

Growth and development of micro, small and medium enterprises in Karnataka

¹ Dr. Jayaprakash Reddy R, ² Papaiah

¹ Professor of Commerce, AIMS Institute of Higher Education, Bangalore, Karnataka, India

² Research Scholar for Ph.D. in Commerce, AIMS Centre for Advanced Research Centre, Bangalore, Karnataka, India

Abstract

MSMEs are contributing considerably to the GDP of India and growing fast in terms of number of enterprises, products, employees, and exports. The present government is supporting them from all sides and in all possible ways. The present paper is an attempt to understand the present growth and development of MSMEs in one of the fast growing states of India, i.e., Karnataka. By understanding the present position of these enterprises, the policy makers can gauge the requirements of this sector in the coming days.

Keywords: MSMEs - Contribution - Growth and Development - Karnataka State, India.

1. Introduction

The MSMEs in India contribute more than 8 per cent of country's GDP and cover a wide spectrum of economic activities. With more than 40 million enterprises, they employ around 100 million individuals, next only to the agriculture sector. They also contribute around 45 percent of the total manufacturing output and about 40 percent of India's total exports. They manufacture over 6000 products, ranging from the traditional products to high-tech items, in addition to providing a wide range of services. Around 30 per cent of the GDP is contributed by the services sector and the remaining by the manufacturing sector. This translates to a gross value added of Rs.20.56 lakh crore of the aggregate gross value added. This paper aims at bringing the growth and development of MSMEs in one of the prospering states of India, i.e. Karnataka.

2. Definition of MSMEs

Micro, Small and Medium Enterprises (MSMEs) (MSME Development Act, 2006) are defined based on their investment in plant and machinery for manufacturing enterprises and on equipment for enterprises providing or rendering services. According to the Act, a Micro Manufacturing Enterprise is where the investment in plant and machinery does not exceed twenty five lakh rupees. A small enterprise is where the investment in plant and machinery is more than twenty five lakh rupees but does not exceed five crore rupees. A medium enterprise is where the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees. In the case of the enterprises engaged in providing or rendering of services, as a micro enterprise is where the investment in equipment does not exceed ten lakh rupees, a small enterprise is where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees and a medium enterprise is where the investment in equipment is more than two crore rupees but does not exceed five crore rupees.

3. Objective of the study

To document the origin, growth and development of MSMEs in Karnataka state.

4. Research Methodology

This conceptual paper is prepared based on secondary data from sources like, journals, articles, magazines, reports of Indian MSMEs, KSSIDC, Bengaluru and other published data.

5. MSMEs in Karnataka

Karnataka is one of the India's fastest growing states, having a strong industrial base and a vibrant service sector. The State has a host of large industries supported by a strong base of Micro, Small and Medium Enterprises. Due to inherent advantages available in the State, the industry and trade sectors including the service sector are propelling the overall economic development of Karnataka. Hence, Karnataka is considered as one of the most industrially developed States in the Country. It has all the potential to stand out in the forefront and focus on the development of industries, trade and service sectors. It is the first State in the country to have brought out a State Industrial Policy during 1982-83, followed by successive State Industrial Policies in 1988, 1990, 1993, 1996 and in 2001. Due to the progressive policies and proactive measures of the Government and also the contribution of entrepreneurial fraternity and investors, today Karnataka has been recognized as one of the preferred destinations for investment. Karnataka is a State of action; the 30 districts which it has are unique in their own right, offering investment potential like no other State in the country. While nearly 69% of the population lives in rural areas, urbanization is fast increasing. It has witnessed rapid and unparalleled growth across the knowledge-based sectors. It has emerged as the 'Knowledge Hub of Asia'. Further, salubrious climate, vast natural resources, proactive and growth-intensive Government policies led the State an edge over other states. There are over 700 Multinational Companies (MNCs) which are reaping the advantages by making Karnataka their home. The Government has targeted a balanced regional growth by creating development corridors in the State, linking major industrial areas by national highways and rail links, and matching natural resource capabilities. Every part of the State is set to be supported with infrastructure projects to boost growth and employment. All these facilities present to investors, a right blends of strength and

