



Re-orienting Micro, Small and Medium Enterprise for Economic development of Jharkhand

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Abstract:

The contribution of the Micro, Small and Medium Enterprises (MSME's) to the economic growth of a nation is well recognized. In developing countries like India, the contribution of MSME's towards employment generation is significant because they tend to use more labour-intensive production processes than large enterprises, boosting employment and leading to more equitable income distribution and provide livelihood opportunities through simple, value adding processing activities also. This research paper advocates that MSME plays an important role in the development of country by creating employment for rural and urban growing labour force, providing desirable sustainability and innovation in the economy as a whole. In addition to that, a large number of people rely on the small and medium enterprises directly or indirectly. In fact, it can be said that MSMEs are different from large scale enterprises in three main aspects: uncertainty, innovation and evolution.

Keywords: *Employment generation, livelihood creation, Industrial development, Equitable wealth distribution*

1. Background of Study

The quest of economic development has been a major goal of many developing nations of the world. Developing countries are confronted with several problems such as high rate of poverty and unemployment which have continued to hinder the attainment of socio-economic development. For any nation to attain development, industrialization, gainful and meaningful employment are important indices used as a measurement of economic development. This is often depicted by income per capital, equitable distribution of income, the welfare and quality of life enjoyed by the citizen of that nation. Micro, Small and Medium Scale Enterprise (MSME) has proved to be a major tool adopted by the developed nations to attain socio- economic development.

In recent time, small scale industrial sector is considered to be the backbone of modern-day economy. Historical facts show that prior to the late 19th century, cottage industries, mostly small and medium scale businesses controlled the economy of Asia. The Industrial Revolution changed the status quo and introduced mass production. The twin oil shocks during the 1970s undermined the mass production model, which triggered the unexpected reappraisal of the role and importance of micro, small and medium sized enterprises in the global economy. In India, the introduction of MSME can be traced back to the prior independence, Micro, Small and Medium scale Enterprise was considered an all-time necessity at the beginning; which has gained prominence today and is expected to increase its importance in the future.

MSME is known as Micro, Small, and Medium Enterprises. Following the 2006 Micro, Small, and Medium Enterprises Development (MSMED) Act, the enterprises are classified into two segments.

- Manufacturing Enterprises – Enterprises that are engaged in the production or manufacturing of goods in any industry.

- Service Enterprises – Enterprises that are engaged in providing or rendering services

On 13th May 2020, the Union Cabinet of India led by Finance Minister Nirmala Sitharaman had approved the modification in MSMEs' classification criteria from “investment in plant and machinery” to “annual turnover.” She also added the additional principle of turnover along with the investment.

Table 1: Revised MSME Classification

Composite Criteria: Investment and Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing and Services	Investment < Rs 1 Cr And Turnover < Rs 5 Cr	Investment < Rs 10 Cr And Turnover < Rs 50 Cr	Investment < Rs 20 Cr And Turnover < Rs 100 Cr

2. Objective of study

1. To study the status of MSME in Jharkhand.
2. To study the role of MSME for employment generation in the state.
3. To study efficacy of MSME for poverty alleviation the state.
4. To study importance of MSME for equitable development of society.

3. Literature review

Export-Import Bank of India, 2012 studied and documented the current situation of MSMEs and support systems setup for them in India along with select countries of Europe, Asia, Latin America etc. It studies MSMEs in the Indian as well as global context. It explains the evolution of Indian MSME policies over time. During 1948-1990 the objective was to increase employment opportunities and equitable distribution of national income, during 1991-1999 it was to make the MSMEs more competitive in the face of liberalisation and 1999 onwards the objective has been development and promotion of the sector by addressing challenges relating to credit, infrastructure, marketing and technology.

Ministry of Micro, Small and Medium enterprises, 2013 published the Inter-Ministerial Committee for Accelerating Manufacturing in MSMEs' paper reporting slowdown in the overall growth of MSMEs in recent years, especially post 2009. It highlighted the significance of MSMEs, changing trends in employment growth in this sector and addressed concerns regarding establishing an enterprise and running it successfully. It also recommended support systems for encouraging start-ups, doing and expanding business and ease of closure and exit and also drew light on the need to do so. It also suggested changes in labour laws and gives product specific recommendations.

Abdul Naser.V, 2013 critically evaluated the contributions made by the micro, small and medium enterprises in the balanced growth of the Indian economy. The study says that since 55% of the total enterprises operate in the rural areas, they promote inclusive growth and regional equity. They play a very important role in employment generation and contribute a commendable portion to the GDP, industrial production and export of the country. The paper also highlights the challenges faced by the sector and its need for structural support.

