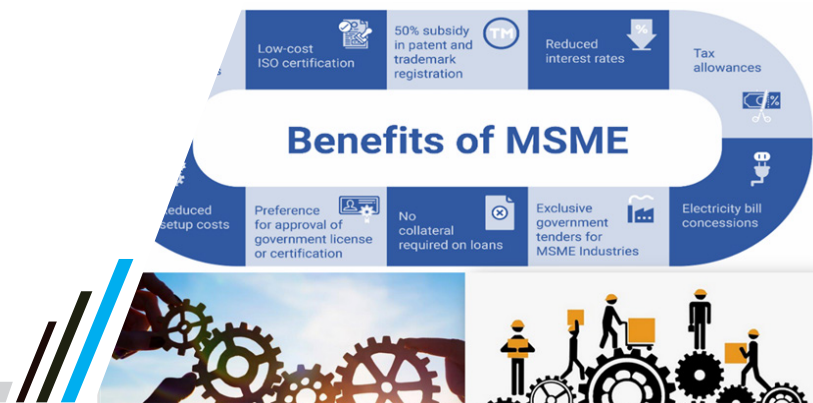


CHAPTER - 10

MICRO, SMALL AND MEDIUM ENTERPRISES IN KARNATAKA



Summary

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.

10.1 Introduction

Karnataka is known as an ideal place for industries. 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, ready-made 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.

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

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. The role of MSMEs is important in the economic development of the state. The contribution of MSME sector to the GDP of the country is about 40% and the MSME sector is the 2nd largest employer after agriculture.

The state has been focusing on the economic and industrial development with a progressive outlook for changing needs over the years. In today's globalization era, in order to establish and succeed in a competitive market, entrepreneurial skills, credit, technology adoption, quality production, competitiveness in the market will be the challenges.

The State Government has at each stage devised specific programs to provide assistance and help to a new generation of entrepreneurs.

The Department of Industry and Commerce runs a number of programs on how to start self-employment and help unemployed graduates learn about self-employment. Prominent among them is the "Be an employer-provide employment" program.

The Government of Karnataka has set up and distributed sites and stores through the Karnataka Industrial Area Development Board (KIADB) and Karnataka State Small Industrial Development Corporation Ltd (KSSIDC) to facilitate entrepreneurs to set up industries.

Karnataka ranks first in shaping industrial policy. In the '80s, the Karnataka government first implemented an "industrial policy" to utilize the resources of the state to create employment and economic growth. Keeping this as a model, other states set their own industrial policies. Today the Government of Karnataka has implemented the "New Industrial Policy - 2020-25" from 13/8/2020 with emphasis on holistic industrial development in the Tier II and Tier III cities. Many incentives and concessions are being offered for this.

Moreover, the state of Karnataka is in the forefront in formulating territorial policies.

- Suvarna Vastra Policy
- Retail Trade Policy
- Karnataka Electric Vehicle & Energy Storage Policy
- Aerospace Policy
- Karnataka Agribusiness & Food Processing Policy
- KalpavrikshaKayaka Policy

Karnataka has secured 46 geographical Indication (GI) tags and is in the verge of being geographically recognized states. Among them are Molakulmuru sarees, Ilkal Sarees, Dharwad Peda, NanjangudRasbhale, Mysore Agarbathi, Coorg Orange, Udupi Mallige, Bidar Bamboo handicrafts, Mysore Sandal Soap, Kinhal toys, Channapatna Toys to name a few.

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.

10.2 Micro, Small & Medium Enterprises

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 10.1:

Table 10.1 : Classification of MSMEs		
Category	Manufacturing and Service	
	Investment on Plant and 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

During the year 2021-22, the registration of all the industries is freshly done based on the newly introduced udyam registration portal of Govt. of India which replaced the old data that was extracted earlier through udyogadhar portal. Hence the new data extracted from Udyam Registration portal will be authentic here onwards. All the industrial units should transform to Udyam registration before 31/12/2021 as per GoI circular.

As per earlier registration details there are 8.75 lakh Micro, Small-Scale units in the State, these units have invested Rs. 1.03 lakh crores and provided employment to 60.21 lakh persons. Similarly, in the large and medium sector 2,235 units in the State, these units have invested Rs. 3.07 lakh crores and provided employment to 5.58 lakh persons.

