Growth and Prospect of MSMEs in Odisha: An Analytical Approach

Dr. Suratha Kumar Das

ABSTRACT
Micro, Small and Medium Enterprises sectors are emerged as a jewel in crown of Indian economy. It is the breeding ground of entrepreneurship at ground level. It provides gainful employment to a large chunk of population, enhance export earnings and make significant contribution to GDP in a country. So they are engine of growth. They also help in reduction of poverty by providing a source of livelihood with very less capital. Recognizing important role of MSMEs in the development process of a developing economy in our country, Government of India and State Government have made various policies for growth and progress of MSMEs. The small scale sector has registered consistent growth from 80,000 units in 1940s to more than 100 lakh units in 2011. They are the largest employment provider in India next to agriculture. They are sometimes the only source of employment in poor regions and rural areas and thus help in removing regional imbalances in the country. The Government of India passed Micro, Small and Medium Enterprises Development (MSMED) Act in 2006 to facilitate the development of this sector and also enhance their competitiveness. On this backdrop, it is interesting to make an analytical study to highlight growth story and their magnitude of growth in the State of Odisha as well as their importance to achieve the sustainable socio-economic development of the State. The basic objectives of the present study is to discuss factors for growth, Govt. initiatives, role of NGOs and micro finance and credit flows for enterprises at grass root levels. This present study is basically based on secondary data collected from journals, literature, Odisha Economic Survey, MSME Department, Government of Odisha. The primary data collected from personal interview of some entrepreneurs to hold the reality of growth of MSMEs in Odisha. The research tools like ratio, percentage, average etc are being used to reach valid findings and conclusion.

INTRODUCTION
“Indian society is like a mountain. With the very rich at the top, lush Alpine pastures where skilled workers in the biggest modern industries graze, a gradual slope down through smaller firms where pay and conditions are worse and the legal security of employment means less, a steep slope around the area where the Factories Act ceases to apply, a plateau where custom and the market give poorly paid organized workers some minimum security, then a long steep slope down through casual migrant labour and petty services to destitution. There are well-defined paths up and down those slopes, which are the easiest for some kinds of people.”

-------Holmstrom

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural
& backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. There is a consistent and continuous growth of MSMEs in our country. MSMEs have increased from about 80,000 units in the 1940s to more than 100 lakh units till 2011. The MSMEs produce more than 7,500 products and also contributes to about 35% of the India’s exports. MSMEs contribute 8% of the country's GDP, 45% of the manufactured output and 40% of exports (Prime Minister’s Task Force on MSME, 2010). The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services produced and the levels of technology employed. As per the estimates of 4th All-India Census of MSMEs (2006-07), the number of enterprises is estimated to be about 26 million and provide employment to an estimated 60 million persons. Of the 26 million MSMEs, only 1.5 million are in the registered segment while the remaining 24.5 million (94%) are in the unregistered segment. The sector is dominated by micro units, of the total working enterprises, the proportion of micro, small and medium enterprises were 95.05%, 4.74% and 0.21% respectively.

The states like Bihar, Madhya Pradesh, Odisha and Uttar Pradesh have high incidence of poverty with more than 30% head count ratio (HCR) among their populations. Rural poverty remains high at more than 30%. In this context, importance of micro and small enterprises (MSEs) in contributing to job creation and inclusive growth is widely acknowledged (Eversole, 2003). The major objectives of the MSME sectors generate employment potential at low capital cost, use of local raw material and labour in rural base.

**MEANING OF MSME**

The MSMEs are defined in different ways in different parts of the world. Some define them in terms of assets, while others in term of employments, shareholder funds or sales. At present, Government of India (GOI) has given a clear definition. According to the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified as:

**Manufacturing Enterprises**: The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation Act, 1951). The Manufacturing Enterprises are defined in terms of investment in Plant & Machinery.

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Investment in plant &amp; machinery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>less than Rs.10 lakhs</td>
</tr>
<tr>
<td>Small</td>
<td>over Rs.10 lakhs but not exceeding Rs.2 Crores</td>
</tr>
<tr>
<td>Medium</td>
<td>over Rs.2 Crores but less than Rs.5 Crores</td>
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</tbody>
</table>

**Service Enterprises**: The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

<table>
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<th>Investment in plant &amp; machinery</th>
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<tr>
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</tr>
</tbody>
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**MSMEs-PRESENT SCENARIO**

