

## Research Paper



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## PROBLEMS AND PROSPECTS OF MICRO, SMALL AND MEDIUM ENTERPRISES IN JAMMU & KASHMIR

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### ABSTRACT

*Small scale industries have been considered as the engine of economic growth and promotion of equitable development. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the small scale industry (SSI) sector is much higher than that of the large enterprises. The role of small industries in the economic and social development of the country is well established. The sector is a nursery of entrepreneurship, often driven by individual creativity and innovation. MSMEs are providing immediate large scale employment, with lower investments and prove to be a second largest manpower employer, after agriculture and occupy a position of prominence in Indian economy. But in Jammu and Kashmir Lakhs of unemployed educated youth are suffering there is no way of providing employment to them. If we setup MSMEs in great numbers in the state then it will definitely reduce unemployment and increases the GDP of state. But despite of the fact that SSIs helps in providing employment to the people, it has been seen that the working conditions of this sector is in a worse condition. Still there is lot of problems which comes in the way of development of this sector. The present paper is an attempt to find out these challenges which hampers the growth and development of this sector.*

**KEYWORDS:** *Micro, Small and Medium Enterprises, Employment, Problems, Jammu and Kashmir.*

### INTRODUCTION

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. It has been accepted as the engine of economic growth for promoting equitable development and a major contributor to the Gross National Product (GNP) after services sector in India. The role of micro, small and medium enterprises (MSMEs) in the economic and social development of the country is well established. This sector is a nursery of entrepreneurship, often driven by individual creativity and innovation. It contributes 8 per cent to the country's GDP, 45 per cent to the manufactured output and 40 per cent to its exports. It provides employment to about 60 million persons

through 26 million enterprises. It is the backbone of Indian economy. The contribution of this sector towards the manufacturing output, employment and exports of the country is quite significant. It is an indispensable source of creating jobs, entrepreneurial spirit and innovation in the country. This ultimately fosters competitiveness and employment in the adjoining local society. The labour to capital ratio in MSMEs and the overall growth in this sector is much higher than in the large industries. Moreover, SSIs are better dispersed, and are the second largest employer of human resources after the agriculture sector (Economic Survey, 2011). Prior to the enactment of MSME Development Act 2006, which has come in effect from 2<sup>nd</sup> October 2006, this



sector was known as Small Scale Industries (SSIs). Under this Act, the ministry of agro and rural industries and the ministry of small scale industries were merged into a single ministry, the ministry micro, small and medium enterprises. Enterprises have been categorized broadly into two categories (I) manufacturing and (ii) rendering of services. It defines medium enterprises for the first time and seeks to integrate the three tiers of these enterprises, namely, micro, small and medium.

- **Manufacturing enterprises:** Micro Enterprises- investment upto Rs 25 lakh. Small enterprises: - investment above Rs 25 lakh and upto Rs 5 crore. Medium enterprises: - investment above Rs 5 crore and upto Rs 10 crore.
- **Service Enterprises:** Micro enterprises- investment upto Rs 10 lakh. Small enterprises: - investment above Rs 10 lakh and upto Rs 2 crore. Medium enterprises: - investment above Rs 2 crore and upto Rs 5 crore.

Performance of Micro, Small & Medium Enterprises (MSME) is assessed by conduct of periodic All India Census of the Sector. The latest census conducted was Fourth All India Census of MSME. The Census was conducted with reference year 2006- 07, wherein the data was collected till 2009 and results published in 2011-12.

### OBJECTIVES OF THE STUDY

- 1) To study the present position of MSMEs in J&K.
- 2) To study the Performance and future prospect of this sector.
- 3) To study the Key challenges faced by entrepreneurs in setting up MSMEs.

### METHODOLOGY AND DATA SOURCES

The study is largely based on the secondary sources which include both qualitative and quantitative methods. The secondary data related to problems, prospects and challenges of SSI in Jammu and Kashmir will be compiled from the official records of District industries centres, Directorate of industries and Commerce J & K Government, various issues of Digest of Statistics, Economic Review, Economic Survey, journals, articles, Survey of Planning and Development Department, and various reports of Directorate of Industries and Commerce government of J&K, etc.

