 2003-04 | 38.74 | 5.79 |
| 2004-05 | 38.62 | 5.84 |
| 2005-06 | 38.56 | 5.83 |
| 2006-07 | 38.57 | 5.94 |
| 2007-08 | 45.24 | 8.00 |
| 2008-09 | 44.86 | 8.72 |

Source: Annual report 2011-12 and 2012-13, Ministry of MSME.

Table 3 indicates that the contribution of MSME sector to India's GDP has increased from 5.77% in 2001-02 to 8.72% in 2008-09, which is a significant growth in Indian economy.

Table 4
Comparative growth rate of MSME

| <i>Year</i> | <i>Growth Rate of MSME (%)</i> | <i>Over all Industrial Growth Rate (%)</i> |
|-------------|--------------------------------|--|
| 2002-03 | 8.68 | 5.70 |
| 2003-04 | 9.64 | 6.70 |
| 2004-05 | 10.88 | 8.40 |
| 2005-06 | 12.32 | 8.10 |
| 2006-07 | 12.60 | 11.90 |
| 2007-08 | 13.00 | 8.70 |
| 2008-09 | 13.53 | 3.20 |
| 2009-10 | NA | 10.50 |
| 2011-12 | NA | 7.80 |

Source: Annual Report 2011-12 and 2012-13 Ministry of MSME

The comparative analysis of MSME growth rate *vis-à-vis* the overall industrial growth rate shows that the MSME sector has maintained a higher growth rate.

Table 5
Growth Performance of MSME's in Karnataka

| Year | MSME units(in number) | Investment (Rs. In lakh) | Employment(in numbers) |
|-----------------------------|-----------------------|--------------------------|------------------------|
| 2011-12 | 21021 | 159614 | 128387 |
| 2012-13 | 24206 | 216851 | 155551 |
| 2013-14 | 25966 | 285056 | 167347 |
| 2014-15 (Upto Dec. 2014) | 19721 | 191905 | 122286 |

Source: Directorate of Industry and Commerce. Government of Karnataka.

As compared to 2012-13, there is a 1.27% increase in the number of MSME units registered, 31.45% increase in investment and 7.58% increase in employment in 2013-14. During the first nine months of the year 2014 (*i.e.* April to Dec. 2014) 1972 units have been registered with an investment of Rs. 1,91,905 lakh by providing employment to 1,22,286 persons, when compared with the previous year for the same period (April to Dec. 2013), there is an increase of 12.30% in the number of units registered under MSME with 4.50% increase in investment and 6.69% increase in employment generated. This statistics shows that, in Karnataka State MSME's play a significant role in respect of production and employment.

