

Performance Of Micro, Small And Medium Enterprises In Karnataka

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ABSTRACT

Karnataka is the second richest and largest state in south India and known for ideal place for industries. The major industries are food processing units, engineering units, readymade garments manufacturing units, foundry units, automobile units, chemical plants, handicrafts units, etc. In addition, Karnataka has lineage industries like handicrafts and small-scale industries such as handicrafts, khadi and rural industries. Bengaluru's Peenya Industrial Area is one of the Asia's largest industrial areas and is home to many MSMEs. Karnataka has been focusing on economic and industrial development with a progressive outlook for changing needs over the years. MSMEs play an important role in economic growth by fostering entrepreneurship and generating large employment opportunities. MSMEs provide support to large firms as suppliers of input goods and services, thereby contributing to industrial development. Many programs and policies, incentives and concessions have been in place for promoting MSMEs. Some industries in the state have suffered losses due to lockdown and stagnant exports caused by the outbreak of the infectious virus Covid-19, two years ago. Some industries have disappeared. In the meantime, the state and central governments have provided some assistance. However, these industries still need time to reach their former level. In these backdrop, this paper made an attempt identify the performance of MSMEs in Karnataka in terms of number of units registered, investment and employment generation. And also concentrated to know the industrial policy and its strategies. The data has been collected from various secondary sources such as concern annual reports, journals, various working papers, departmental study and review reports, and previous studies. The statistical tools like AGR, CAGR, percentages have been adapted for analyzing and interpreting the collected data.

Keywords: Performance, MSMEs, Investment, Karnataka.

Introduction:

Karnataka is the home for more than 8.5 lakh Micro, Small and Medium Enterprises (MSMEs) and provided employment to over 55 lakh people. In Karnataka over the last 5 years, about Rs. 4 lakh crore has been invested and the state stands in 5th place in the country in industrial growth. MSMEs play an important role in economic growth by fostering entrepreneurship and generating large employment opportunities. MSMEs provide support to large firms as suppliers of input goods and services, thereby contributing to industrial development. Many programs and policies, incentives and concessions have been in place for promoting MSMEs. The state's industries today have suffered losses from lockdown and stagnant exports caused by the outbreak of the infectious virus Covid-19, two years ago. Some industries have disappeared. In the meantime, the state and central governments have provided some assistance. However, these industries still need time to reach their former level. MSMEs face many challenges that can be addressed through the following measures: Improving access to capital, Infusion of Equity Capital, Enhanced productivity through management practices, and improving Ease of Doing of Business. Recently, Government of India released draft MSME policy encompassing 8 action areas to overhaul the MSME sector. Karnataka is known as an ideal place for industries.

According to the state economic survey report 2022–23, Karnataka has 7.38 lakh micro, small, and medium-sized businesses registered on the Government of India Udyam web Portal. There are 2,426 medium industries,

27,355 small industries, and 7,08,929 micro industries. The MSMEs sector has employed 68.72 lakh people. Today there are more than 8.5 lakh Micro, Small and Medium Enterprises (MSMEs) in Karnataka which employ over 55 lakh people. The major industries are food processing units, engineering units, readymade garments manufacturing units, foundry units, automobile units, chemical plants, handicrafts units, etc. In addition, Karnataka has lineage industries like handicrafts and small-scale industries such as handicrafts, khadi and rural industries. Bengaluru's Peenya Industrial Area is one of the Asia's largest industrial areas and is home to many MSMEs. The products produced here are internationally renowned. Karnataka has been focusing on economic and industrial development with a progressive outlook for changing needs over the years.

In current globalization scenario, there are several challenges that small businesses face as they try to establish themselves and succeed in a competitive market. They require entrepreneurial skills, credit, technology adoption, quality production, and a competitive edge to stay ahead in the market. It involves using digital marketing, online platforms, and other digital resources to increase visibility, engagement, and customer base. Karnataka, the largest state in South India, has demonstrated strong growth over the years. According to the economic survey released on 5th March 2022, Karnataka's per capita Gross State Domestic Product of Rs 3.05 lakh, estimated for the financial year 2022, is the highest among the top five states. The state is generating 11% of all formal jobs in the country while contributing 8.7% to the national GDP in FY 22 and constituting less than 5% of the population.

