



## GROWTH AND PROBLEMS OF MSMEs IN KARNATAKA WITH SPECIAL REFERENCE TO SHIVAMOGGA 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.*

**Key Words:** 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 considered as an engine of economic growth. But during 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.

Shimoga district has two distinct geographical features one western Ghats ( called Malenadu in Kannada ) and its evergreen forests, Another rain shadow region along eastern side of western ghats known as Bayaluseema in local Kannada language or plains. The Shivamogga district is rich in flora and fauna because of Malenadu. The district has many spectacular waterfalls which come to their splendour glory during rainy ( monsoon) season in the months of June, July and August.

Shimoga district is situated almost centrally in the state of Karnataka. Bounded by the Sahyadri ghats, the Shimoga district is surrounded by the **Haveri district** in the North, the **Davanagere district** in the East, **Udupi** and **Karwar** in the West and **Chikmagalur district** in the South. It lies between 13 degrees 27 minutes and 14 degrees and 39 minutes North latitude and between 74 degrees 37 minutes and 75 degrees 52 minutes East longitudes at a mean elevation of 640 metres above Mean Sea Level. The district is divided into two divisions and 7 taluks. The Sagar Sub-Division covers the Sagar, Sorab, Shikaripur and Hosanagar Taluks, whereas the Shimoga Sub-Division covers the Shimoga, Bhadravathi and Thirthahalli Talukas. The district is spread over an area of 8477 Sq.Kms with a forest area of 2.27 lakhs hectares. It measures 152.9 Kms from East to West and 128.8 kilometres from North to South. It ranks 9th in size among all the districts of the State.

**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 has 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**

	Manufacturing Enterprises (Investment in plants and Machinery)		Service enterprises (Investment in Equipments)	
Micro Enterprises	Up to Rs.25 lakhs	Upto \$ 62,500	UptoRs. 10 lakhs	Up to \$ 25000
Small Enterprises	Above Rs. 25 lakhs & upto Rs.5 crore	Upto \$ 62,500 & upto \$ 1.25 million	UptoRs. 10 lakhs & uptoRs, 2 crores	Up to \$ 25000 & upto \$0.5 million
Medium Enterprises	Above Rs. 5 crore & uptoRs. 10 crores	Above \$ 1.25 million & upto \$ 2.5 million	Above Rs. 2 crore and uptoRs. 5 crore	Above \$ 0.5 million & upto \$ 1.5 million

Source: - Annual report of MSME

### Objectives of the study:

The researcher aims at studying the following specific objectives.

1. To examine the growth performance of the MSME’s at the state level and at the regional level.
2. To analyze the growth trend of MSME’s in the District.
3. To know the contribution of MSME’s in economic development.
4. To Study the problems faced by the MSME sector.
5. 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 paper sand 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 analyse 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 thro the following table.

**TABLE 2: Growth performance of MSME’s in India**

Year	Total MSME in lakh No.	Fixed Investment Rs. Crore	Production Rs. In Crore	Employment in Lakh	Exports Rs. crores
2004-05	105.21	154349	282270	249.33	71244
2005-06	109.49 (4.06)	162317 (5.16)	314850(11.54)	260.21(4.36)	86013(23.73)
2006-07	113.95 (4.07)	170219 (4.87)	364547(18.78)	271.42 (4.31)	97644 (13.53)
2007-08	118.59 (4.07)	178699 (4.98)	429796 (17.90)	282.57 (4.11)	124417(27.41)
2008-09	123.42 (40.7)	188113 (5.27)	497842(15.83)	294.91 (4.37)	150242(20.76)
2009-10	261.01(111.48)	500758(264.70)	709398(42.79)	594.61(101.62)	152538(21.50)
2010-11	272.79 ((4.51)	558190 (11.42)	790759(11.47)	626.34 (5.34)	202017(10.67)
2011-12	285.16 (4.53)	621753 (11.39)	880805(11.39)	659.35 (5.27)	NA
2012-13	298.08 (4.53)	693835 (11.39)	982919(11.59)	695.38 (5.46)	NA
2013-14	311.52 (4.52)	773487 (11.48)	1095758(11.48)	732.17 (5.29)	NA
2014-15	447.73 (43.72)	1176939(52.16)	1834372(67.40)	1012.59(38.24)	NA

Source: Ministry of MSME, Annual report 2014-15 and 2015-16.

