Micro, small and medium enterprises (MSME) and economic development of Odisha

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Introduction

Micro, small and medium enterprises (MSMEs) play a vital role in the process of development in India. They generate employment at low costs and help the society to move on the path of prosperity and growth. According to the Fourth Census of MSME in 2006-07 in India, the number of MSMEs was estimated at 26.1 million of which only 1.55 million were officially registered (Government of India, 2010) but employed about 59.73 million workers. 72 percent of the MSMEs are engaged in manufacturing and 28 percent in service enterprises. In terms of size of enterprises, 94.67 percent are micro, 5.05 percent are small, and the rest 0.25 percent are medium enterprises. This sector contributes to more than 45 percent of the total manufacturing output, accounts for over 33 percent of the total exports of the country and is the second largest source of employment. MSME sector is better employment generating sector. The organized industrial sector requires an investment of 0.67 million rupees to generate employment of one person, whereas the MSME sector employs 1.27 persons on average with the same investment. On this background, we analyze the position of the Orissa state to find out the areas of strength, weakness and opportunities to make MSMEs more effective and achieve accelerated growth.

Literature Review

A number of studies have been undertaken in the state of Odisha in establishing relationship between industrial development and the role of MSME and big industries. Development in this state is largely dependent

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upon MSMEs rather than big industrial houses. In recent years the State of Odisha has attracted multinational companies like Vedanta, POSCO and Arcelor Mitall Group (Mittal Steel NV) to set up large industries in steel, aluminum and power sectors. However, these industries are facing severe resistance by displaced people. This is also the general phenomenon in other parts of the country. To mitigate the situation of the displaced, it is necessary to adopt a strategy whereby displaced people are gainfully employed elsewhere. It has been seen in the past in many places that displaced people were not resettled to make their living better. Therefore it is necessary to have a strategy to encourage the setting up of MSME units natural resources, low capital investment and without too much pressure toward migration to urban areas. People displaced or unemployed can be trained and suitably employed. A holistic view may be taken to mitigate the situation of unemployment.

**Data and Discussion**

This paper examines the importance, contribution and development potential of micro, small and medium enterprises in the state of Odisha. Data are collected from primary and secondary sources. The paper focuses on two important sectors: handlooms and handicrafts in a wider perspective in comparison to the rest of MSME.

It is important to analyze the nature of MSME development to understand any policy implications for a more durable and dynamic growth of this sector. The details are presented in Tables 1 and 2.

**Table 1 – MSME: Number of units and employment generated—Odisha**

<table>
<thead>
<tr>
<th>Year</th>
<th>MSME units setup (Cumulative)</th>
<th>MSME units set up during the year</th>
<th>Investment made (Rupees in million)</th>
<th>Employment generated (number of persons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>66206</td>
<td>3676</td>
<td>1531.80</td>
<td>18115</td>
</tr>
<tr>
<td>2001-02</td>
<td>70125</td>
<td>3919</td>
<td>1652.30</td>
<td>16582</td>
</tr>
<tr>
<td>2002-03</td>
<td>74133</td>
<td>4008</td>
<td>1551.40</td>
<td>16320</td>
</tr>
<tr>
<td>2003-04</td>
<td>78568</td>
<td>4435</td>
<td>1701.30</td>
<td>20547</td>
</tr>
<tr>
<td>2004-05</td>
<td>83075</td>
<td>4507</td>
<td>2455.90</td>
<td>21898</td>
</tr>
</tbody>
</table>
The tables reveal that the number of MSME units set up has been increasing over the years commensurate with an increasing trend in total investment except for 2002-03 and 2008-09. The sub-sectoral breakdown reveals a concentration of establishments in repairing and services. In terms of investment, the food and allied sector accounts for the largest 28.04 percent of total MSME investment. It also ranks second in employment generation (20 per cent), which is exceeded somewhat by glass and ceramics (21 per cent). As a whole the number of MSMEs has increased from 66206 to 101933 over the 2000/01–2008/09 period which amounts to a sustained 5.5 percent average annual growth.