opportunities. Furthermore, Karnataka is one of the earliest states to electrify all its villages and is regarded as one of India’s most investor friendly states. A large number of Major Indian and foreign companies, who have made Karnataka as their base, bears testimony to its growing industrial tradition. Out of the 30 districts in the State as already mentioned, the most industrially developed cities of Karnataka are Bengaluru (the capital city of Karnataka), Belgaum, Mangalore, the twin cities of Hubli and Dharwad.

Bangaluru, the capital city of Karnataka, is one of the fastest growing cities in the world today, with a population of over 1.15 crore. This Capital city was once a quaint little city which has undergone a remarkable metamorphosis with its metropolitan grandeur. Bengaluru has been the destination for a large number of Multi-National Companies; knowledge based industries, technology driven sectors and is today recognized as one of the top technopolises in the world. The growth in the information technology sector has been phenomenal. It has been ranked as one of the top five technology clusters in the world. Similarly, the growth in other sectors like petroleum and petroleum products, iron ore and minerals, silk products, gems and jewellery, plastic goods, basic chemicals, pharmaceuticals and cosmetics etc., have been substantial.

Belgaum is well known in the country for its foundries and hydraulic equipment. It acts as a trade centre for food grains, sugarcane, cotton, tobacco, oil seed and milk products. It consists of 10 taluks with a total population of 42.15 lakh during the last census but as per the present census (2011), it is reported that there is a decrease in the population in Belgaum by 18,000. It has a literacy rate of 64.42% and is rich in mineral resources. It acts as an important Centre for manufacture of heavy machine tools and high pressure oil hydraulics as already mentioned above. Owing to the favourable climatic conditions, horticulture crops are grown in abundance and the district has become the hub for the horticulture industry.⁴ Mangalore is the fourth largest city in the State which is located in the Dakshina Kannada District of Karnataka and is considered to be a commercial hub next only to Bangalore city.

It is the largest urban coastal Centre in Karnataka. The new port in the city is considered to be the ninth largest port in India in terms of cargo handling. It handles almost 75% of the coffee exports, betel nut and the cashew nut.

Mangalore has a population of around 4.84 lakh (as per 2011 census), which has considerably decreased in a decade. It has a very high literacy rate of 94.03% of the population. The boat building and fishing industry have been the core business for generations. Apart from the above mentioned industries there are major IT industries, oil and petrochemical plants and reserves which operate here.

Hubli population of the twin cities including Dharwad consist of 336586 male population and 311712 female population. The total population of the cities as per 2001 census was 648298. The Hubli-Dharwad neighbourhood is the second largest commercial and industrial hub of activities in the State of Karnataka. Hubli-Dharwad is the centre of small scale industries and ancillary units. There are large number of small scale industries in Hubli-Dharwad. The total number of small scale industries in Dharwad is 2774 while there are 4933 small scale industrial units in Hubli. In the small scale sector the main products of manufacture are agro products, engineering products, machine tools, chemicals and pharmaceutical products, industrial valves manufactured in Hubli meet the nation’s major share of requirement.