Note : A figure 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 2004-05 to 447.73 in 2014-15, which is almost 4 times increase over the decade. The fixed capital investment in MSME's have increased from Rs.154349 crore in 2004-05 to 176939 crore in 2014-15, which indicates a huge investments in this sector over the last ten years. The production of these industries increased by 11.54 percent in 2004-05 to 2005-06. But it has increased by 67.40 percent between 2013-14 and 2014-15, which is remarkable one.

There is a significant increase in the employment opportunities in MSME's. For instance, total number of people employed in 2004-05 was 249.33 lakh, which has gone up to 1012.59 lakh by 2014-15. 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)**

Year	%share in total Industrial Production	%share in Total GDP
2003-04	39.71	6.04
2004-05	39.12	5.77
2005-06	38.89	5.91
2006-07	38.74	5.79
2007-08	38.62	5.84
2008-09	38.56	5.83
2009-10	38.57	5.94
2010-11	45.24	8.00
2011-12	44.86	8.72

**Source:** Annual report 2014-15 and 2015-16, Ministry of MSME.

**Table No.3:** Indicates that the contribution of MSME sector to India's GDP has increased from 5.77% in 2004-05 to 8.72% in 2011-12, which is a significant growth in Indian economy.

**Table 4: Comparative Growth Rate of Msme**

Year	Growth Rate of MSME (%)	Over all Industrial Growth Rate (%)
2005-06	8.68	5.70
2006-07	9.64	6.70
2007-08	10.88	8.40
2008-09	12.32	8.10
2009-10	12.60	11.90
2010-11	13.00	8.70
2011-12	13.53	3.20
2012-13	NA	10.50
2013-14	NA	7.80

**Source:** Annual Report 2014-15 and 2015-16 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.

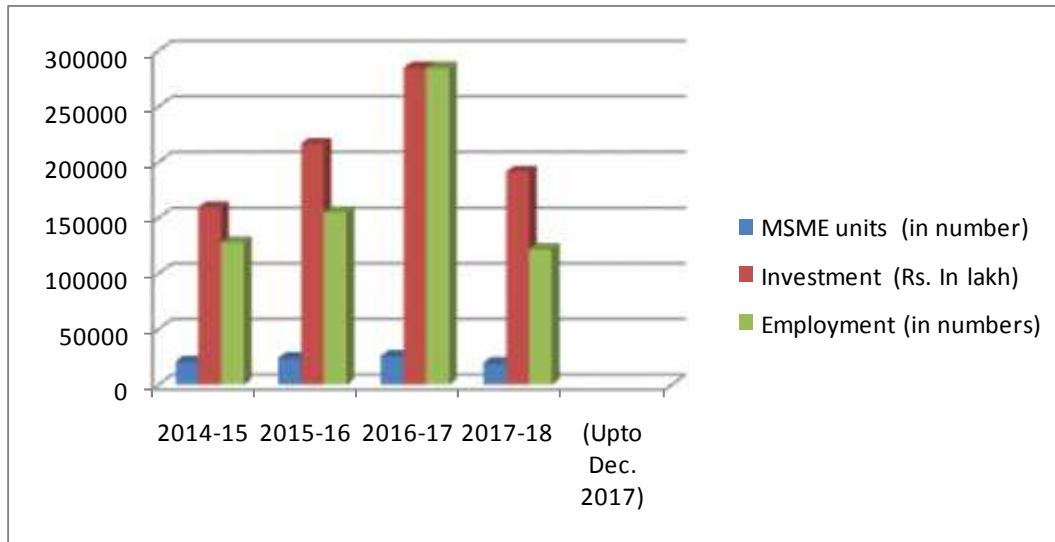
**Table 5: Growth Performance of Msme's In Karnataka**

Year	MSME units (in number)	Investment (Rs. In lakh)	Employment (in numbers)
2014-15	21021	159614	128387
2015-16	24206	216851	155551
2016-17	25966	285056	285056
2017-18 (Upto Dec. 2017)	19721	191905	122286

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



**Diagram 1**



As compared to 2015-16, 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 2016-17. During the first nine months of the year 2017 (i.e. April to Dec. 2017) 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. 2016), 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.