### SIGNIFICANCE OF THE STUDY

MSMEs not only contribute in the national income but it also helps in the absorption of excessive

population of our country. This sector provides a high rate of employment opportunities to the people. But there are some problems arising in setting small scale industries. It becomes significant to study the problems of these industries. The reason for choosing Jammu and Kashmir is that this area is regarded as the industrially backward area and apparently there are a huge number of labour forces available here. Another reason can we make out is that the large number of population of the state is illiterate and small scale sector is the only sector which can be able to absorb both skilled and unskilled labour. Unemployment is a major barrier in the way of economic development of country and the state of Jammu and Kashmir is also facing this problem. It's only because of the backwardness of this state in industrial setup. The previous studies concentrated on the performance and workers' participation in these industries. But there is an absence of good inputs and lack of comprehensive and analytical study in this area. Keeping in view the above facts, I have chosen this topic.

### REVIEW OF LITERATURE

In order to gain background knowledge and to identify the problem precisely, it seems logical to present a brief review of the available literature relating directly or indirectly to the field under study.

**Mali (1998)** observed that small and medium enterprises (SMEs) and micro enterprises have to face increasing competition in the present scenario of globalization, they have to specifically improve themselves in the fields of management, marketing, product diversification, infrastructural development, technological up gradation. Moreover, new small and medium enterprises may have to move from slow growth area to the high growth area and they have to form strategic alliance with entrepreneurs of neighboring countries. Data bank on industries to guide the prospective entrepreneurs including investors from abroad is also needed.

**Singh R (2012)** analyzed the performance of Small scale industry in India and focused on policy changes which have opened new opportunities for this sector. Their study concluded that SSI sector has made good progress in terms of number of SSI units, production & employment levels. The study recommended the emergence of technology development and strengthening of financial infrastructure to boost SSI and to achieve growth target.

**Wong (2005)** reveals that devising, monitoring and implementation of master plan is of immense importance

especially when it comes to entrepreneurial growth. SME master plan is aimed at the integration of the programmes run by the public and private bodies that were providing assistance to small and medium enterprises. The SME master plan, later referred to as Enterprise Development Plan (EDP) is a blue print for development of small Enterprises to achieve their respective organizational goals and objectives.

**Ramraj, P. (2010)** reported that on an average, SMEs with large corporate customers carry receivables valued at 80 days of sales on their balance sheet: 15% of such SMEs carry receivables of more than 120 days. This has a significant impact on the financial position of SMEs, strains their balance sheets significantly and vitiates financial ratios. CRISIL estimates that timely payments by large corporate in line with the provisions of the MSMED Act will help SMEs reduce interest costs, and improve profitability by about 15 per cent. This will have a critical bearing on the long-term health and sustainability of India's SME sector.

**Sonia, Kansai R. (2009)** studied the effects of globalization on Micro, Small and Medium Enterprises (MSMEs) during pre and post liberalization from 1973-74 to 2008-09. They used four economic parameters namely number of units, production, employment and export and interpreted study results based on Annual Average Growth Rate (AAGR) calculation. AAGR in pre liberalization period (1973-74 to 1989-90) was higher in all selected parameters than that of post liberalization period (1991-92 to 2007-08). They concluded that MSMEs failed to put up an impressive performance in post reform era.

**Ravi S. (2009)** has observed that policy recommendation of MSME development act of 2006 has not been able to resolve some of the ongoing debates in this sector. Specific policies that are aimed at the MSME sector have limited impact on the growth of this sector, whereas more general development policies such as expenditure on infrastructure and access to finance have significantly positive impact on growth of the MSME sector across states in India over the last 15 years. It has been suggested that perhaps the government should play a facilitator role and improve access to finance by encouraging more banks and other financial institutions to enter the local market, instead of becoming an active player itself.

**Ghatak S. (2009)** has discussed about the policy environment for promoting MSME changed from protectionism during Pre-1990 to export orientation during Post 1990's. Key constraints affecting MSMEs

includes access to credit, technology and red tapism. These key issues should be eliminated to make MSMEs perform better.