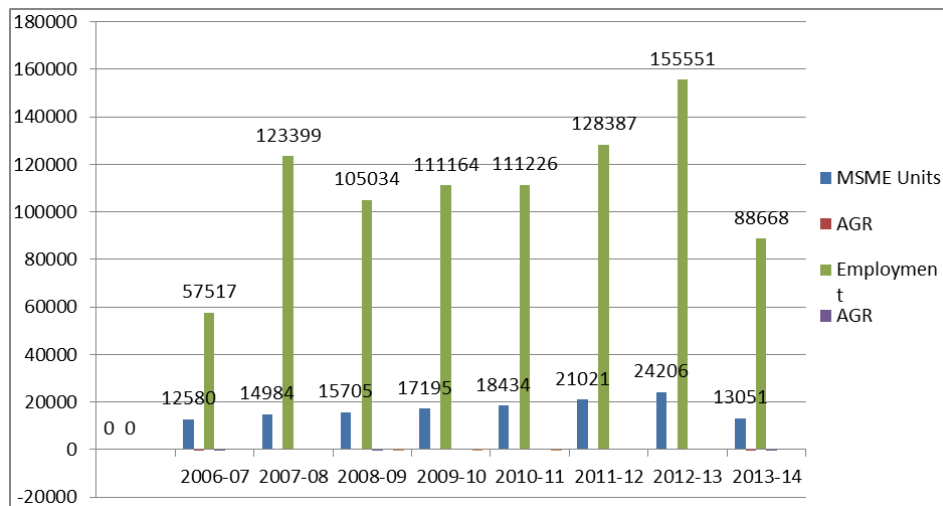
The Karnataka Government has shown keen interest in the development of MSMEs for a very long time. To avail themselves of the benefits, the MSME units are required to submit details of their investment and turnover. Incentives and facilities provided by the state include credit facilities, fiscal support, cluster-based development, technology, infrastructure, and marketing support. Some special export incentives and facilities are also provided for MSMEs. The products of small-scale industries when displayed in international exhibitions, the cost of which will be borne by the government. Various training programs regarding packaging, marketing, etc. are conducted to help entrepreneurs.

6. Growth and Development of MSMEs in Karnataka

Table 1: The following table shows the growth and development of MSMEs in the state of Karnataka.

Year	MSMEs (in lakhs)	AGR	Employment (in lakhs)	AGR	Employment per unit	AGR
2006-07	12580	-1.56	57517	-1.06	4.57	0.44
2007-08	14984	19.11	123399	114.54	8.24	80.31
2008-09	15705	4.81	105034	-14.88	6.69	-18.81
2009-10	17195	9.49	111164	5.84	6.46	-3.44
2010-11	18434	7.21	111226	0.06	6.03	-6.66
2011-12	21021	14.03	128387	15.43	6.10	1.16
2012-13	24206	15.15	155551	21.16	6.43	5.41
2013-14	13051	-46.08	88668	-43.00	6.80	5.75

Source: Directorate of Industry and Commerce, Bengaluru.



From the above table it can be understood that the small scale enterprises reached to 12580 lakh, providing employment to 57517 lakh persons, with an Annual Growth Rate (AGR) of only -1.56 during the year 2006-07. After the merger of medium enterprises through MSME Act during 2006, the number of MSMEs jumped to 14984 lakh, providing employment to 123399 lakh persons, with a annual growth rate of 19.11. The growth rates as a percentage over the previous years can also be seen from the table. The projected status of MSMEs as per Directorate of Industry and Commerce, Bengaluru during 2013-2014 expected to be 13051 lakh units, providing employment to 88668 lakh persons.

7. Industrial Estate and Industrial Development Areas in Karnataka

The Karnataka Industrial Areas Development Board (KIADB), which has created best infrastructure for establishing industries in the State, has played an important role in the industrial development vis-a-vis in the industrial growth of Karnataka. KIADB is a statutory body, constituted under Sec.5 of Karnataka Industrial Areas Development (KIAD) Act, 1966, which provides for expeditious acquisition of lands for industrial and infrastructure purposes. KIADB, besides forming layouts with all infrastructure facilities for promotion of industries, also acquires lands in favour of various State and Central Govt. Departments/Organizations and Single Unit Complexes, for setting up their projects on stand-alone basis. The vision of KIADB and world class infrastructure has made investors all over the world take notice of Karnataka as the premier destination for their start-ups and ventures.