According to final report of MSME fourth All India Census, MSME is an important sector
and plays a critical role and has an important place in the Indian economy, in terms of employment generation, exports and economic empowerment. For the year 2011-12, total number of enterprises in the MSME sector is 261.12 lakh of which 15.64 lakh are registered. 14.85 lakh enterprises are registered in the micro sector, 0.76 lakh in the small scale sector and 0.03 lakh in the medium sector. Out of total, 28.60% enterprises belong to the manufacturing sector and 71.40% belong to the services and repairs and maintenance. It provides employment to 502.57 lakh persons in the country. The sector has registered gross output of Rs.7,07,57 crore. Total number of exporting units are 0.47 lakh and the total amount of exports of the country is 67,914 crore. The Directorate of Industries, Odisha is the nodal agency for promoting MSME, ancillary and down stream industries in the State. The growth of the MSME sub-sector is being emphasized not only because of its potential for generation of employment opportunities but also for its contribution to industrial output in the State. This sub-sector is the second largest employment generating sector after agriculture. During 2011-12, 5,505 MSMEs went into production with an investment of Rs.500.73 crores and 30,387 persons were provided employment opportunities.

LITERATURE REVIEW

The research is a continuous process. The review of literature seems to be indispensable, as it provides strong feedback to the present study to strengthen research activities. The some of the important previous research literature covering various dimensions of MSMEs are presented here.

Birch (1979) argued that small firms are particularly important in job creation. He reports that over the 1970s, firms with fewer than 100 employees generated eight out of ten new jobs in America. However, a wide array of evidence rejects the view that small firms are the engines of job formation. (Dunne, Roberts, and Samuelson, 1989; Leonard, 1986; Brown, Hamilton, and Medoff, 1990). This paper reviews the existing micro-economic evidence on whether MSMEs boost economic growth in India in respect of continuous growth in number of units, production, employment and exports. Morck, Shleifer and Vishny (1988), concluded that disciplinary takeovers are likely to be hostile transactions, whereas synergistic takeovers are likely to be friendly transactions. Hostile transactions are acquisitions that go against the wishes of the target company’s management. Finnerty (1976) concluded that the occurrence of profitable insider transactions implies that, “trading on inside information is widespread” and that insider actually do violate security regulations.” Keown and Pinkerton (1981), provide evidence of excess returns earned by investors in acquired firms prior to the first public announcement of planned mergers. Seyhun (1986), examining transactions reported to the SEC, finds that corporate insiders earn excess returns that are on average small.

RELEVANCE OF THE STUDY

The micro, small and medium enterprises (MSMEs) have been accepted as the engine of economic growth and for promoting equitable development. The labour intensity of the MSME sector is much higher than that of the large enterprises. 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. In recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector. The total SSI production, after 2002, has risen at a faster rate. Since 2000,
there is a continuous growth in number of units, production, employment and in exports.

The majority of the population (87%) lives in rural areas in the state and is highly dependent on agriculture (73%). Rural problems are seen due to poor banking infrastructure. At this particular period MSMEs are playing important role in providing rural credit to unbanked poor and changed their socio-economic status in the state. The MSMEs are generating ample employment opportunities among rural youth in household base micro enterprises in local areas. It is on this background, the present study is important and interesting to study effectiveness of MSMEs in promoting the socio-economic condition of rural poor in Odisha.

**OBJECTIVE OF THE STUDY**

The present study attempts to make critical evaluation in performance of MSMEs in promoting socio-economic development of poor in rural Odisha. The specific objectives of this study are as follows.

- To examine the performance of MSMEs in the development of socio-economic condition of rural poor.
- To make an analysis of Products of MSMEs.
- To know the growth and performance of MSMEs in terms of Units set up, Production, Employment generation and Exports in India as well as Odisha.
- To suggest recommendations and suggestion on performance of MSMEs as catalyst to rural development.

**PROFILE OF THE STUDY AREA**

The State of Odisha is located in the eastern coast of India at 17 degree 49’ N - 22 Degree 34’ N Latitude and 81 degree 29’ E-87 degree 29’ E Longitude. Odisha is surrounded by Andhra Pradesh on the South-East, Madhya Pradesh on the West, Bihar in North, West Bengal in North-East and Bay of Bengal in the East.

The 85 per cent people of Odisha live in villages. Their main livelihood is agriculture. Cultivation of paddy is the significant in agricultural activities. According to 66th NSS and Tendulkar Committee, the present’s poverty head count ratios at Rs.567.10 and Rs.736.00 for rural and urban Odisha respectively. The poverty has declined by 20.2 percentage points from 57.2 per cent in 2004-05 (61st NSS round) to 37.0 per cent in 2009-10 (66th NSS round). This shows a welcome sign of drop in poverty incidence during 2004-05 to 2009-10. The fall of 20.2 percentage points, consisting of 21.6 percentage points in rural Odisha.