Srinivas K T, 2013 studied the performance of micro, small and medium enterprises, their contribution in India's economic growth, identified the number of enterprises, employment in MSMEs and concluded that MSMEs play a significant role in inclusive growth of Indian economy.

4. Methodology

This study majorly focused on micro, small and medium enterprises located in industrial areas of East Singhbhum and West Singhbhum district of Jharkhand. Various manufacturers, service providers, start-ups from the food industry, IT industry and textile manufacturing industry were interviewed as a part of the study.

The research began by gathering background information the sector which was followed by deciding the research question and hypothesis. Two types of research methods most commonly used for data collection are as follows: quantitative and qualitative methods. Both primary and secondary data was collected for the study. Secondary data was collected from specific reports, articles and other internet sources.

5. MSME Sector in Jharkhand

The Jharkhand state which was carved out of the former Bihar State has put in place policies and established Enterprise and Economic Development Agencies to encourage promote and coordinate investment activities in the State with a view to stimulating economic growth. One of such developmental strategies is the industrial development and expansion of Micro Small and Medium Scale Enterprises (MSMEs). Past and the present governments of Jharkhand State have emphasized the contributions of internal developed economy of the State through the encouragement of MSMEs.

Nevertheless, despite the efforts and contributions of past and present government towards promoting MSMEs in Jharkhand, the contribution of this sector to the economy still remains relatively small in terms of its impact on Gross Domestic Product (GDP), unemployment and poverty reduction. The rate of unemployment in this state is still high and majority of the population still live-in poverty. While collecting primary information by the researcher several respondents among others attributed the lack of credit as one the major constraint to the realization of the benefits of MSME. **In this study in the light of the above, we created some hypothesis to test the significance of impact of MSME on societal and economic development.** Before the presentation of selected hypothesis and their analysis it is reasonable to show a brief glimpse of MSME in Jharkhand.

Table 2: Status of MSME in Jharkhand

Year	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
No of units registered	940	1051	669	690	939	4554	3592	3450
Growth rate (%)	NA	11.81	-36.35	3.14	36.09	384.98	-21.12	-3.95
% of share of total MSME	0.54	0.54	0.31	0.29	0.33	1.41	0.99	0.81

Source: - The State/UT Commissionerates/Directorates of Industries & MSME-Development Institutes, O/o DC (MSME), M/o MSME

THE MSME SECTOR IN THE STATE As per Fourth all India Census of Micro, Small and Medium Enterprises (2006- 07) there were 6.75 Lakh MSMEs working in the State of Jharkhand in which 13 Lakh persons were employed. Total Number of MSMEs registered under EM PartII/ UAM in the last six years in Jharkhand are as follows:

Table 3: MSME Formation

S. No.	Year	No. of EM Part – II / UAM filed by MSMEs			
		Micro	Small	Medium	Total
1	2011 – 12	889	48	02	939
2	2012 – 13	4432	120	02	4554
3	2013 – 14	3521	70	01	3592
4	2014 - 15	3379	69	02	3450
5	2015 - 16	23025	638	32	23695
6	2016 - 17	45483	1919	60	47462

Source: <http://www.msmediranchi.nic.in/Report/APR5.pdf>

6. Intervention of Small and Medium Scale Enterprises on Poverty Alleviation and Employment Generation in Jharkhand State

Poverty and unemployment have been a major problem for most developing countries across the world. Poverty as a multifarious phenomenon has weighed down the world in general and developing country like India in particular over the years. It is often described as a condition wherein people are unable to satisfy their basic needs of food, clothing, and shelter. In a fairly broad perspective, poverty is characterized by deprivation, social inferiority, isolation, physical weakness, vulnerability (high risk and low capacity to cope), powerlessness and humiliation. This is as a result of majority of the state citizens depends for survival on agriculture and vegetable cultivation.

Other reflecting variables of poverty in State are increase in illness, geographical isolation in some areas, as a result of bad road network and political disempowerment. Consequently, high level of poverty in the State has forced an increasing number of the citizen into informal trading/commercial activities.

On the other hand, the widespread problem of unemployment created by the inability of working age people to secure a job has greatly overwhelmed the State economy. Recently the State Governor, grieve over the rising rate of unemployment and its impact on the economy. In a recent report, we find that Micro, Small and Medium Enterprises addressing the problem of unemployment in the State, the State Governor promised to give support to the growth of Micro, Small and Medium Scale Enterprises (MSMEs) in the State in order to fight and banish poverty and unemployment.

Null Hypotheses created to identify the significant effects of Micro, Small and Medium Scale Enterprises on poverty reduction, employment generation and improvement in the standard of living in Jharkhand State. Data for this study has analysed by using statistical tool by the researcher as well as Statistical Package for Social Sciences (SPSS) and Chi-square at 0.05 level of significance was used to test the hypotheses.