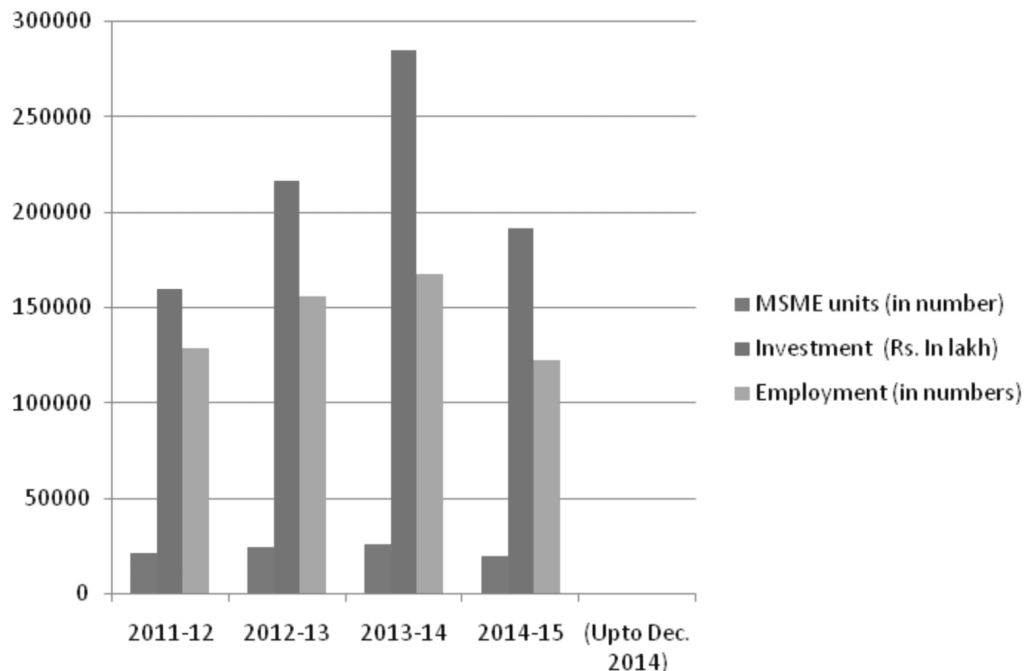


Figure 1

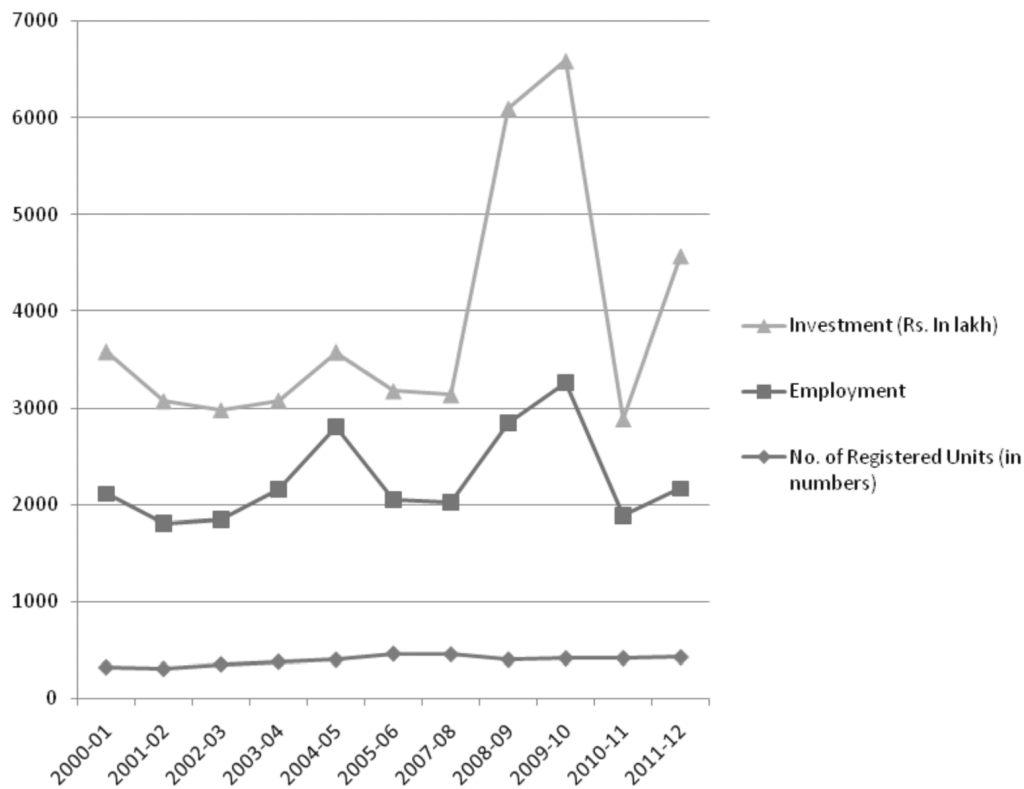


Figure 2

GROWTH TREND OF MSME IN UTTAR KANNADA DISTRICT

Even at the regional level also MSME occupies a vital role in terms of income generation and employment. Between 1984-85 and 2011-12, there were 8959 MSME units registered in the district DIC with an investment of Rs. 28,239.34 lakh and provided employment to 43,450 people. Most of the MSME's in the district are located in the rural areas and carried out along with agriculture or other occupations. Hence, the performance of many MSME's are not satisfactory.

