



Role of Micro, Small and Medium Enterprises in Promoting Employment and Livelihood Opportunities: A Study of Uttarakhand, India

Divyanshu Panwar^{1*} • Pradeep Mamgain¹ • MC Sati²

¹Department of Business Management, HNB Garhwal University, Srinagar, Uttarakhand- 249161, India

²Department of Economics, HNB Garhwal University, Srinagar, Uttarakhand- 246174, India

*Corresponding Author Email id: divyanshupanwar24@gmail.com

Received: 27.02.2024; Revised: 03.03.2024; Accepted: 11.04.2024

©Society for Himalayan Action Research and Development

Abstract: Role of micro, small and medium enterprises (MSMEs) and similar type of other micro enterprises has been well established in promoting livelihood sustainability and employment opportunities. In the context of mountain area development, like Uttarakhand, the role of MSMEs in poverty eradication and extending employment opportunities with small amount of investment is self-evident. The findings of the present study indicate that MSMEs have registered significant growth in Uttarakhand. There is a positive correlation between investment, employment and income. In Uttarakhand, for socio-economic equity, eco-sustainability and women employment, micro, small and medium enterprises are instrumental in growth process.

Keywords: MSMEs • investment • employment • eco-sustainability • economic growth

Introduction

Job creation plays a major role in eliminating poverty and inequality in the masses. MSMEs play a critical role in developing an underdeveloped nation, like India, by providing a larger number of jobs for its large unemployed population. A supportive environment will also be required for the development of MSMEs for socio-economic growth, wherein the current situation of lack of expertise, weak channels, and poor-quality research in creative skills hurt the sector's performance (Rawat and Karmakar 2021). MSMEs play a major role in employment and opportunities generation. In India, a labour-intensive country, there is a large number of manufacturing industries, mostly in urban areas, whereas the number of MSMEs is almost equal in urban and rural areas, thereby having an overall very large number of firms near urban areas. By encouraging the initiative for the establishment of MSMEs in backward areas of the country, the regional imbalance can be reduced. After agriculture, MSMEs are

the second largest source of job creation in India (Venkataramanaiah and Suneetha 2019). MSMEs make a major contribution to the economy of India. Its contribution to job creation, poverty reduction, and exports is profound and remarkably significant (Sathish and Rajamohan 2020). In the present decade, MSMEs have grown into a prominent sector, in India. It helps to utilize its local resources more effectively and efficiently (Balkrishna et al 2022). Though the banks are now supportive of the flow of credit to the MSME sector, still many further initiatives and actions need to be taken to foster the even growth of MSMEs throughout the country (Mohapatra 2020). MSMEs contribute to the exports and gross domestic product (GDP) of the nation in a major way (Kannan and Sudalaimuthu 2014). The MSME sector has shown more progress than the industrial sector in providing employment, reduction in poverty, and development (Gade 2018). Poverty and the availability of cheap labour are one of the main reasons for the mushrooming growth in



the number of MSME units. The government incentives have been quite beneficial for the MSMEs to develop but still there are gaps to be addressed, which might be helpful if the support for conducting hands-on training programs, incubations, workshops, etc. to skill the manufacturing of quality products, and online marketing with efficacy is made accessible. The funding system needs to be revamped and changed with low-interest rates with ease of doing (Tambunan 2019). In India, 51 percent of MSMEs operate in rural areas and 49 percent in urban areas, which contribute 40- 50 percent to the exports. It has a 30 percent share of the GDP and employs 40 percent of the total population, of which 55 percent is urban and 45 percent is rural (Boateng et al 2019). The use of digital technology to communicate with suppliers and clients has reportedly shown a positive impact on the growth of these enterprises (Ndiaye et al 2018). Micro, small, and medium enterprises have been the backbone of the development and economic growth of a nation as compared to other industrial sectors. The socio-economic support of MSMEs has been far exceeding that of the industrial sector (Venkataramanaiah, and Suneetha 2019). In recent times the Indian government has also realized the importance of MSMEs and has put a huge emphasis on the MSMEs in its policy and promotion schemes (Uttarakhand Policies and Incentives). It is one of the major job creators and providers sector in the country with continuous growth. It helps in the eradication of poverty, inequality in the distribution of wealth, and infrastructure and economic development. In a labour-intensive country, like India, to provide jobs to its huge population, different methods need to be sought out. Even after getting independence, in 1947, the MSMEs sector did not get much attention from the central government or the state government. It took more than a half-century for the government to realize the potential of MSMEs in the development of the