Null Hypothesis (H₀)-1 There is no significant impact of growth in Micro, Small and Medium Enterprises to eradicate poverty in Jharkhand

Alternative Hypothesis (H₁)-1 There is significant impact of growth in Micro, Small and Medium Enterprises to eradicate poverty in Jharkhand

Table 4: Growth in MSME in East and West Singhbhum

Year	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	Total
East Singhbhum	33	41	48	06	23	07	158
West Singhbhum	17	20	09	40	00	00	86
Total	50	61	57	46	23	07	244

Source: Office of DIC East and West Singhbhum.

The above hypothesis can be analysed through the following data set, and the researcher has decided to use a well-known statistical tool Chi-square test for the same purpose:

Table 5: Respondents views regarding poverty elimination through MSME

Data for Poverty Reduction				
	Observed Value			
Sector	Agree	Disagree	Can't say	Total
Micro	95	50	19	164
Small	60	42	12	114
Medium	12	13	3	28
Total	167	105	34	306

Source: Primary information

The table values of χ^2 for 4 degrees of freedom at 5 percent level of significance is 9.488. The calculated value of χ^2 is much smaller than the table value and hence the result of the study does support the null hypothesis and rejects the alternative hypothesis. We can conclude that **there is no significant impact of growth in Micro, Small and Medium Enterprises to eradicate poverty in Jharkhand.**

7. Analysis of employment generation through MSME sector

Research shows Employment distributed is about 595 lakh persons in over 261 lakh enterprises throughout the country. There are over 6000 products ranging from tradition to high-tech items, which are being manufactured by MSMEs in India. It is well known that the MSME provide good opportunities for both self-employment and wage employment. Further, this sector has consistently registered a higher growth rate than the rest of the industrial sector.

It can be said that growth and development of MSMEs is vital for healthy growth of our economy. **The main objectives behind creating MSMEs are the creation of job opportunities increase standard of living, regional balance, mobilization of local skills and capital etc.** It has contributed most significantly for the development and promotion of first-generation enterprises. The following table verifies the increase of employment opportunities because of MSME in India:

Table 6: Distribution of MSME employment

Sector /Area	Micro	Small	Medium	Total working enterprises (in lakh)	Employment (in lakh)
Rural	6.87	0.19	0.01	7.07(45)	36.82(39.55)
Urban	7.98	0.57	0.02	8.57(55)	56.27(60.45)
All	14.85	0.76	0.03	15.64(100)	93.09(100)

Source: Annual report of MSME 2014-15.

The above table shows sector wise total working enterprises and employment in rural and urban areas of nation. The above data table inspired to analyse the employment generation capability of MSME for the Jharkhand state. Following hypothesis is created and tested the information gathered from the respondents for the same purpose. The statistical tool F – test and Chi- square has been selected for analysis at 5 % level of significance.

Null Hypothesis (H₀)-2 Micro, Small and Medium Enterprises have no significant impact on employment generation in Jharkhand

Alternative Hypothesis (H₁) 2 -Micro, Small and Medium Enterprises have a significant impact on employment generation in Jharkhand

Table 7: Employment status in East and West Singhbhum by means of MSME

Year	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
East Singhbhum	305	566	573	059	378	55
West Singhbhum	167	218	062	744	00	00
Total	472	784	635	803	378	55

Source: Office of DIC East and West Singhbhum

Now we test the same above hypothesis on the basis of data collected from respondents with the help of Chi square statistical tool. The data and further calculations are as below:

Table 8: Respondents view regarding employment generation by MSME

Employment Generation				
Observed Value				
Sector	Agree	Disagree	Can't say	Total
Micro	110	30	24	164
Small	70	30	14	114
Medium	20	5	3	28
Total	200	65	41	306

Source: Primary information

The chi square statistic is 3.15188 the p – value 0.532655

The result is not significant at $p < 0.50$

The table values of χ^2 for 4 degrees of freedom at 5 percent level of significance is 9.488. The calculated value of χ^2 is much smaller than the table value and hence the result of the study do support the null hypothesis and rejects the alternative hypothesis. We can conclude that **Micro, Small and Medium Enterprises have no significant impact on employment generation in Jharkhand**. Now it is clear that the government need to juggle around with the development agenda for MSME so that this sector can create more and more opportunities for employment generation thereby get success in elimination of poverty.

8. End Point

Despite being a catalyst to the economic development and being beneficial to the economy of the Jharkhand in more than one way, MSMEs still face numerous hindrances that are obstructing the growth of the segment. The primary problem faced by the sector is access to funds due to its high-risk profile. Further, there is a huge demand-supply gap and financial institutions need to exploit this opportunity and offer credit to the MSME segment.

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