

# Manufacturing SMEs of Uttarakhand- Problems and Prospects



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## Abstract

Uttarakhand, which came out from the shadow of a big state Uttar Pradesh in 2000 struggling for socio-economic development due to its geographical constraints. The revolutionary efforts for creation of a new state kindled a never dying fire of expectations of better employment, Infrastructure, economic and social opportunities to upcoming generation in a heart of all Uttarakhandians. Unfortunately the dreams remain the dreams. A dream of better employment is filled by unavailability of sustainable livelihood at doorstep which is followed by the migration of young generation and a dream of better infrastructure is fulfilled by the wounds of tragedy such as Kedar valley due to environmental degradation. In a lack of proper support, our young generation is moving away to other states for their survival which is expected to control by creating employment opportunities at doorstep along with the strengthening of their economic backwardness. Initiatives have been taken by the government by developing industrial infrastructure but limited concentration in the hills is a dark side of these initiatives. Policy makers found the promotion of manufacturing sector at small and medium level as an effective tool to get the desired objectives of inclusive socio-economic progress, controlling migration and environmental degradation by creating employment opportunities at home. The promotion of manufacturing SMEs always gets special attention at national as well as state level but this sector still facing some hindrances for progress. This paper envisages the problems faced by the manufacturing SMEs with the prospects of Uttarakhand.

**Keywords:** Manufacturing SMEs, GSDP, GDP.

## Introduction

The role of manufacturing sector in economic as well as in social progress is phenomenal. Since independence, this role has been identified by our policy makers and efforts are made to increase its contribution in GDP. We are agrarian economy but so much dependency on agriculture for economic and social development is a gamble of climate. The demand of a time is to find new avenues of growth to ensure inclusive socio-economic progress of our country. We need to identify our uniqueness as an opportunity to compete and to be on top as an economic superpower. In a present scenario, China is ruling all over the world because of using, cheap and innovative manufacturing products as their opportunities. China has developed a positive environment for facilitating manufacturing industry at small and medium level which is followed by becoming a global market leader. This importance is acknowledged by Indian government too, therefore in recent years manufacturing sector reforms and promotional decisions are taken places as a major part of all economic policies. Promotion of manufacturing at micro, small and medium level can be a boon for the economically weaker section of the society. Several committees such as Ganguly, Narsimhan, Kapoor, Nayak, Khan, Kohli, Rangrajan and many others, have been formed to develop SMEs sector by identifying and analyzing problems of SMEs and executing a remedial action plans. Indian government and Reserve bank of India took some measures such as product reservation, preferential allocation of credit to priority sector, fiscal concessions, credit guarantee fund trust, regulated rate of interest, business and technical services extension and preferential procurement by the government for the development of MSME sector.

## Objectives of the study

1. To examine the growth and performance of manufacturing SMEs of Uttarakhand.
2. To analyze the economic contribution of manufacturing SMEs of Uttarakhand.

3. To identify the problems of manufacturing SMEs of Uttarakhand.

#### Research Methodology

This study is based on primary and secondary data. Primary data have been collected through personal discussion with the industries of Uttarakhand. Secondary data have been collected through different published and non-published government and non-government reports.

#### Review of Literature

(Berry, 2001 & Liedholm, 2002) explore through their study that SMEs can play a significant role for the developing countries by providing employment opportunities and livelihood to mass public but their growth in terms of productivity are very low. Therefore, these are unable to transform them into larger enterprises in future. Bhat and Malik (2014) analyze that manufacturing sector is flourishing because of MSME sector which is a reason behind the economic growth in India. Vision document, Uttarakhand, (2018) analyze that manufacturing sector has a highest growth of annual average of 7.8% from 2011-12 to 2017-18. Delmar & Wiklund, (2008) consider business environment as an important factor for the growth of SMEs. Singh, Garg & Deshmukh, (2010) find out that Indian SMEs are unable to reduce the cost of products and adopt technological upgradation because of low scale production. MSME annual report (2016-17) explore that MSMEs are playing an important role in employment generation at lower cost. Human development report, (2018) describe that this sector is facing emerging challenges of globalization and liberalization. India has enormous opportunities for domestic and international investment because of consistent growth and high skilled manpower. Uttarakhand economic survey, (2018-19) reveal that there is a gap in GDP and per capital income of hilly and plain districts of Uttarakhand due to infrastructural constraints. Uttarakhand socio-economic mirror, (2016) promote a manufacturing SMEs sector as a tool for inclusive and sustainable economic development of Uttarakhand. PHDCCI report (july-september-2013), analyze that most of the MSMEs in Uttarakhand are affecting by the power shortage. High energy cost, water shortage, shortage of fund, complex legal behavior; marketing issues are also some factors adversely affecting performance of Manufacturing SMEs in Uttarakhand.