country. In 2006, the Indian government passed the Micro, Small, and Medium Enterprise Development (MSMED) Act, which was a major reform for the MSME sector (MSMED Act, 2006). The Reserve Bank of India (RBI) owns the credit, as with time, it has improved the credit system for the MSME sector. The banks and non-banking financial corporations (NBFCs) joined hands to regulate the credit system and made it much easier for the MSME businesses by providing loans and lending with ease. It played a crucial role in the development of MSMEs across the nation. But still more efforts need to be done as the growth of MSMEs is not uniform across the nation and many states are lagging (Mohapatra 2020). Uttarakhand was part of Uttar Pradesh till 9th November 2000, on the day it was formed as the 27th state of India. Uttarakhand is in the northern part of India which shares its borders with Nepal, China, Uttar Pradesh, Himachal Pradesh, and Haryana. The state, having its capital in Dehradun, is divided into Kumaon and Garhwal regions, and further divided into 13 districts. is one of the fastest economically growing states in India with a total population of about 1 crore, with 30.23 percent urban and 69.77 percent rural population (Department of planning, state planning commission, government of Uttarakhand). The GSDP for 2020-21 was ₹2,43,012 crore, with an increase of 5 percent over 2019-20, and was 14.4 percent higher than the estimated value, and was projected to be ₹2,78,006 crore for 2021-22 (Uttarakhand Budget, 2020-21). Like most of the states of India, agriculture is the major sector of the livelihood and economy of Uttarakhand. Other sectors include tourism, hydropower, pharmaceuticals, automobiles, and some new initiatives in information technology (IT), and biotechnology. The service sector of Uttarakhand comprises mainly education, forces, hotelier and catering, transportation, IT, and banking. There are scattered and unorganized services also. In



2020, the Atma Nirbhar Bharat Abhiyaan relief package energized the MSME sector significantly. There have been changes, in MSMED Act, in the investment and turnover figures. For micro enterprises investment in machinery or equipment is changed, from less than ₹25 lakh to less than ₹1 crore; for small enterprises, from ₹ 0.25– 5 crore to ₹1- 10 crore, and for medium enterprises, from ₹5- 10 crore to ₹10- 50 crore. The turnover ranges of the MSMEs are up to ₹5 crore, for micro; ₹5- 50 crore, for small; and ₹50- 250 crore, for medium enterprises (Ministry of MSME, 2020). The MSMEs, in Uttarakhand, have the potential to survive, develop and flourish to serve the economy of the state. To improve their productivity and growth more focus needs to be on the management, efficiency, quality, and marketing of the product. To address these issues training in skilling, online marketing, management, and improving the quality of the products, and investments in machinery, infrastructure, and human resource development have to be examined, analysed, and implemented. Entrepreneurs need to be assisted with alternative funding at low-interest rates, marketing access, support while doing business, and risk management mechanisms. To beat the menace of unemployment the socio-economic potential of MSMEs in the Uttarakhand state needs to be realized, and geared up.

Methodology

This study focuses on analysing the growth pattern of Micro, Small, and Medium Enterprises (MSMEs) in Uttarakhand in terms of investment, number of units, and employment creation. The data collected spans a period of two decades, from 2000 to 2020, after the establishment of Uttarakhand as a separate state in India. The study relies on secondary data collected from various government and non-government sources, including the Annual Reports of MSMEs, the Economic Survey of India, the Economic

Survey of Uttarakhand, journals, magazines, newspapers, and other relevant publications. The data includes information on the number of new units established, investment made in these units, and employment generated. To analyze the growth pattern, the collected data is graphically presented using OriginPro8.5 software. Additionally, the compound average growth rate (CAGR) is calculated to assess the rate of growth, and the correlation coefficient is determined using SPSS 24 software to understand the relationship between investment, number of units, and employment.