Table 2 – Sector-wise classification of MSMEs

<table>
<thead>
<tr>
<th>Category</th>
<th>No of units set up</th>
<th>Investment (Rupees in million)</th>
<th>Employment (No. of persons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food &amp; Allied</td>
<td>23026</td>
<td>9392.40 (28.04)</td>
<td>120217 (19.99)</td>
</tr>
<tr>
<td>Chemical &amp; Allied</td>
<td>2742</td>
<td>1747.10 (5.21)</td>
<td>21108 (3.51)</td>
</tr>
<tr>
<td>Electrical &amp; Electronics</td>
<td>1090</td>
<td>455.40 (1.35)</td>
<td>6961 (1.15)</td>
</tr>
<tr>
<td>Engineering &amp; Metal</td>
<td>11641</td>
<td>7109.50 (21.23)</td>
<td>86747 (14.42)</td>
</tr>
<tr>
<td>Forest &amp; Wood based</td>
<td>6316</td>
<td>572.60 (1.70)</td>
<td>40032 (6.65)</td>
</tr>
<tr>
<td>Glass and Ceramics</td>
<td>7670</td>
<td>3998.10 (11.93)</td>
<td>126197 (20.99)</td>
</tr>
<tr>
<td>Livestock &amp; Leather</td>
<td>425</td>
<td>69.00 (0.20)</td>
<td>2423 (0.40)</td>
</tr>
<tr>
<td>Paper &amp; Paper Products</td>
<td>2736</td>
<td>848.80 (2.53)</td>
<td>14967 (2.48)</td>
</tr>
<tr>
<td>Rubber &amp; Plastics</td>
<td>1675</td>
<td>1186.40 (3.54)</td>
<td>9810 (1.63)</td>
</tr>
<tr>
<td>Textiles</td>
<td>7842</td>
<td>1011.00 (3.01)</td>
<td>46508 (7.73)</td>
</tr>
<tr>
<td>Misc. manufacturing</td>
<td>5951</td>
<td>1624.80 (4.85)</td>
<td>29331 (4.87)</td>
</tr>
</tbody>
</table>
Based on tables 1 and 2, we note that close to 40 thousand new MSMEs registered during the nine years shown have created under 200 thousand jobs which puts the average employment at about 5 workers per firm. This rate seems very low and indicates a tremendous scope for growth in this sector in Odisha. Looking at job creation per unit of investment for one year, 2007-08, we find 7.9 jobs created per million rupees of investment. This is again a low number considering the smallness of enterprises and the low cost of unskilled to semi-skilled labor that is represented highly in this sector. In view of the fact that food and allied, repairing & services, and engineering and metal sub-sectors provide 71.51 percent of the total employment in MSME, there is significant scope for growth in the MSME sector in Odisha.

Some of the traditional industries of Odisha are stone carving, coir, filigree work, handicraft and handloom works which are famous for their aesthetic design, vibrant color and durability. All these industries form part of MSMEs. The promotion of these industries has become more importance now for accelerating employment at the local level because of abundant supply of workers and other local resources. The state government provides administrative, managerial and financial support for the revival, promotion and diversification of these industries through various schemes. It has sought to promote economic development by addressing three obstacles to the emergence of big industrial hubs, namely, unemployment, poverty and worker displacement. We take a closer look at two of the important industries now: handlooms and stone carving.

**Handloom Sub-sector**

The handloom sector occupies an important place in preserving the state’s heritage and culture. Its products have received wide recognition all over the country and abroad for their highly artistic design, color combination, superior craftsmanship and long durability. Some examples are: Khandua of Nuapatana, Maniabandha of Maniabandh, Habaspur of Kalahandi, Bomkai of Ganjam, Katki of Jagatsighpur and Bichitrapur of Bargarh. During 2008-09, nearly 49,095 looms operated in the state and produced 16.67 million square meters of handloom products and employed 98 thousand persons with an investment of Rs.1662.10 million.
Weavers earn more with better access to credit: By January 2008, credit worth Rs.7.59 million was extended to these groups, enabling weavers to produce and supply more products (mainly sarees and dress materials) and stop distress sales. Around 600 families in the cluster were earning at least Rs.500 more per month with the facility of credit flow. Some contractual weavers who were working for Master Weavers on low wages are now able to buy raw materials and have become entrepreneur weavers themselves.

Improved productivity, mechanization of pre-loom processes: All pre-loom activities have been mechanized. The motor operated warp winding machine has enhanced the loom’s productivity. With the help of the winding machine more than 50 warps are being produced at a time which is 25 times higher than the previous output. Smaller size of the machines allows the weavers to work indoors, thus work become possible round the year and with optimum capacity.