#### Definition of MSME

Different countries have their own definition to describe MSMEs as per their role in their economy. This definition also plays a significant role in designing a programme for the development of this sector. The net assets value of the company, investment in plant and machinery, number of people employed, sales or turnover of a company etc. are some criteria used by these nations to define SMEs of their nations.

Under the MSMED Act 2006 The Micro Small & Medium Enterprises (MSMEs) are classified on the basis of their nature of operation in which first is followed by the investment in Plant & Machinery by the enterprises. On the basis of nature of operation enterprises are classified into manufacturing and

service enterprises. The criteria on the basis of capital investment made in plant and machinery is as follows:

Enterprise size	Investment in Plant & Machinery (Excluding Land & Building) (in Rs.)	
	Manufacturing	Service
Micro Enterprise	Upto Rs 25 lakh	Upto Rs 10 lakh
Small Enterprise	Rs.25 lakh and Rs. 5 crore	Rs.10 lakh to Rs 2 crore
Medium Enterprise	Rs.5 crore to Rs. 10 crore	Rs. 2 crore to Rs 5 crore
Large enterprise	Above 10 crore Rs.	Above 5 crore Rs.

#### (Under the MSMED Act 2006)

MSME sector is raising voice to revise/ amend this definition from a long time because of the following reasons:

1. The investment in plant & machinery level is increased due to the inflationary motives which can't be set off in the existing situation.
2. To fulfil some mandatory standards and compliances (quality & other issues related) investment level is increased which can't be set off in the existing situation.
3. In 2006, when the criteria are determined by the government, the level of investment in plant and machinery was very low as compared to the present situation.

On February, 2018, the union Cabinet approved a proposal to change the definition of MSMEs on the basis of annual sales turnover in which manufacturing and service enterprises will be taken as equal. The proposed criteria are as follows:

Enterprise size	Annual Sales Turnover (in Rs.)	
	Manufacturing	Service
Micro Enterprise	up to Rs 5 crore	up to Rs 5 crore
Small Enterprise	up to Rs 75 crore	up to Rs 75 crore
Medium Enterprise	up to Rs 250 crore	up to Rs 250 crore
Large Enterprise	Above Rs. 250 crore	Above Rs. 250 crore

The reason behind to approve this proposal by the government is to avoid the discrepancies in the value of the plant and machinery. Generally, many large enterprises try to undervalue their investment in plant and machinery to get the advantages of Subsidies, tax relief, and other benefits provided to the lower segment.

The sales turnover based criteria is helpful to cross check the transparency through different modes such as CA certificate, GSTN. No. etc. and sales turnover will reflect the current positions of an enterprise not the historical as in investment in plant and machinery based criteria.

#### Economic Profile of Uttarakhand/status of manufacturing SMEs in Uttarakhand

During the period of 2004-05 to 2014-15, the economic growth rate of Uttarakhand state was 15.3 percent per annum, which was higher than the all

India growth rate (around 7 per cent for this period). In spite of going down the growth rate is still higher than national figure. Per capital income in 2017-18 is 1.57 lakh which is also higher than the national average of 1.13 lakh. Gross State Domestic Product growth rate (GSDP) during 2004-05 to 2014-15 was 12.1%, while National GDP increased by 7.6% only. Gross State Domestic Product growth rate (advance) at current prices in 2017-18 was 6.77% which is greater than the national figure 6.60%. As per the annual report of Uttarakhand MSME department and directorate of industries, Uttarakhand till 2016-17 there are 3001 small and 262 medium manufacturing enterprises are registered with the capital investment of Rs. 8481.93 crore. These manufacturing SMEs are providing employment to the 94,836 people.

#### **Problems of Manufacturing SMEs of Uttarakhand**

Micro, small and medium enterprises are playing an important role in the socio-economic development of Uttarakhand. MSME sector is facilitating inclusive and sustainable growth in Uttarakhand and providing a tool for reducing the socio-economic disparity among different districts. MSME sector has a great potential to achieve the inclusive and sustainable socio-economic development of Uttarakhand. In spite of this MSME sector is facing number of problems. These problems can be categorized in terms of management related among the following broad categories:

1. Financial problems
2. Infrastructural problems
3. Human resource related problems
4. Marketing related problems
5. Other problems

Uttarakhand state is a land of opportunities for the development of MSME but this sector requires a special attention by the policy makers. The problems faced by Uttarakhand MSME can be described as follows under the above categories:

#### **Financial Problems**

The Uttarakhand Manufacturing SMEs are facing problems in searching and procurement of enough funds for smooth functioning. Sole-proprietors are looking for some partners to collect enough funds for developing and sustaining their business in between a fight with giant competitors. Unfortunately, due to lack of timely financial support from the government and non-government financial institutions at a reasonable rate manufacturing, SMEs are facing different types of other problems. Due to shortage of funds Manufacturing SMEs are not able to go for research and development programs, marketing programs, Quality improvement programs etc.