**Chandraiah M. (2013)** focused on economic policy introduced by government of India in 1991 that gave thrust towards Globalization process. Globalization in India was adopted to integrate the economy of the country with world economy. The policy shift at the behest of IMF and World Bank has led to Unequal competition between Multinational companies and small Indian enterprises. As Small sector is a vital constituent of overall industrial sector of any country Particularly India there is need promote this sector.

### **MSMEs in Jammu and Kashmir**

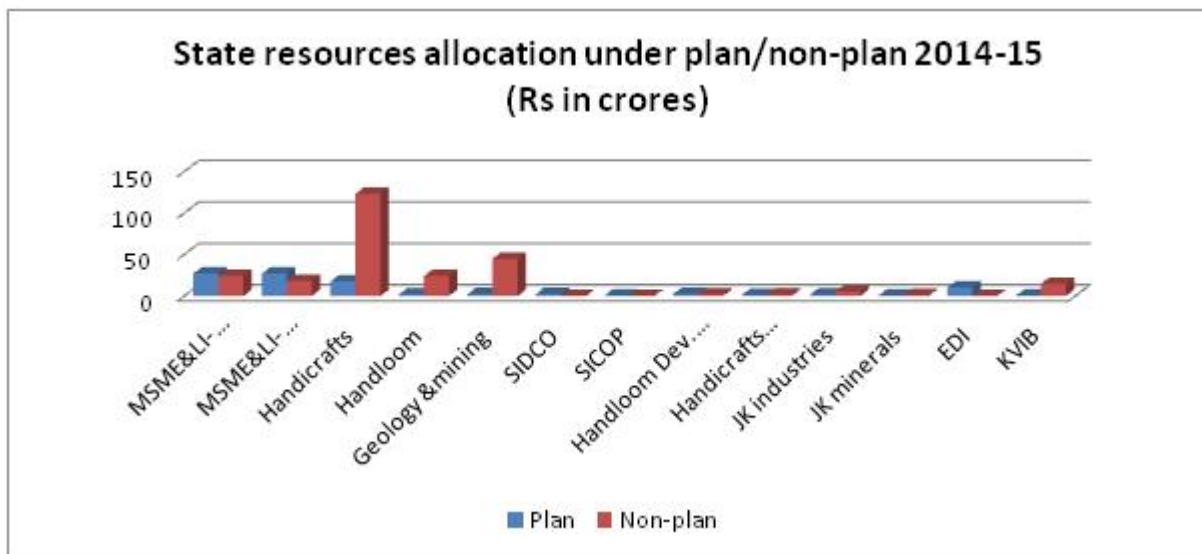
MSMEs have been declared as the main vehicle for accelerating economic activity in all the states of India. Unfortunately, J&K has not been able to attract investments in industries and remained as an industrially backward state. As per census conducted in 1972-73, there were 9,614 persons employed in registered SSIs of Jammu and Kashmir and 16,53,178 persons were working in this sector in India. However, in second, third and fourth census their number rose to 40,655, 50,643 and 90,158 at the state level while at national level 36,65,810, 61,63,479 and 93,09,486 persons were employed in SSIs/MSMEs in the corresponding censuses. As a result of various policy measures taken from time to time, there has been marked growth in the creation of numbers of enterprises in the state. According to third census results, the growth rate of employment in Jammu and Kashmir was 24.56 percent and at the national level the growth rate was 68.13 percent. In ending Nov., 2012 the total number of permanently registered MSMEs are 54716, generating 258030 employment opportunities. The state does not have a strong industrial base. Like all other states J&K has a high rate of unemployment particularly among the educated youth. Almost 6 lakh people are unemployed in the state. The problem has been further accentuated due to the fact that avenues for private employment are restricted to almost nil. This causes a strain on the resources of the state and hampers developmental activities. The State of J&K is less attractive for investment due to political instability and geographical conditions. With the government's support in the form of loans and incentives to set up industrial units, their number increased but their growth and performance is not encouraging. The slow growth of MSMEs can be attributed to various factors. The climate of armed militancy in Kashmir during the two decade has been a major factor. Poor industrial