KIADB has formed industrial areas in all the districts of the State. So far it has formed 148 small and big industrial areas spread over the State covering about 40,000 acres. In Bangalore industrial areas like Peenya, Dobaspet, Bidadi, Harohalli, Jigani, Bommasandra, Electronic City, EPIP-Whitefield, and Doddaballapura are established. In Mysore, Hebbal industrial area spread over 3000 acres. In Mangalore, Baikampady industrial area spread over 2700 acres. Belur industrial area in Dharwad covers an area of 2185 acres. Kanabargi and Honaga in Belgaum and Raichur Growth Centre are also major industrial areas developed by KIADB. KIADB has also provided land to about 400 stand alone major industries (Single Unit Complexes). This apart, KIADB has envisaged several innovative projects like Agro - Tech Parks,

Apparel Parks, Food Parks, Auto Parks, Hardware Park, Bio-Tech Park, EPIPs, Sector Specific SEZs, Growth Centres etc. KIADB on the whole developed 157 Industrial Areas in 29 Districts of the state.

8. Karnataka State Small Industries Development Corporation (KSSIDC)

Karnataka State Small Industries Development Corporation (KSSIDC) provides industrial sheds and plots with infrastructure and also supplies basic raw materials to the industries. KSSIDC, is one of such Corporations, established on 29th April 1960. The registered office of the Company started functioning at Bangalore. The programme of establishment of industrial estates, which has been carried out by the State Government involved in construction of industrial sheds of various dimensions and providing them with essential amenities such as roads, water supply, sewerage line and electricity.

The progress of the industrial estates for the last five-decades increased enormously and the corporation as on date has established a network of 177 developed Industrial Estates throughout the State in almost all the districts and taluks of Karnataka and constructed 6180 Industrial Sheds, flats, godowns and shops apart from formation of 8258 Industrial Plots.

9. Karnataka State Industrial and Infrastructure Development Corporation (KSIIDC)

KSIIDC was established in the year 1964, as a wholly owned undertaking of the Government of Karnataka. It has been greatly instrumental in the industrialisation of the State, especially in the large and medium sector. An important arm of the state in bringing industrial boom in various sectors. KSIIDC has assisted 135 start-up ventures through equity participation to the extent of Rs. 118.28 crore spread over the length and breadth of the State. KSIIDC has also extended financial assistance in the form of debt to core sector industries like Steel, Cement, Mining and Textiles and modern sector industries like Information Technology, Aviation, Telecommunication and other infrastructure projects to the extent of around Rs. 2223 crore. KSIIDC has been instrumental in establishing Jindal Vijayanagar Limited (presently JSW Limited), Vikrant Tyres Limited, Karnataka Antibiotics and Pharmaceuticals Limited, to name a few.

10. Karnataka Small Scale Industrial Association (KASSIA)

KASSIA is a premier voluntary state level non-Government Institution of Small Scale Industrialists. It is a registered body under the Karnataka Societies Registration Act and is functioning on democratic lines with regular Annual General Body Meetings, election of Council Members and Office Bearers and adhering to the constitutional byelaw and conventions. It is managed by a Council of Management consisting of President, Vice President and members.

11. Department of Industries and Commerce (DIC)

The Department of Industries and Commerce acts as a catalyst for the overall development of the industrial sector through effective discharge of developmental and facilitation roles. With a view to promote investment and trade, the Department formulates and implements the Policies of the State, Identification of Sectoral Advantages of the State and Human resource development for sustainable and growth-oriented industrialization has been a crucial role of the Department. Facilitating the take-off of infrastructure projects that boost the industrial growth has also been the Department's forte. The Department helps enhance the competitiveness of domestic industry through modernization, technology up gradation and adoption of best practices. It also provides a forum for entrepreneurs and industrialists through their associations to represent their needs to the Government, which translates into Policies of the State. Some of the crucial infrastructure projects facilitated by the Department include Growth Centers across the State, Export Promotion Industrial Parks, International Technology Park Ltd., Electronic city, Food and Agro-technology parks, Agro Export zones, Special Economic Zones, Bengaluru International Airport, etc.