#### **Infrastructural Problems**

Manufacturing SMEs are facing some problems related to the infrastructure. In a survey of PHD research bureau, PHDCCI (july-september-2013) 77% MSMEs are facing a problem of energy shortage, 45% of high energy cost and 8% of water shortage. Hilly districts are facing some constraints in connectivity; therefore these districts are not suitable for industrial development. As per a "Uttarakhand economic survey-2017-18" conducted by the directorate of economy and statistics, Uttarakhand,

there is a large gap in per capital income and GDP contribution among hilly districts and plain districts. Haridwar is at the top and Rudrapur is at the bottom due to this infrastructural gap.

#### **Human Resource Related Problems**

In a survey of PHD research bureau, PHDCCI (july-september-2013) lack of skilled and trained manpower is the most identified problem of MSME after energy shortage. Approximately 65% MSMEs are facing a problem in procuring trained and skilled labour which is increasing their human resource related cost as well.

#### **Marketing Related Problems**

Marketing can play a significant role in boosting sales of manufacturing SMEs. Manufacturing SMEs could not beat the large enterprises without marketing support either it is by the government or by themselves. Due to lack of fund for marketing, Manufacturing SMEs are facing some marketing related challenges such as limited market information, inaccessibility of domestic and foreign markets, development of supply chains, poor adaptability of dynamic trends, high transaction cost, poor branding and packaging etc.

#### **Other Problems**

Manufacturing SMEs are also facing some other problems such as- excessive regulation, limited awareness about government schemes, low productivity, extreme competitions, technological backwardness, high debtors' collection period, limited concentration for industrial development etc.

#### **Prospects of manufacturing SMEs in Uttarakhand**

Manufacturing sector is identified as a tool for the socio-economic integrated and inclusive development of Uttarakhand economy. Promotion of manufacturing SMEs in hilly regions of Uttarakhand can ensure the employment creation and inclusive development. Recent national and state level initiatives are taken by the policy makers for the development of this sector. These can be categorized into national and state level initiatives:

#### **Recent National Initiatives**

1. Ease of registration process policy
2. Revival and rehabilitation action plan policy
3. Grievance monitoring programme
4. International MOUs programme
5. Technology centre systems programme
6. Industrial partnership programme
7. Establishment of MSME data bank
8. Skill mapping programme
9. Digital initiative programs
10. Establishment of National schedule caste/schedule tribe hub
11. Establishment of Finance facilitation centre
12. Zero defect zero effect policy (ZED)
13. Establishment of Indian enterprises development centre (IEDs)
14. National manufacturing competitiveness programme
15. Prime minister employment generation programme (PMEGP)
16. A scheme for promotion of innovation, rural industries and entrepreneurship (ASPIRE)

**Recent State Initiatives**

Uttarakhand is continuously working for the industrial development. A State industrial development corporation of Uttarakhand Ltd. (SIDCUL) is established to get this objective. Under the Uttarakhand industrial development policies different strategic locations are identified to develop as an industrial estate with the partnership of private and cooperative sectors. In Uttarakhand integrated industrial estates (IIEs) are developed at Haridwar, Sitarganj and Pantnagar; Pharma City—Selaqui Industrial Area at Dehradun; Information Technology Park at Dehradun; a Growth Centre at Sigaddi, Kotdwar.

1. Fiscal incentives and concession policy
2. Infrastructural supporting policy
3. Institutional support/ simplification/policy
4. Technological development, quality certification, research or development and technical support policy
5. Marketing assistance or export promotion policy
6. Skill development policy

**Conclusion**

Manufacturing SMEs can play a significant role in the socio-economic growth of Uttarakhand. This sector is positively contributing in the economic growth of Uttarakhand as well as of India. The immense performance of this sector in terms of growth in units, employment, capital investment, production, exports, per capital income and GDP contribution is a positive sign for the development. The need of a time is to identify loopholes in the industrial development by the policymakers and to fill the gap of performance between expected and actual. The formulation and implementation of policies and programs/projects/schemes for this sector need continuous revival as per need of this sector. The identified problems need to be resolved continuously for getting the desired objectives. In the period of liberalization manufacturing MSME sector can play a significant role in the economic development of developing country like India. Only one thing need to be remembered that "Only formulation of policies are not enough, development is possible only through follow up rightly".

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