**RESEARCH METHODOLOGY**

**Data Sources:**

The present study is based on certain facts and data, which are collected from the following sources.

- The secondary data includes annual report of MSME, Economic Survey of Odisha, MSME Department, Govt. of Odisha and RBI website other related research articles.
Tools and Techniques

The most appropriate research tools like: Anova, ratio, percentage etc. are used to analyze the effectiveness of MSMEs in promoting the socio-economic condition of rural poor households in Odisha.

LIMITATIONS OF THE STUDY

The study is also subject to certain limitations. These limitations are as follows:

- The present study does not cover the entire gamut of the MSMEs due to paucity of time and other constraints.
- Secondary data and primary data are used in our study. From the secondary data point of view, office staffs are non-cooperative and reluctant to furnish the data on deposits and various activities undertaken by MSMEs.
- The present study period is too short and also inherent limitation of the study.
- The appropriate data is a major concern in social science research. The present piece of work is not free from such limitation.

DATA ANALYSIS AND INTERPRETATION

Growth of MSMEs in Odisha

Table-01 depicted that there is a consistent growth of MSMEs in Odisha during 2007-12. The year 2011-12 witnessed highest number of MSMEs with capital worth Rs.500.73 crore and huge employments. The lowest units of MSME was 4556 in the year 2006-07 with investment Rs.271.14 crore. The MSMEs are the biggest employment providers in rural Odisha next to agriculture. During 2008-09, growth trend in MSMEs was in decreasing trend.

From Graph-01, the total number of MSMEs in Odisha was 4556 in the year 2006-07. This graph shows consistent growth in number of MSMEs units in Odisha. The year 2011 registers highest number of MSME units is 5016. As a whole, this graph depicts constant rising number of MSMEs in Odisha despite natural calamities like floods and cyclone and other impediments.

Product wise MSMEs in Odisha.

Graph- 2 shows that the maximum number of MSMEs belongs to the repairing and services sub-sector (32.29%). Food and allied sector occupies 22.20% in total MSME units set-

<table>
<thead>
<tr>
<th>Year</th>
<th>MSME units setup</th>
<th>MSME units setup</th>
<th>Investment made</th>
<th>Employments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(cumulative)</td>
<td>during the year</td>
<td>(Rs. in Crore)</td>
<td>(persons)</td>
</tr>
<tr>
<td>2006-07</td>
<td>92417</td>
<td>4556</td>
<td>271.14</td>
<td>20839</td>
</tr>
<tr>
<td>2007-08</td>
<td>97127</td>
<td>4710</td>
<td>295.51</td>
<td>23301</td>
</tr>
<tr>
<td>2008-09</td>
<td>101933</td>
<td>4806</td>
<td>227.92</td>
<td>20996</td>
</tr>
<tr>
<td>2009-10</td>
<td>106840</td>
<td>4907</td>
<td>292.34</td>
<td>23195</td>
</tr>
<tr>
<td>2010-11</td>
<td>111856</td>
<td>5016</td>
<td>395.02</td>
<td>24451</td>
</tr>
<tr>
<td>2011-12</td>
<td>117361</td>
<td>5505</td>
<td>500.73</td>
<td>30387</td>
</tr>
</tbody>
</table>

Source: Directorate of Industries, Odisha
up. It is the engineering and metal sector which occupies 11% in total MSME units set-up. Similarly Textiles' Glass and Ceramic occupy 7.45%, 7.31% respectively in total MSMEs. Forest and wood (6.07%), Misc. Manufacturing (5.58%), Paper & paper products (2.57%), Chemical allied sector (2.55%) of the total number of MSME units by the end of 2010-11. The livestock and leather sector is the last in number in terms of MSME units set-up.

Progressive trend of employments in MSMEs sector in Odisha.

MSMEs are recognized as the biggest providers in employments among rural youth and brings a sea change in their life style as well as various dimensions of rural Odisha.

From Graph-03, it is depicted that the year 2006-07 shows employment in lowest number (20839) and highest number of employment touches 24451 during 2010-11. Every year registers gainful employment except 2008-09. As a whole, there is an increase in gainful employments in MSMEs in Odisha.

MSMEs' contribution in enhancing exports growth.

MSMEs sector plays a major role in India’s present export performance. This sector contributes 45%-50% of the Indian exports. The export constitutes direct export for nearly 35% and indirect 15% to exports. As per the data available in Economic Survey, Odisha at the end of 2011-12, there were 344 exporters in Odisha and 22,012 Industrial units including 2,285 small scale registered units. Nearly 5,225 samples were tested in the six testing laboratories and Rs.12.70 lakh of testing fees were collected in 2011-12.