The state of Karnataka is famous for its many vantages.

- Aerospace capital of India
- Apparel and Silk Hub of India
- Automobile Hub of India
- Bio tech capital of India
- Silicon Valley of the East

Invest Karnataka 2022 held on 2nd, 3rd and 4th of November 2022 at Bengaluru has been very successful in attracting huge investment. About 20,000 delegates have participated in this 3-day convention including delegations from Japan, Germany, France, Australia, South Korea and Netherlands. A total investment of Rs. 9,81,784 crore has flowed into the state from the Invest Karnataka Event. Out of this, 608 projects with a capital investment of Rs. 2,83,415 crore have already been approved in the State Level Clearance Committee meetings. MoU signed for 57 projects worth of Rs. 5,41,369 crore. In addition, Adani Group and Jindal Group have announced a total capital investment of Rs1,57,000 crore in the state. More than 90 percent of the contracted projects are implemented outside Bengaluru in Tire -2 cities.

The state of Karnataka has emerged as an attractive Investment Hub as a result of effective steps taken along with the Industrial Policy 2020-25 initiated. In the ranking list of "Ease of Doing Business" – SBRAP 2020 conducted by DPIIT, the state has topped in the national level overcoming from its 17th position held earlier. Karnataka Udyog Mitra that works under Directorate of Industries and Commerce has also achieved as the leading investment promotion agency in the national level.

Micro, Small enterprises – Cluster Development Programme (MSE-CDP):

11 Clusters implemented are located in Dharwad, Gulbarga, Vijaypur, Bidar, Belagavi, Bengaluru, Ramanagara, Uttara Kannada and Chitradurga. Cluster Development Programmes of GoI undertaken in the state up to November 2022 Rs.9810.93 lakhs worth 11 projects have been implemented and Rs.14980.00 lakhs have been approved.

Incentives and concessions to MSME units:

During the year 2022-23 in the MSMEs sector, a total of Rs.474.27 crores of allotment in the budget have been provided out of which Rs.262.67 crores are spent till the month of November 2022. Among this, Rs.187.81 Crores have been allotted to sanction investment promotion subsidy and other incentives, Rs.95.36 Crores spent so far. Rs.43.80 crores utilized for wage incentives, MDA etc. benefiting 17128 artisans of Khadi, Coir and Handicrafts sectors till 30th November 2022. Under SCP programmes, Rs.96.29 crores for 376 beneficiaries and under TSP programmes Rs.12.31 crores for 173 beneficiaries have been spent for providing subsidized industrial sites, soft seed subsidies etc. Financial Assistance provided to Micro, Small & Medium Industries till November 2022 Rs.9535.99 lakhs have been provided.

Industrial Policy 2020-2025:

The Karnataka Government announced Industrial policy 2020-2025 with effective from 13-08-2020 with the following objectives:-

1. To attract investments worth INR 5 lakh crore
2. To create employment opportunities for 20 lakh people
3. To reach third position in merchandise export in the next five years
4. To maintain an industrial growth rate of 10% per annum

5. To provide an enabling ecosystem for technology adoption and innovation

Strategies of the industrial policy 2020-2025:

The following are the important strategies of industrial policy 2020-2025:

- Sustainable, balanced and inclusive industrial growth.
- Enable Employment generation and increase labour market flexibility, regulatory labour reforms.
- Create strategic tie UPS for the emergence of Karnataka as the knowledge and R&D hub
- Focus on development and promotion of the MSME sector
- Facilitate availability of industrial land.
- Remote tier II and III cities of the state engines of economic growth.
- Place Karnataka in the forefront of India's international trade.
- Showcase Karnataka as the "Factory of the Future" industry 4.0.
- Engage with various stakeholders to develop sector specific skill development strategy.
- Attract private investment in development of integrated multi sectoral industrial parks and flatted factories.
- Create an environment to enhance ease of doing business in the state.
- Support R& D and Technology up gradation

Definition of MSMEs:

Micro, Small & Medium Enterprises (MSMEs) form an important and growing segment of Karnataka's industrial sector. As the definition of MSME is amended since 01/07/2020, under the amended Act, Micro, Small and Medium Enterprises (MSMEs) are classified based on two factors - investment and annual turnover as shown in Table 1:

Table 1: Classification of MSMEs		
Category	Manufacturing and Service	
	Investment on Plant & Machinery	Annual Turnover
Micro	Up to Rs. 1.00 Crore	Up to Rs. 5 Crore
Small	Up to Rs. 10.00 Crore	Up to Rs. 50 Crore
Medium	Up to Rs. 50 .00 Crore	Up to Rs. 250 Crore

Review of Literature:

D.L. Hebbar, (2016) in his study 'Growth and Problems of MSMEs in Karnataka with Special Reference to Uttar Kannada District' pointed out that, the performance of MSME is exceedingly well over the last decade. But keeping in view the various problems of MSME's, during the LPG era it is need of the hour to put emphasis on formation of attractive policies, operating environment an improvement of infrastructure, arranging cheap and easy finance, technology, raw materials, and timely training facilities to the entrepreneurs and workers of the MSME.

Jagadish SR & Munivenkatappa (2017) in their research article 'Growth and performance appraisal of MSME's in Karnataka: A qualitative study, A Qualitative Study' identified and recommended that, MSME's still are suffering from the deficiencies. The government of India and Karnataka are laying down the beneficial policy measures facilitating the growth of the MSME. The problems faced by the MSME are at institutional level, management level. The MSME's should work towards the better performance by understanding the GAPS and filling these GAPS.

Shivakami Rajan, Muralidharan P, & Hariharan (Ravi 2019) in their research work on 'Successful Women Entrepreneurial Business Performance Model in MSMEs of Karnataka' have recommended the following points. Women entrepreneurs in MSMEs sectors are required focused on the internal marketing competencies to increase their market share, making their internal marketing as core factor for sustainability. And become members of Marketing avenues and marketing platforms created by the M/o MSMEs for networking. Governmental sectors are required to make mandatory clauses to initiates purchases from MSME's women entrepreneurs as a part of their purchase procedures encouraging more women participation in governmental transaction. Women entrepreneurs are advised to form a network of customer-client relationship circles to create a business to business network Create and form an association of MSMEs and solicit approval by the governmental bodies as group to avail benefits on a larger scale and increase networking, referrals to improve their industrial relations.

R Sarala, & B.K. Tulasimala, (2023) in their study 'Growth And Performance Of MSMEs In Karnataka, Micro', they identified that despite its potential to enhance employment and investment levels, this sector is still grappling with several challenges, such as poor infrastructure development, business attraction difficulties, a shortage of markets for MSMEs' products, foreign competition, financial limitations, uneven sector distribution, policy changes, a shortage of skilled labour, and the impact of pandemic. To overcome these challenges, also recommended that the government has strongly emphasised enhancing infrastructure,

promoting innovation and entrepreneurship, supporting enterprises, encouraging research and development, and incentivising eco-friendly and energy-saving practices.

K. Ullas Kamath & Sidharth Pai, (2023) in their report on 'state of MSME in Karnataka, the challenges they face and strategies to promote their sustained growth' identified concluded that, Karnataka has been a torchbearer for many first initiatives such as IT/BT/Startups/EV it's time we do something radical and transformational for MSMEs sector. MSMEs faced challenges such as lack of finance, limited market access, high competition, and regulatory hurdles. Conflicts were resolved through arbitration, mediation, and conciliation, with MSMEs implementing suggestions aimed at improving competitiveness and growth. MSMEs played a significant role in creating jobs through expansion, diversification, and collaboration, while also contributing to the skilling of youth through training and development programs. MSMEs demonstrated resilience and adaptability, becoming critical components of many national economies. However, there is still much work to be done to ensure their continued success.

Objectives of the study:

The following are the objectives of the study:

1. To know the concept of MSMEs
2. To study the performance of MSMEs in Karnataka
3. To analyze the financial assistance to MSMEs in Karnataka
4. To give the suitable conclusions for findings.