infrastructure along with the poor investment climate has left the industrial sector in its infant stage. For speedy growth of Small Scale Industrial sector in the state, the Government has brought about simplification in the registration procedure. One District Industries Centre has been set up in each district of the state. The primary objective of the District Industries Centre is to provide all services to the entrepreneurs under one roof. The District Industries Centre is also arranging required Credit facilities and the implementing agencies for the “Prime Minister Employment Generation programme” (PMEGP) for the educated unemployed youth. But still the industrial sector of the state is much deprived as

compared to other states. With a view to generate a lasting solution and overcoming the problem of educated unemployed youth, various schemes to provide fruitful self-employment opportunities, especially to the educated youth, were devised and launched by both central and state Govt. In spite of number of steps taken by government of India to promote industrialization in the state, we find J&K still lagging behind as compared to other parts of the country. Despite difficulties, there is a hope that the State will come out from the quagmire of industrial backwardness and the day is not far when the State will find place in the industrial map of India. An extra effort is needed to address this sector’s specific problem.

S.No	Sector	Plan	Non-plan
1	MSME&LI-Kashmir	27.36	24.25
2	MSME&LI-Jammu	27.19	18.09
3	Handicrafts	17.53	123.35
4	Handloom	2.27	24.17
5	Geology & mining	2.48	45.13
6	SIDCO	2.78	0
7	SICOP	0.75	0
8	Handloom Dev. Corporation	2.62	2.3
9	Handicrafts Corporation	1.13	1.75
10	JK industries	1.87	5.47
11	JK minerals	1	1.15
12	EDI	10.4	0
13	KVIB	0.54	14.57
	<b>Total</b>	<b>97.93</b>	<b>260.23</b>

Source: Economic survey 2014-15



**Figure 1: shows the resource allocation under plan/non plan 2014-15**

The above figure shows that there is both plan and non-plan expenditure in MSME sector. In Kashmir division there is 27.36 crore plan expenditure is allocated in the year 2014-15 and under non-plan an amount of

24.24 crore has been allocated. While in Jammu division the amount allocated under plan expenditure is 27.19 crore and under non-plan it is 18.09 crores. Non-plan resource allocation is highest in handicraft sector and

lowest in SIDCO, SICOP and EDI. On the other hand plan resource allocation is highest in MSME sector and lowest in KVIB.

<b>Table 2: Year-wise achievement under Small Scale Sector</b>			
<b>year</b>	<b>No of Units registered</b>	<b>Employment Generated</b>	<b>Investment (Rs in crores)</b>
<b>Up to 2008-09</b>	23350	94356	2058.87
<b>2009-10</b>	1188	7493	197.59
<b>2010-11</b>	915	5777	176.78
<b>2011-12</b>	1170	8842	408.77
<b>2012-13</b>	1028	6801	256.65
<b>2013-14</b>	918	6817	299.18
<b>2014-15(ending 11/2014)</b>	533	3642	134.54
<b>Total</b>	<b>29102</b>	<b>133728</b>	<b>3532.38</b>

Source: Economic survey 2014-15

The above table shows that there is a continuous fluctuation in no. of units registered, employment generated and investment. Highest no of units (1188) registered in year 2009-10 and the lowest (533) in 2014-15, while highest number of persons got employment in year 2011-12 that is 8842 persons and the lowest figure is 3641 in 2014-15. It can be seen from this table that there are some problems that's why the growth of this sector is continuously fluctuating which in turn hampers the growth and development process of the state.

### **Problems of MSMEs**

Every business activity is involved with some problems. These problems are also the major hindrances in the way of development of MSMEs. The Jammu & Kashmir State has suffered badly from disturbed condition prevailing in the state. The state has its varied and diversified geographic, agro-climatic and topographic features poses very peculiar and unique problems. The main problem is that of infrastructure followed by financial and raw material problems. The other problems which have important role in lack of proper industrialization in Jammu & Kashmir include:

#### ➤ **Lack of appropriate Education**

- The basic problem of this sector is the lack of knowledge about the establishment of business units they wish to start. Due to lack of proper education, entrepreneurs remain in dark about the development of new technology, new methods of production, marketing and other governmental support which will encourage them to flourish

#### ➤ **Low Risk-Bearing Capacity**

- There is a large population which is financially very sound and bear a competent financial ability to establish big business houses suitable

to conditions of state like Cold storage for fruits, juice and jam, paper etc. but do to the threat of loss they are not coming forward to establish such enterprises.