The Department is able to reach out to the small businesses as well as Industrial Houses by a great degree of decentralization within the organizational structure. The Department functions through the Districts Industries Centres, various Boards & Corporations and Special purpose vehicles. The implementation of Policies of the Government is done through various schemes and the implementation of these schemes is decentralized for faster delivery of services.

The Department has established the Single Window Mechanism for faster, single point clearances to be given to projects seeking infrastructure facilities/ incentives/ concessions and help in establishing industries and businesses in Karnataka. Karnataka Udyog Mitra is the nodal agency under the Single window set up. There are several Self-employment generation schemes formulated by the State and Central Governments from time to time and are being implemented.

12. Place of Karnataka in the map of India

According to MSME Annual Report 2013-14, the State of Karnataka occupies 6th place in the country in terms of number enterprises with 20.19 lakh enterprises next to Uttar Pradesh (44.03 lakh); West Bengal (34.64 lakh); Maharashtra (30.63 lakh); Andhra Pradesh (25.96 lakh); and Gujarat (21.78 lak) respectively. Similarly, the State occupies the same 6th place in the country in terms of generating employment to 46.72 lakh people next to Uttar Pradesh (92.36 lakh); West Bengal (85.78 lakh); Andhra Pradesh (70.69 lakh); Maharashtra (70.04 lakh); and Gujarat (47.73 lakh) respectively.

13. Karnataka Resources and Industrial Profile

13.1. Agricultural Resource

Karnataka is the leader in horticultural products and spices, aromatic and medicinal crops, and tropical fruits. Karnataka is the largest producer of coffee and cocoa in the country. It is also the second-largest milk producing state, and third and fourth largest producer of sugar and sugarcane respectively. It is the 5th largest producer of fruits in the country and the fourth largest producer of spices. It accounts for over 20 per cent of floriculture production in India and is one of the largest producers of Cashew nut in India. The state is the second largest producer of flowers as well as the second largest producer of grapes in India.

13.2. Horticultural Crops

It is a pride to say that Karnataka stands first in export of flower crops and gherkins. Flowers worth Rs. 50.00crore and gherkins worth Rs. 300.00 crore are being exported from Karnataka.

13.3. Livestock and Poultry Production

India ranks Second in the world (FAOSTAT-Website year 2012) and Karnataka State ranks eleventh among Indian States in milk production. The production of milk in the State was 5.99 million MT during the year 2013-14.

13.4. Fisheries

Karnataka is in 6th position in marine fish production and 9th position in inland fish production in the country. The total fish production during 2014-15, up to the end of December 2014 is 4.12 lakh tonnes.

13.5. Sericulture

Karnataka leads in the exports of silk in India accounting for approximately 25 per cent of the total Indian export market. Small scale units could be set up to make silk scarves, dress materials, carpets and readymade garments. There is very good export market for various products made out of silk in western countries.

13.6. Minerals

Karnataka is the sole producer of felsites and the leading producer of iron ore, chromite, and dunitite. It is the main gold producing state in the country, contributing 99 per cent to India's total gold production. It is extremely resource rich and hosts country's 78 per cent vanadium ore, 74 per cent iron ore (magnetite), 42 per cent tungsten ore, 38 per cent asbestos, 33 per cent titaniferous magnetite, 30 per cent limestone, 25 per cent granite, 22 per cent manganese ore, 19 per cent corundum, 18 per cent dunitite, 13 per cent kyanite and 11 per cent iron ore (hematite) resources.