Methodology:

The study is descriptive and analytical nature. The present study is based on secondary data which have been collected from various annual reports published by Ministry of Micro, Small and Medium Enterprises, journal papers, articles, and other sources related to MSMEs. The study is based on the time period from 2005-06 to 2012-2013 after the introduction of MSMED act, 2006. In the present study three variables (Number of working MSMEs' Employment and Investment in MSMEs) have been adapted to evaluate the growth and performance of MSMEs.

Data Analysis and Interpretation:

The data collected from various secondary sources for the period of 10 to 12 years recorded and analyzed to discover the pattern of the concern units registered, investment, and employment generation with the help of the statistical tools like growth rates, percentages and presented in the following tables and given interpretation. Findings are made from the interpretation and conclusion drawn based on the interpretation and findings.

Table: 2 Performance of Micro Small & Medium Industries (Units registered, Investment, & Employment) From 2010-11 to 2020-21

YEAR	MSME Units (Nos)	Growth (%)	Investment (Rs. in Lakhs)	Growth (%)	Employment (Nos)	Growth (%)
2010-11	18434	-----	120623	-----	111226	-----
2011-12	21021	14.03	159641	32.34	128387	15.43
2012-13	24206	15.15	216851	35.84	155551	21.16
2013-14	25966	7.27	285056	31.45	167347	7.58
2014-15	28742	10.69	279291	-2.02	175469	4.85
2015-16	25656	-10.74	494592	77.09	221706	26.35
2016-17	39170	52.67	1266414	156.05	508966	129.57
2017-18	48482	23.77	1158575	-8.52	440476	-13.46
2018-19	69278	42.89	1487698	28.41	582943	32.34
2019-20	97232	40.35	1859727	25.00	702325	20.48
2020-21*	80738	-16.96	296486	-84.05	651934	-7.18
Total	478925	-----	7624954	-----	3846330	-----
Average	43538.64	-----	693177.6	-----	349,666.4	-----
CAGR	15.91	-----	9.41	-----	19.34	-----

Source: Economic Survey Karnataka Note: * As Udyog Aadhar Portal is transformed into Udyam Registration, details of no. of registered units till November 2021 are mentioned above.

Interpretation: The above Table no: 2 reveals that the performance of MSMEs in Karnataka for the period of 2010-11 to 2020-21 in terms of units registered, investment pattern and employment generated by MSMEs. It can be observed from the above table that the total units registered for the period of 11 years is 4,78,925. For 11 years, compounded annual growth rate is recorded as 11.91. The trend of annual growth rate of units showing almost positively except in the year 2015-16 and 2020-21. Unfortunately, in the year 2015-16 Annual Growth Rate registered negatively as -10.74. Further in the 2020-21 also negative annual growth rate registered as -16.96, reason might be the total units taken up to November 2021. It can also be observed from the above table

that, the total investment for study period of 11 years as Rs.7624954 Lakhs. Its CAGR is showing as 9.41. The annual growth rates also almost good but in the year 2014-15 and 2017-18 registered negative growth rates. In the year 2020-21 units considered up to November only, therefore annual growth rate of investment in that year is negatively recorded as -84.05. But overall pattern of investment for 11 years study period is showing good. Another important parameter in that study is that employment generation. Almost all study period of 11 years showing positive growth rates registered in case of employment, except in the year 2017-18 that is -13.46. The Compounded Annual Growth Rate of employment generation is recorded as 19.34, it is a very good feature. For 11 years study period from 2010-11 to 2020-21 the total 3846330 employed by total 4,78,925 MSMEs units.