#### ➤ **Turmoil and lack of government attention.**

- Due to turmoil during last two and half decades in Jammu and Kashmir in general and Kashmir valley in particular is among major problems faced by the entrepreneurs in Jammu and Kashmir.

#### ➤ **Lack of skilled manpower for manufacturing, services and marketing.**

- There is a lack of competent managerial skill among the new entrepreneurs in Jammu and Kashmir; they are not well versed with the new and advanced managerial tactics required by the present business world

#### ➤ **Problems of storage, designing and product display.**

- This is also a major problem because no storage facilities are available for the products produced by small industries. There is also no provision for the designing and display of products.

#### ➤ **Non-availability of Raw Materials**

- The availability of required raw materials is another problem faced by the new entrepreneurs in Jammu and Kashmir while establishing their business ventures. There is a shortage or non-availability (for various products) of raw of materials which becomes major road block for entrepreneurs. The raw materials are imported from various parts of

country which leads to high cost of production and delayed production.

➤ **Inadequate infrastructure facilities, including power, water, roads, etc.**

- Suitable Infrastructure facility is not available for these industries. Problems of electricity, water and road networks are also act as hindrances in way of development of this sector.

These are the problems faced by Micro, Small and Medium enterprises in Jammu and Kashmir. In spite of various steps taken by government of India to promote industrialization in the state, it is still not up to the mark as compared to other parts of the country. The State of J&K is less attractive for investment due to political instability and geographical conditions. The geographical location of the state is such that the setting up of large industries with a large capital base is not feasible. Nevertheless, many small and medium-scale industries have come up both in the traditional and new areas in the state.

The Government of Jammu & Kashmir has requested central government for a special package of development of industries in the state on the lines for the North East Industrial Policy. The matter has been carefully considered by the central Government and it has been decided to provide the following package of incentives for the state of Jammu & Kashmir.

**Government panel to look into problems of MSMEs:**

The micro, small and medium enterprises constitute an important segment of the Indian economy in terms of their contribution to country's industrial production, exports, employment and creation of entrepreneurship base. The primary responsibility for the promotion and development of MSMEs lies with state Government. However, the government of India has always taken active interest in supplementing the efforts of the state governments. The future of MSMEs is of major policy concern given their strategic importance in any discussion of reshaping the industrial sector. This is more so in case of India, which has one of the longest histories of government support to the sector since independence compared to most developing countries. The government has formed a committee to look into the problems affecting the country's micro, small and medium enterprises. This has been done in view of the decision that all government entities must source 20 percent of their requirements from small-scale units from next year.

The government has formed a committee under the secretary MSME, which will review all the problems being faced by small-scale units and give its recommendations. From 1<sup>st</sup> April 2015 it is mandatory for all government departments to implement the public procurement policy by which 20 percent of all government and public unit procurements have to be from SSI units. Currently, though every ministry except defense is required to procure a minimum of 20 percent of annual value of goods and services from micro and small enterprises, many ministries are yet to come up with procurement plan

**Incentives by central Govt.**

- 100% excise duty exemption for a period of 10 years from the date of commencement of commercial production.
- Capital investment subsidy @ 15% of their investment in plant & machinery.
- interest subsidy of 3% on the working capital

**State Govt. also provide some incentives to industrial sector**

- land and power on concessional rates
- 75% subsidy on research and development
- Toll tax exemption
- VAT exemption

**CONCLUSION**

MSMEs have an important role to play in the development and it is one of the most important inputs in economic development. The small scale industrial sector in the state has an incredible and fantastic potential of absorbing thousands and thousands of unemployed educated youth. The state has made its approach to the industrial depiction of the country, however, there is still a need to go a long way to achieve industrialization in the state and magnitude required to take the state out of economic backwardness. There is an immense need to remove the different bottlenecks that are coming in the way of sustained industrial development in the state. Therefore time has come to take bold steps to improve the industrial environment of large scale investment, which calls for a pragmatic and long term result oriented policy initiative on the part of the government. Both state and central government should adopt such policies and programmes through which the small scale industrial sector in the state will be develop by leap and bounce as well as become able to reduce the level of unemployment in the state, which is the main concern now-a-days.

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