13.7. Exports Performance in Karnataka

Karnataka exports amounted to about Rs. 290418 crore in 2013-14 which constituted about 12.37 per cent of the Country's exports in that year. The share of merchandise exports in the National exports constitutes around 5.92 per cent and software / service exports around 38 per cent for the year 2013-14. Karnataka's exports as a percentage of GSDP has a fairly large share and has also increased significantly over the period. The share of exports in GSDP which was 7.36 per cent in 1993-94, has grown to 47.3 per cent in 2013-14. Exports of electronics and computer software constitute the largest share

in the State's exports. Its share was of the order of 61 per cent in 2013-14. The other commodities which have substantial share in Karnataka's exports in 2013-14 are petroleum and petroleum products (12.18 per cent) and gems & jewellery (8.32 per cent). These three commodities account for about 81 per cent of Karnataka's exports. Other commodities with significant share in State exports are engineering goods (6.19 per cent), readymade garments (3.06 per cent), basic chemicals, pharmaceuticals and cosmetics (2.86 per cent) and coffee (1.24 per cent). Readymade garments (3.06 per cent), basic chemicals, pharmaceuticals and cosmetics (2.86 per cent) and coffee (1.24 per cent).

Karnataka enjoys a unique position in India in exports of electronics and computer software. In 2013-14, the exports of electronics and computer software from the State accounted for as much as 40 per cent of India's total exports. Exports of electronics and computer software, basic chemicals, pharmaceuticals and cosmetics, readymade garments, petroleum & petroleum products, engineering products, marine products, coffee products, spices, agro and processed food products and plastic goods have increased significantly in 2013- 14 as compared to their exports in 2012-13. The exports of silk products, gems and jewellery, iron ore and plastic goods have revealed a marginal decline in 2013-14 as compared to 2012-13.

Karnataka's exports were Rs.110892 crore during the period of April Sept.2014 Export of electronics and software constitutes the largest share in the State's exports. Its share is 55 per cent in 2014-15(up to September 2014). The other commodities whose share in exports in 2014-15(up to September 2014) are Gems and Jewellers (9.36 per cent), petroleum & petroleum products (10.66 per cent), engineering products (10.42 per cent) and readymade garments (3.44 per cent)

Karnataka's contribution to India's exports has varied between 11 per cent and 15 per cent. Further, Karnataka's share in India's total exports of information and communication technology products has remained higher than 25 per cent since 2005-06.Karnataka has shown a highest growth rate of exports of over 12 per cent in the year 2013-14 compared to previous year and also when compared to other States.

14. Conclusion

From the above pages it can be said that the State of Karnataka is rich in agricultural and mineral resources, and produce different industrial products for domestic consumption and exports. Similarly, the performance of MSMEs in Karnataka state is magnanimous and worth noting. If the central government continues its support extensively, no doubt, MSMEs in the State of Karnataka contribute a lot to the economy, standing in the forefront.

15. References

1. Anuradha D. Problems and Prospects of Micro, Small and Medium Enterprises (Msmes) In India in the Era of Globalization. *Journal of Research in Business and Management*. 2014, 20-28.
2. Aruna N. Problems Faced By Micro, Small and Medium Enterprises-A Special Reference to Small Entrepreneurs in Visakhapatnam. *IOSR Journal of Business and Management (IOSR-JBM)*. 2015, 43-49.

3. Chaudhari SG. Problems of Small Scale Industries in India. *International Journal of Engineering and Management Research*. 2014, 19-21.
4. Hasan RA, Islam KMZ. Bridging the Gap between Microfinance and SME Financing in Bangladesh: unlocking the potentials, *Daffodil International University Journal of Business and Economic*, 2008; 3:1.
5. Islam Hu. Problems and Prospects of small and medium enterprises development in Bangladesh. *ASA University Review*, 2011.
6. Kumar SG. Sickness of Micro, Small and Medium Enterprises in India. *International Journal Business Management*. 2011, 345-351.
7. Krishna L. The Role of Competencies and personality in Determining Success of Entrepreneurs in SMEs in Karnataka, India. *International Business Management*, 2013, 258-266.
8. Ritu. Prospects and Problems of MSMEs in Indian Economy. *Periodic Research*. 2014, 149-151.
9. Saravanan MK. Problems and Prospects of Micro Small and Medium Enterprises in Thanjavur District. *International Journal of World Research*. 2014, 1-8.