Table: 3 Financial Assistance provided to Micro Small & Medium Industries from 2015-16 to 2021-22

SL NO	YEAR	UNITS	Subsidy released to the units (Rs. in Lakhs)
1	2015-16	2297	8920.00
2	2016-17	1555	10575.00
3	2017-18	2344	11688.50
4	2018-19	2801	13754.04
5	2019-20	1001	11153.75
6	2020-21	735	9520.72
7	2021-22 (Up to Nov 21)	314	5645.16
	Total	11047	71257.17

Source: MSME Section, Industries & Commerce Department

Interpretation:

The above Table no: 3 discloses the details of financial assistance provided to MSMEs from the year 2015-16 to 2021-22. It is identified that, financial assistance up to November 2021 only. It is observed that, the total 11047 MSME units availed the subsidy benefit by the concern financial institutions from the year 2015-16 to 2020-21. Again it is also found out that total subsidy amount of Rs.71257.17 Lakhs provided to 11047 MSMEs Units. And it is also found out that, highest no of units 2801 recorded in the year 2018-19. In the same year the highest subsidy amount of Rs.13754.04 Lakhs provided to 2801 MSME Units. Subsequently the next highest amount of Rs.11688.50 Lakhs provided to 2344 MSME Units which were registered in the year 2017-18. Next followed the highest MSME Units recorded in the year 2016-17 i.e 1555 Units.

These 1555 units availed the total subsidy amount of Rs.10575.00 Lakhs. The number of units in the year 2015-16 recorded as 2297 and in the year 2016-17 the units recorded 1555. It is observed that the less number of units 1555 registered in the year 2016-17 comparatively in the year 2015-16 i.e 2297 units. Surprisingly, though there are less units in the year 2016-17 the highest subsidy amount of Rs.10575 Lakhs sanctioned for 1555 units comparatively in the year 2015-16 which is highest on of units 2297 and they got less subsidy amount of total Rs.8920.00 Lakhs. Again in the year 2021-22 (for 8 months period) for 314 MSME units the total sanctioned subsidy amount is Rs.5645.16 Lakhs. Another important feature is that only for 735 units in the year 2020-21 the total sanctioned subsidy amount is Rs. 9520.72 Lakhs, which is more compare to the year 2015-16.

Findings:

- From the table no 2 it is identified that the total number of units registered for 11 years study is 478925. It seems it is very good improvement.
- It is also found that the Compounded Annual Growth Rate of MSMEs for 11 years study period is significantly recorded as 15. 91.
- It is also found that another significant feature is that the CAGR of employment generated by MSMEs recorded is that 19.34.
- The total employment generated by total MSMEs is 3846330. It is remarkable development.
- The highest annual growth rate recorded in the year 2016-17, in MSME Units registration, investment and employment, 52.6, 156.06 and 129.57 respectively.
- From the table no 3 it is found that the highest subsidy amount of Rs.13754.04 Lakhs sanctioned in the year 2018-19 for 2801 MSME Units.
- It is also identified that, for 735 units in the year 2020-21, Rs.9520.75 Lakhs of subsidy amount sanctioned. Though that year is almost suffered due to COVID-19 MSME Units availed attractive subsidy amount.
- Overall performance of MSMEs in Karnataka is during the 11 years study period is almost extended.
- Another important feature is that the industrial policy 2020-25 announced by the government may useful to great extent to MSME sector in Karnataka.

Conclusion:

Karnataka is one of the most progressive and prosperous states in India, with a rich cultural heritage. It has a strong industrial sector and is home to some of India's leading IT companies. Karnataka has a strong

agricultural sector and is one of the largest producers of coffee, rice and tobacco in the country. The state is also known for its silk, gold and sandalwood exports. Karnataka is an important contributor to the Indian economy and plays a vital role in the country's overall development. Accelerating this sector requires more assistance and funding that can help MSMEs expand and take their business to the great extent. In Karnataka MSMEs are getting financial assistance from Non-Banking Finance Corporations like Kinara Capital and its Headquarters are located in Bengaluru. This paper concentrated to evaluate the investment activity and employment generated by MSMEs from the year 2010-11 to 2020-21. During the 11 years study period more number of MSME units registered and employment provided in a remarkable extent. But investment is not reached expected target. Recent policy initiatives and industrial policy 2020-25 may help MSME Sector to grow in to the expected level in future. The government should provide more incentives and also should provide more training and development programmes like entrepreneurship skill development. Again it is also required to monitor the financial institutions to work much more efficiently. Though overall performance of MSMEs is good, there is a need to consider about the more funding assistance.

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