Graph-04 reflects that MSMEs have made Rs.13,000 crores export transactions. There was little rise in export transactions from 2007 to 2008. The year 2009 registered lowest exports worth 12500 crores.

The year 2010-11 reflects highest exports (16500 crores) in MSME in Odisha.

Graph-04 reflects that mineral sectors achieved highest percentage of exports in 2010-11. The second highest percentage of exports achieved by metallurgical sectors that is 28.19%. The marine sectors showed 3.18% exports transactions. Electronic sector occupies third highest position in exports.

OPPORTUNITIES & POTENTIALITIES IN MSMEs

The opportunities of growth in the MSMEs sector are enormous due to the following factors:

- Less Capital Intensive.
- Extensive Promotion & Support by Government.
- Reservation for Exclusive Manufacture by small scale sector.
- Funding - Finance & Subsidies.
- Raw Material Procurement
- Manpower Training
- Cluster programme for development of technical & entrepreneurial skills.
- Reservation for exclusive purchase by government
- Due to export growth.
- Growing in demand in the domestic market size.

CHALLENGES FACED BY MSMEs

Small is beautiful. MSMEs have commendable contribution to the rural economy as well as national economy at large. But MSME Sector facing financial constraints and does not get the required support from the concerned
Government Departments, Banks, Financial Institutions and Corporate. MSMEs face a number of problems and constraints in their path of progress.

- Lack of adequate and timely funding.
- Limited capital and knowledge.
- Non-availability of suitable technology with limited sources.
- Lower production.
- Lack of marketing scope.
- Globalization impact
- Cut throat competition with big sectors.
- Non availability of highly skilled labor at affordable cost.
- FDI in retail sector etc.

Despite the various challenges in the way of progress, the MSME sector has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and diversification. SSI sector has made significant contributions to employment generation and also to rural industrialization. This sector is ideally suited to build on the strength of our traditional skills and knowledge, by infusion of technologies, capital and innovative marketing practices.

**GOVERNMENT POLICY IN PROMOTION OF MSMEs**

According to Odisha MSME Development Policy, 2009, the Government has given top priority on the following areas of MSMEs in the state.

- The policy lays emphasis on addressing the infrastructural needs of MSMEs on priority. There is provision for reservation of minimum 20% of land in all industrial estates, industrial parks, industrial corridors and land banks for MSMEs.

- This policy has emphasized on constitution of a credit monitoring group to monitor and facilitate the flow of institutional credit to MSMEs. Launching of “Orissa MSME Venture Capital Scheme” will stimulate promotion of new entrepreneurs, technologies and innovations.

- To boost forward linkage, State Government will ensure procurement of goods and services by the government departments and agencies from MSMEs located within the State via rate contract system.

- Setting up of specialized / focused industrial area / park for MSMEs.

- To promote entrepreneurial spirit amongst the educated youth.

- Enhance competitiveness of MSMEs through clusterisation.

- Convergence of schemes and resources.

- Sector specific Ancillary and Downstream industrial parks shall be set up by IDCO preferably in association with mother plants.

- Commercial banks and financial institutions shall be encouraged to set up dedicated branches for MSMEs to provide business loan at concessional industrial rate.

- The District Industrial Centre (DIC) was set up at district level to provide necessary support services to the MSMEs for their growth and development.

**CONCLUSION:**

The present study revealed that there is a continuous growth of number of MSME units. The growth story of these sectors enhances production, employment and exports of the state as well as in our country. According to Economic Survey of Odisha, 2011-12, the anticipated growth rate of Odisha is estimated at 7.18% as against all India anticipated growth of 6.9% in
2011-12. The State Odisha inherent to its location, natural resources has tremendous potentialities to create ample opportunities in small businesses in various sectors. Entrepreneurship development is considered as a key factor to fight against unemployment, poverty and achieve overall socio-economic growth in our state. Last but not the least, growth rate of MSMEs is very good and healthy sign towards progress and prosperity of Odisha.

Graph-01 showing number of MSMEs in Odisha.

![Graph showing number of MSMEs in Odisha](image)

**Source:** Economic Survey, Govt. of Odisha, 2011-12

Graph-02 showing product wise MSMEs in Odisha.

![Graph showing product wise MSMEs in Odisha](image)

**Source:** Directorate of Industries, Odisha - 2011.
Graph-3 showing Employment Generation by MSMEs Sector in Odisha.

Source: Economic Survey, Odisha, 2011-12

Graph-04 showing export growth in MSMEs

Source: Economic Survey, Odisha 2011-12

Graph-04 showing export growth in MSMEs

Source: Economic Survey, Odisha 2011-12
References:

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