By using trend projection method, we can anticipate the number of units to be registered in the district. For example, data related to units registered between 2007-08 and 2011-12 (5 years) are taken to forecast the number of units to come up in next 5 years.

Note: By using regression equation,

$$Y = a + bx$$

$$\therefore a = \frac{\sum y}{n} = \frac{2112}{5} = 422.44$$

Table 6
Year wise growth trend of MSME in Uttar Kannada District

| Year | No. of Registered Units (in numbers) | Employment | Investment (Rs. In lakh) |
|---------|--------------------------------------|------------|--------------------------|
| 2000-01 | 322 | 1785 | 1470.00 |
| 2001-02 | 306 | 1496 | 1266.00 |
| 2002-03 | 353 | 1487 | 1134.44 |
| 2003-04 | 381 | 1774 | 919.15 |
| 2004-05 | 401 | 2399 | 774.02 |
| 2005-06 | 461 | 1581 | 1129.23 |
| 2007-08 | 454 | 1570 | 1107.57 |
| 2008-09 | 401 | 2443 | 3249.65 |
| 2009-10 | 415 | 2845 | 3329.76 |
| 2010-11 | 416 | 1471 | 992.74 |
| 2011-12 | 426 | 1736 | 2405.25 |

Source: MSME Development Institute, Hubli.

TABLE 7

| Year | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|-------------------------|------------------|--------------------|--------------------------------|------------|---------|
| No. of Units Registered | 454 | 401 | 415 | 416 | 426 |
| <i>Solution</i> | | | | | |
| Year | No. of Units (Y) | Time Deviation (X) | Square up TD (X ²) | XY | |
| 2007 | 454 | -2 | 4 | -908 | |
| 2008 | 401 | -1 | 1 | -401 | |
| 2009 | 415 | 0 | 0 | 0 | |
| 2010 | 416 | +1 | 1 | +416 | |
| 2011 | 426 | +2 | 4 | +852 | |
| N = 5 | Σy = 2112 | Σx = 0 | Σx ² = 10 | Σxy = 1754 | |

$$b = \frac{\sum y}{\sum x^2} = \frac{1754}{10} = 175.4$$

Hence, for the next 5 years, projected Number of MSME Units would be

$$2012 = 422.4 + 175.4(3) = 422.4 + 526.2 = 948.6$$

$$2013 = 422.4 + 175.4(4) = 422.4 + 701.6 = 1124$$

$$2014 = 422.4 + 175.4(5) = 422.4 + 877 = 1299.4$$

$$2015 = 422.4 + 175.4(6) = 422.4 + 1052.4 = 1474.8$$

$$2016 = 422.4 + 175.4(7) = 422.4 + 1227.8 = 1650.2$$

Hence, the trend projection reveals that the projected MSME units in the district by 2016 would be 1650.2, which is a remarkable growth.

PROBLEMS OF MSME's

When the researcher interviewed the selected MSME entrepreneurs of the district, the major problems expressed are listed below. In fact, these are the problems in general faced by the MSME sector in the country.

1. Lack of infrastructure
2. Shortage of electricity
3. Problem of raw materials
4. Problem of marketing
5. Lack of finance
6. Problems in claiming subsidies
7. Delay in getting the permission
8. Lack of trained and skilled labours
9. Delay in sanctioning of loans by banks.
10. Lack of information and guidance.

CONCLUSION

The MSME sector plays an important role in the economic development in our country. It plays a very crucial role even at the regional level in terms of production, and employment generation. The performance of MSME is exceedingly well over the last decade. But keeping in view the various problems of MSME's, during the LPG era it is need of the hour to put emphasis on formation of favourable policies, operating environment and improvement of infrastructure, arranging cheap and easy finance, technology, raw materials, and timely training facilities to the entrepreneurs and workers of the MSME. The Government should take suitable measures for marketing the products of MSME at a fair price.

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