Results and Discussion

The data presented in Figure 1(a), collected from the Directorate of Industries, Government of Uttarakhand, provides insights into the establishment of micro, small, and medium enterprises (MSMEs) in Uttarakhand from 2000 to 2020. The data reveals the number of new MSME units established each year, categorized by micro, small, and medium enterprises. Figure 1(a) shows that micro units constitute the majority of the new MSME units established in the state, while the number of small units is relatively small, and the number of medium units is significantly lower. The data demonstrates a significant growth in the establishment of new micro units between 2000 and 2007, reaching a peak of 2,667 units in 2006-2007. However, there was a sudden decline in the number of new units from 2007 to 2009, followed by a gradual increase until 2015. After a slight dip in 2015-2016, the number of new micro units continued to rise, reaching a peak of 3,371 units in 2017-2018, followed by a decreasing trend. Regarding small units, there was a notable increase in their establishment from 2007 to 2013, with a peak value of 386 units in 2009-2010. Another anomalous peak value of 424 units was observed in 2016-2017 from 2016 to 2020. In the case of medium units, no new entries were recorded until 2007. From 2007-2008, eight new medium units were established, which



increased to 30 in 2008-2009. The number of new medium units remained relatively stable until 2012-2013, with a peak value of 36 in 2011-2012. However, after a peak in 2016-2017, the number of new medium units declined during the observed period. Overall, the data highlights the growth and composition

of new MSME units in Uttarakhand over the years, with micro units dominating the sector. The trends in the establishment of small and medium units exhibit variations and fluctuations, indicating potential areas for further analysis and examination.

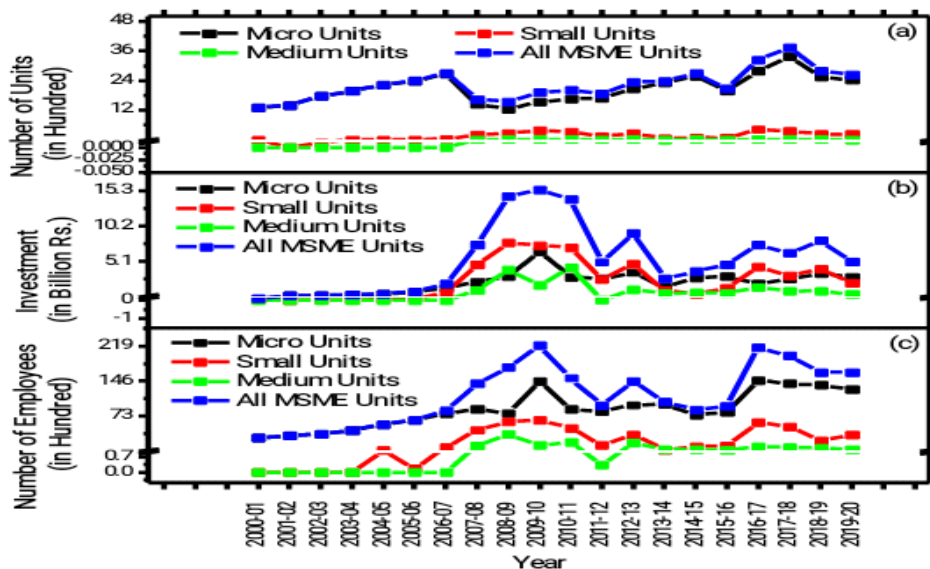


Fig. 1 Progress of MSME units in Uttarakhand

The dominance of new units among MSMEs, particularly micro-businesses, can be attributed to various factors. Micro businesses are relatively easier to establish and provide employment opportunities, thanks to their low initial investment requirements and minimal manpower needs. Additionally, the increased demand for micro products and services in the state contributes to their prevalence. From 2007 onwards, there has been significant growth in all sectors of micro, small, and medium businesses. This growth can be attributed to the implementation of the Micro, Small, and Medium Enterprises Development (MSMED) Act in 2006. The MSMED Act introduced easier pathways for entrepreneurs to establish MSME businesses, leading to a positive impact on their growth. Furthermore, the increased income and purchasing capacity of the people in the state has likely played a role in driving the growth of MSMEs. To

analyse the growth rate of MSME units after the implementation of the MSMED Act, the compound average growth rate (CAGR) was calculated for different sectors. The CAGR for micro units was found to be 3.9 percent, indicating a positive growth in their numbers. The small and medium-scale sectors exhibited even higher growth rates, with a CAGR of 15.6 percent and 15.3 percent, respectively. Considering all MSME units, the CAGR was calculated at 4.5 percent, highlighting a significant positive growth in the number of MSME units in Uttarakhand during the study period. According to Figure 1(b), which illustrates the yearly investment in the establishment of new micro, small, and medium units in Uttarakhand from 2000 to 2020, it is evident that the majority of investment was directed towards micro units during the initial years of 2000-2007. In contrast, there was minimal investment in small-scale units and no investment in