**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 2014-15, 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 performances of many MSME's are not satisfactory.

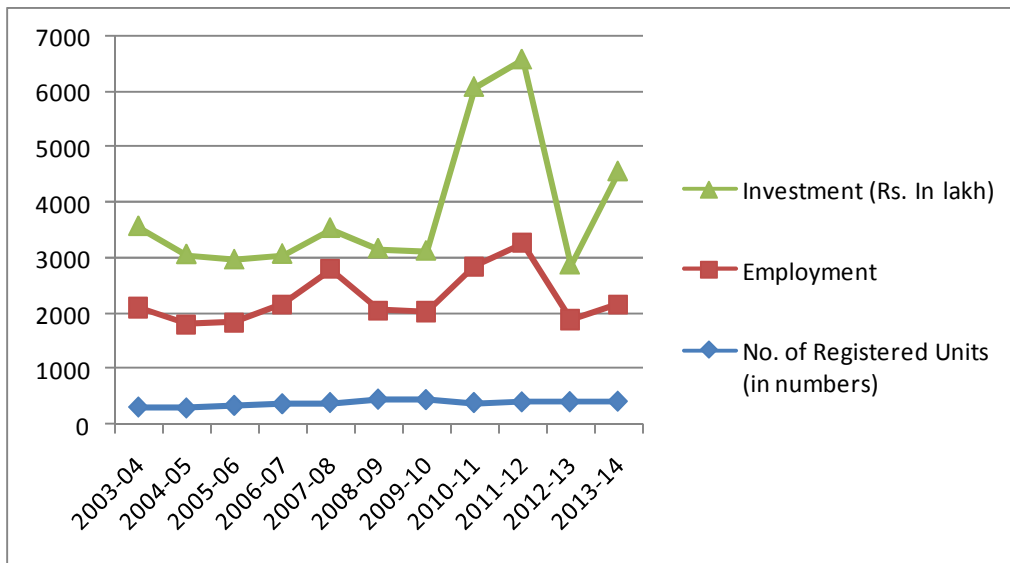
**Table 6: Year Wise Growth Trend of MSME in Uttar Kannada District**

Year	No. of Registered Units (in numbers)	Employment	Investment (Rs. In lakh)
2003-04	322	1785	1470.00
2004-05	306	1496	1266.00
2005-06	353	1487	1134.44
2006-07	381	1774	919.15
2007-08	401	2399	744.02
2008-09	461	1581	1129.23
2009-10	454	1570	1107.57
2010-11	401	2443	3249.65
2011-12	415	2845	3329.76
2012-13	416	1471	992.74
2013-14	426	1736	2405.25

**Source:** MSME Development Institute, Shivamogga.



Graph 1



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 2004-05 and 2013-14 (5 years) are taken to forecast the number of units to come up in next 5 years.

Table 7

Year	2007-08	2008-09	2009-10	2010-11	2011-12
No. of Units Registered	454	401	415	416	426

Solution

Year	No. of Units (Y)	Time Deviation (X)	Square up TD (X)	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
<b>N=5</b>	<b>y=2112</b>	<b>x=0</b>	<b>x=10</b>	<b>xy=1754</b>

Note: By using regression equation,  
 $Y = a + bx$   
 $a = \frac{y}{n} = \frac{2112}{5} = 422.4$   
 $b = \frac{xy}{x} = \frac{1754}{10} = 175.4$

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 2018 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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