Meanwhile on account of Covid-19 Pandemic effects many units have been closed or in-operative. Hence, they could not transform to udyam registration. As on 30th November 2021 under udyam registration portal there are 3.32 lakh MSME units registered in the State with the investment of about Rs. 0.60 lakh crores and provided employment to 36.31 lakh persons. The transformation process will continue till the end of December 2021.

Table 10.2 : The number of registered Micro units, Investment and Employment for the year 2020-21 upto 30 November 2021				
Sl. No.	Districts	Micro (Up to Rs. 1.00 Crore Investment or 5 crore Turnover)		
		Units	Investment (Rs. crs)	Employment
1	Bagalkot	1769	40.24	9668
2	Ballari	2081	46.2	12439
3	Belagavi	5851	117.81	57888

Table 10.2 : The number of registered Micro units, Investment and Employment for the year 2020-21 upto 30 November 2021

Sl. No.	Districts	Micro (Up to Rs. 1.00 Crore Investment or 5 crore Turnover)		
		Units	Investment (Rs. crs)	Employment
4	Bengaluru (Rural)	4618	90.66	62659
5	Bengaluru (Urban)	28301	558.19	178793
6	Bidar	901	25.41	9413
7	Chamarajnagar	444	4.51	2089
8	Chikballapur	951	53.54	8491
9	Chikkamagaluru	1108	25.26	5145
10	Chitradurga	1191	17.54	6435
11	Dakshin kannad	2940	59.12	21682
12	Davangere	1616	34.57	8859
13	Dharwad	3199	55.2	35129
14	Gadag	750	16.34	4179
15	Hassan	1930	37.54	30867
16	Haveri	1044	21.99	5116
17	Kalaburagi	1792	55.76	14470
18	Kodagu	619	12.86	4692
19	Kolar	1384	34.44	13467
20	Koppal	856	41.02	8625
21	Mandya	1523	32.69	23421
22	Mysuru	3108	56.86	27341
23	Raichur	986	22.53	14359
24	Ramanagara	900	28.94	10445
25	Shivamogga	1756	34.97	7679
26	Tumakuru	2248	49.94	14929
27	Udupi	1536	46.46	8209
28	Uttar kannad	1492	30.84	7493
29	Vijayapura	2067	39.37	12774
30	Yadgir	1166	18.44	13636
	Grand Total	80127	1709.23	640392

Source : Udyam Registration Portal Gol

Table 10.3 : The number of registered small units, investment and employment for the year 2020-21 up to 30 November 2021

Sl. No	Districts	Small (Up to Rs. 10.00 Crore Investment or 50 crore turnover)		
		Units	Investment (Rs.crs)	Employment
1	Bagalkot	12	22.81	321
2	Ballari	22	21.44	611
3	Belagavi	31	81.99	799
4	Bengaluru (Rural)	35	63.18	648
5	Bengaluru (Urban)	170	242.84	2915
6	Bidar	15	31.89	235
7	Chamarajnaragar	4	12.14	56
8	Chikballapur	6	16.84	64
9	Chikkamagaluru	9	8.17	172
10	Chitradurga	6	4.26	70
11	Dakshin kannad	12	10.22	97
12	Davangere	11	12.02	218
13	Dharwad	26	28.43	380
14	Gadag	7	7.96	68
15	Hassan	14	14.87	242
16	Haveri	9	18.37	75
17	Kalaburagi	23	37.84	285
18	Kodagu	2	2.1	35
19	Kolar	17	27.07	296
20	Koppal	18	23.7	198
21	Mandya	13	15.02	318
22	Mysuru	22	39.42	434
23	Raichur	27	34.05	390
24	Ramanagara	4	3.78	31
25	Shivamogga	8	17.42	91

Table 10.3 : The number of registered small units, investment and employment for the year 2020-21 up to 30 November 2021