medium-scale units during this period. However, after the implementation of the MSMED Act in 2006, the average investment in the MSME sector experienced a significant increase. The highest investment was observed in micro units, with an investment of Rs. 65,174.21 Lakh in 2009-10. Small-scale units also received substantial investment, with the highest recorded investment of Rs. 77,780.99 Lakh in 2008-09. Medium-scale units received their highest investment of Rs. 41,503.83 Lakh in 2010-11. From 2007 to 2011, 2012-2013, and 2016-2019, investment in small-scale units dominated. On the other hand, micro units experienced the lowest investment of Rs. 13,324.32 Lakh in 2013-14, while small-scale units saw the lowest investment of Rs. 3,808.53 Lakh in 2014-15. The lowest investment for medium-scale units was observed at Rs. 7.1185 Lakh in 2011-12. The study period also recorded the lowest and highest investments in the MSME sector in Uttarakhand. The lowest investment was Rs. 25,919.46 Lakh in 2013-14, while the highest investment was Rs. 1,54,783.70 Lakh in 2009-10. The impact of the MSMED Act on investment trends in the MSME sector was assessed by calculating the compound average growth rate (CAGR). The CAGR for micro units was found to be 11.9 percent, indicating a significant positive growth in investment. Small-scale units had a CAGR of 7.8 percent, medium-scale units had a CAGR of 8.0 percent, and the overall MSME sector had a CAGR of 11.2 percent. These growth rates demonstrate the stimulated investment in MSME units during the study period in Uttarakhand. In Figure 1(c), the employment data for newly established micro, small, and medium units in Uttarakhand from the formation of the state until 2020 is presented. Micro units were found to dominate in terms of employment generation in the MSME sector during the study period. From 2000 to 2004, only micro units contributed to employment generation, while small and

medium units had no contribution. Between 2004 and 2007, micro units made the major contribution to employment, with marginal contributions from small units, and no contribution from medium-scale units. After the implementation of the MSMED Act, there was a gradual increase in the number of workers employed. A significant leap in employment generation was observed in the micro sector, reaching its highest at 14,602 workers in 2009-10. The small-scale sector had its highest employment at 6,377 workers in 2009-10, while the medium-scale sector reached its highest employment at 3,499 workers in 2008-09. In terms of overall MSME units, the highest employment was recorded at 22,085 workers in 2009-10. The CAGR analysis indicated positive growth rates in employment generation due to the MSMED Act. The micro sector had a CAGR of 8.5 percent, the small-scale sector had a CAGR of 10.7 percent, the medium-scale sector had a CAGR of 5.1 percent, and the total MSME sector had a CAGR of 8.7 percent. These growth rates highlight the positive impact of the MSMED Act on employment generation in the MSME sector in Uttarakhand. Figure 2 presents cumulative data on the number of MSME units established, investment input, and employment generation from 2000 to 2020. It is observed that there has been continuous growth in terms of the number of units, investment, and employment generation in the MSME sector throughout the study period. Micro units dominate in terms of numbers and employment generation (Figure 2(a, c)), while investment in small-scale units is the highest among all types of MSMEs (Figure 2(b)). The positive impact of the MSMED Act is evident in the growth of each sector, with a boost observed after its implementation in 2006. Pearson's correlation coefficient was calculated to assess the correlation between investment, number of units, and employment generated. The coefficients were found to be high, with values



close to 1, indicating a strong positive correlation between these variables in each sector of micro, small, medium, and collectively in all MSMEs.