Skill upgradation: UNIDO has promoted skill upgradation of semi-skilled Kuli weavers. As a result, 145 Kuli weaving families are using their own tie and dye yarn for weaving instead of buying them from the market, and are also selling these yarns directly in the market. Weavers are now producing higher end products which earn them a margin 60 percent higher than low cost products.

Social development: Weavers are now aware of the availability of health and life insurance schemes. Health conditions of the weavers have significantly improved with the construction of a number of sanitary latrines as well as sanitation camps organized to raise health awareness.

Women empowerment: Women weavers, confined to their homes stepped out, and set up their own federations with the help of UNIDO, undertaking joint social and economic activities including design and product development projects and participating increasingly in decision making at household as well as community levels.

Stone carving cluster: Puri, Konark & Bhubaneswar
Stone carving is one of the major crafts of Odisha and also one of its oldest. The origin of stone carving in Odisha dates back to the 13 century when the Kalinga school of architecture flourished and the world renowned Sun Temple of Konark stood as one of the finest examples of
artistry carved in stone. Since then families have passed on this tradition from generation to generation. Stone carving has been characterized by the state government as “a craft with a development dimension”. We discuss some of the important developments in this sector below:

**Access to credit:** Loans of 7.5 million rupees worth were extended to artisans at lower rates of interest than what was being charged from them earlier by informal money lenders. And 100 percent of the credit is invested in productive activities namely, purchase of raw materials, tools and machines and payments to the work force.

**Market Linkages:** Artisans were made aware of market requirements, market trends and consumer preferences. About 15 buyers have been linked to the clusters and linkages have been established with 10 premier national exhibitions and 3 institutions CCIC (Central Cottage Industries Corporation), Utkalika and Self-Employed Womens’ Association (SEWA) which have sales outlets all over India.

**Higher Quality:** There has been a shift in the clusters from the production of low quality, cheaper goods to higher quality, higher priced products, as a result of establishment of direct linkages with retailers and demanding buyers.

**Higher Margins:** Margins earned by artisans and master craftsmen have increased very substantially from a meager 5 per cent to as high as 35 to 50 per cent. As many as 45 units have reported average increase of 20 per cent in sales, which in turn has resulted in higher incomes for the 400 artisans employed in these 45 units.

**Higher Incomes:** The income of the skilled artisan has risen from an average of Rs 3000 to Rs 5000 per month, while the corresponding increase for semi-skilled artisans is estimated to have gone up from Rs 1000 ($ 22 approximately) to Rs 2500 ($53 approximately) per month. All trained young people have found employment or self-employment in the cluster.

**Increase in productivity:** Intervention has increased productivity of the units by 15 per cent to 20 per cent through the introduction of modern machinery (such as stone cutting machines) and best business management practices.
Empowered women artisans: Women artisans have gained increasing self-confidence, going to the markets to directly sell their products and have taken the lead in addressing other social issues including health and hygiene, leading to better sanitation and better environment for work.

Conclusion

The MSME sector is the second highest employment generating sector, next only to agriculture. It needs special attention of policymakers at the national and state levels. MSMEs can be an engine of significant force in realizing the twin objectives of accelerated industrial growth and productive employment expansion in rural and hitherto backward areas.

Out of the total 1.55 million MSME units, only 102 thousand (6.57 per cent) are registered and employment at only these units are recorded with the government. There is an urgent need to have a policy to record all units in the state to understand the actual employment situation. This will enable policymakers to decide the appropriate course of action in terms of the creation of industry clusters, provision of suitable infrastructure, product and market development, expansion of financial support.

There is a need for industry-ready manpower; as such there is an urgent need for upgrading the existing MSME institute to a national level institution with branches in state centers such as Rourkela, Berhampur and Sambalpur. The institute should have R & D facilities specific to MSME sector. There should be close coordination among various agencies including the industry associations, technology providers, bankers, government agencies, local/international agencies like UNIDO.

Among MSMEs, the handloom sector plays a dominant role. Weavers produce a variety of fabric. The cluster development program has enabled the weavers to improve their standard of living and develop a better community life. It has helped them to unite under a single forum, WCS. The handloom sector remains less market friendly for its inadequate skill, limited market exposure, lack of capital and initiatives. For long, its master craftsmen remained too traditional, self centered and less development friendly.

References


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