Sl. No	Districts	Small (Up to Rs. 10.00 Crore Investment or 50 crore turnover)		
		Units	Investment (Rs.crs)	Employment
26	Tumakuru	22	24.13	446
27	Udupi	11	16.3	94
28	Uttar Kannad	9	18.82	145
29	Vijayapura	10	18.91	118
30	Yadgir	5	13.11	78
	Grand Total	580	889.1	9930

(Source : Udyam Registration Portal GoI)

Table 10.4: The number of registered medium units, investment and employment for the year 2020-21 up to 30 November 2021

Sl. No	Districts	Medium (Up to Rs. 50.00 Crore Investment or 250 crore turnover)		
		Units	Investment (Rs.crs)	Employment
1	Bagalkot	-	-	-
2	Ballari	-	-	-
3	Belagavi	1	48.00	10
4	Bengaluru (Rural)	2	4.68	22
5	Bengaluru (Urban)	12	64.62	1084
6	Bidar	-	-	-
7	Chamarajnagar	-	-	-
8	Chikballapur	1	17.00	25
9	Chikkamagaluru	-	-	-
10	Chitradurga	-	-	-
11	Dakshin kannad	-	-	-
12	Davangere	-	-	-
13	Dharwad	2	58.56	90
14	Gadag	-	-	-
15	Hassan	-	-	-

Table 10.4: The number of registered medium units, investment and employment for the year 2020-21 up to 30 November 2021

Sl. No	Districts	Medium (Up to Rs. 50.00 Crore Investment or 250 crore turnover)		
		Units	Investment (Rs.crs)	Employment
16	Haveri	1	0.86	11
17	Kalaburagi	1	32.21	30
18	Kodagu	-	-	-
19	Kolar	-	-	-
20	Koppal	-	-	-
21	Mandya	-	-	-
22	Mysuru	5	89.68	137
23	Raichur	1	16.65	86
24	Ramanagara	-	-	-
25	Shivamogga	-	-	-
26	Tumakuru	-	-	-
27	Udupi	-	-	-
28	Uttar kannad	-	-	-
29	Vijayapura	2	34.26	117
30	Yadgir	-	-	-
	Grand Total	28	366.53	1612

Source : Udyam Registration Portal Gol

Table 10.5: Registration of small-scale industrial units in Karnataka (Cumulative)

Year / Item	No of SSI Units	Investment (Rs. in Lakh)	Employment in 000s
2005-06	334386	735616	1888
2006-07	346966	782158	1946
2007-08	361950	894817	2069
2008-09	377655	996434	2174
2009-10	394850	1119250	2285
2010-11	413284	1239873	2396
2011-12	434305	1399514	2524
2012-13	458511	1616365	2680
2013-14	484549	1901082	2846
2014-15	513291	2180373	3022

Table 10.5: Registration of small-scale industrial units in Karnataka (Cumulative)

Year / Item	No of SSI Units	Investment (Rs. in Lakh)	Employment in 000s
2015-16	538947	2674965	3243
2016-17	578117	3941379	3752
2017-18	626599	5099954	4193
2018-19	695877	6587652	4776
2019-20	793109	8447379	5478
2020-21*	332233	6000678	3631

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

10.3 Industrial Policy 2020-2025

This policy has been effective from date 13.08.2020 (G.O.No. CI 199 SPI 2018 BENGALURU) and will be valid for a period of 5 years or till a new policy is announced.

Vision

To emerge as a global leader in advanced manufacturing research and development, innovation and to create an ecosystem for an inclusive balanced and sustainable development of the state.

Mission

To retain Karnataka position as a global manufacturing hub and to achieve higher and sustainable industrial growth through capital infusion technology transfer world class industrial infrastructure skill up gradation and benchmarking of policies and practices to best Global standards

Objectives

- To attract investments worth INR 5 lakh crore
- To create employment opportunities for 20 lakh people
- To reach third position in merchandise export in the next five years
- To maintain an industrial growth rate of 10% per annum
- To provide an enabling ecosystem for technology adoption and innovation