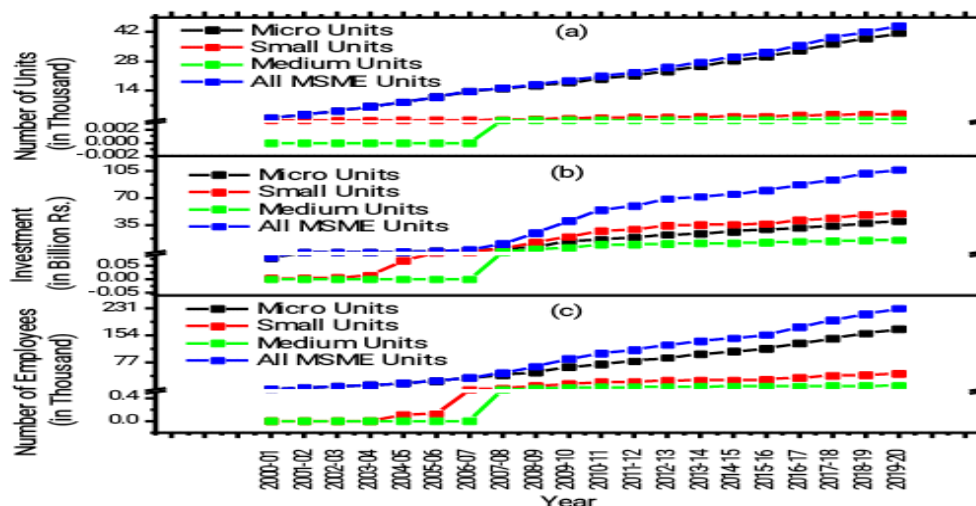


Fig. 2 Cumulative progress of MSME in Uttarakhand

Conclusion

In conclusion, the data presented by the Directorate of Industries, Government of Uttarakhand highlights the growth and composition of micro, small, and medium enterprises (MSMEs) in the state. Micro units dominate the sector, with a significant number of new units established over the years. The implementation of the Micro, Small, and Medium Enterprises Development (MSMED) Act in 2006 has played a crucial role in stimulating the growth of MSMEs, with positive impacts observed in terms of investment, employment generation, and overall growth. The data also reveal fluctuations in the establishment of small and medium units, indicating potential areas for further analysis. Overall, the findings underscore the importance of MSMEs in the economic landscape of Uttarakhand and the positive impact of supportive policies in promoting their growth and development.

References

Kannan A S and Sudalaimuthu S (2014), “Indian MSMEs: initiatives and financing

trends”, *Int J of Management*, 5 (10), pp. 58-70

Sathish A and Rajamohan S (2020), “Contribution of MSME in the Promotion of Entrepreneurship and Employment in India – A Comparison of Pre and Post Reform Period”, *Int J of Management (IJM)*, 11 (10), pp. 2073-2081.

Boateng K, Odem N and Nagaraju Y (2019). “The Contribution of MSMEs to the Growth of the Indian and Global Economy”, *International Journal of Multidisciplinary*, 4 (3), pp. 254-262.

Balkrishna A, Mishra S, Dabhade N R and Arya V (2022), “MSME Contribution to the Entrepreneurship, Employment, and Sustainable Societal Development in Kamrup, Assam, India”, *Journal of Humanities and Social Science*, 27 (8), pp. 44-50.

Gade S (20218), “MSMEs’ Role in Economic Growth – A Study on India’s Perspective”, *International Journal of Pure and Applied Mathematics*, 118 (18), pp. 1727-1741.

Department of Planning State Planning Commission Government of Uttarakhand, <https://spc.uk.gov.in/>



- Government of India, Ministry of Micro, Small and Medium Enterprises, MSME Development Act (2006), <https://samadhaan.msme.gov.in/WriteReadData/DocumentFile/MSMED2006act.pdf>
- Government of Uttarakhand (2022), Directorate of Economic Statistics: Uttarakhand budget analysis 2021-22
- Government of Uttarakhand, IBEF (2012), India Brand Equity Foundation. Archived (PDF).
- Venkataramanaiah M, Suneetha B (2019), “Performance Evaluation of MSMEs During Pre- and Post- Liberalisation Era”, *SEDME (Small Enterprises Development, Management & Extension Journal)*, 46(4), pp. 282–294.
- Mohapatra S (2020), “Regional Trends in Financing and Growth of Indian MSMEs”, *Intl Jof Manag and Hum* , 5 (3). 10-12.
- Ndiaye N, Razak L A, Nagayev R and Nag A (2018), “Demystifying Small and Medium Enterprises’ (SMEs) Performance in Emerging and Developing Economies”, *Borsa Istanbul Review*, 18 (4), pp. 269-281.
- Rawat A and Karmakar A (2021), “Role of MSMEs in Sustainable Development and Women Empowerment Through Employment Generation – A Study Of Uttarakhand”, *Elementary Education Online*, 20 (2), pp. 2709-2721.
- Tambunan T (2019). “Recent Evidence of the Development of Micro, Small and Medium Enterprises in Indonesia”, *Journal of Global Entrepreneurship Research*, 9 (18), pp. 1-15,