Strategies

- Promote 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

10.4 Initiatives of the central and state government for promoting MSMEs

10.4.1 Prime Minister's Employment Generation Programme (PMEGP)

Prime Minister's Employment Generation Programme (PMEGP) is being implemented from the year 2008-09. The objective of the scheme is to provide employment to the educated unemployed youth by setting up industries in rural and urban areas under Manufacturing and Service Sectors, based on the local resources. Demand oriented Industries such as packaged drinking water, food-processing units and the entrepreneurs adopting latest technologies, resulting in producing quality products and taking up vehicle repairs are covered in this scheme. Under this scheme, financial assistance up to Rs. 25 lakh for manufacturing sector and upto Rs. 10 lakh for Service Sector is extended in the form of loan through various banks. The details of the subsidy available under the scheme are as below:

Table 10.6 : Progress made under PM self-employment schemes from 2018-19 to 2021-22

Programme/ Scheme	Unit	Achievement			2021-22 up to November	
		2018-19	2019-20	2020-21	Target	Achievement
PMEGP						
a) Projects	No	3366	3560	4384	4563	2651
b) Persons Trained	No	2670	2847	4886	--	3141
c) Employed generated	No	26928	28480	35072	36504	21208

Table 10.6 : Progress made under PM self-employment schemes from 2018-19 to 2021-22

Programme/ Scheme	Unit	Achievement			2021-22 up to November	
		2018-19	2019-20	2020-21	Target	Achievement
d) Total amount spent (Margin Money released from Khadi and village Industries Commission Gol)	Rs. Lakh	10156.7	10378.06	12367.00	13749.00	7406.81

Source: Rural Industries section, Industries & Commerce Dept.

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

The Ministry of Micro, Small and Medium Enterprises (MSME), Government of India (Gol) has adopted the Cluster Development approach as a key strategy for enhancing the productivity and competitiveness as well as capacity building of Micro and Small Enterprises (MSEs) and their collectives in the country.

A cluster is a group of enterprises located within an identifiable and as far as practicable, contiguous area or a value chain that goes beyond a geographical area and producing same/similar products/complementary products/services, which can be linked together by common physical infrastructure facilities that help address their common challenges.

Table 10.7 : Details of cluster development programmes of Gol undertaken in the state up to November 2021

Sl. No.	Details	Number	Project Cost (Rs. In lakhs)
1	Clusters Implemented	11	9810.93
2	Clusters finally approved by Gol	01	1994.09
3	Clusters to be approved by Gol	02	3494.00
4	Cluster proposals in pipeline	11	12987.00

Source: KCTU, Industries & Commerce Dept.

10.4.3 Incentives and concessions to MSME units

During the year 2021-22 Rs.292.25 Crores have been allotted under the HOA 2851-00-102-0-83(106) to sanction investment promotion subsidy and other incentives and concessions to Micro, Small and Medium Industries. Govt. has released Rs.73.06 Crores up to 30th November 2021.

During the year up to 30th November 2021 Rs.0.75 crores of financial assistance is provided in the sector of Handicrafts. In the Khadi sector, Rs.7.50 crores are provided as marketing and wage incentive subsidy to 2790 artisans of Khadi, Coir and Handicrafts sectors.

Under SCP Rs.41.38 crores for 228 beneficiaries and under TSP programmes Rs.16.78 crores for 106 beneficiaries have been spent for providing subsidized industrial sites, soft seed subsidies etc.

Table 10.8 : 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. 2021)	314	5645.16
	Total	11047	71257.17

Source: MSME section, Industries & Commerce Dept.

10.4.4 Section 109, The Karnataka Land Reforms Act, 1961

Taking note of delay in getting permission under Section 109 of KLR Act, 1961, the State Government has proposed the following steps:

- i. The State Government vide Notification No. DPAL 08 SHASANA 2020, Bengaluru, dated April 27, 2020 has amended the Section 109 of Karnataka Land Reforms Act, 1961 to address the issues and simplified the procedure which will benefit both the land owner and the industry.
- ii. With this amendment, any industrial projects approved by State High Level Clearance Committee (SHLCC) or the State Level Single Window Clearance Committee (SLSWCC) constituted under the Karnataka Industries (Facilitation) Act, 2002 shall be deemed to be exempted by the Government from the provisions of Section 63, 79A, 79B or 80 of Karnataka Land Reforms Act, 1961.
- iii. These project proponents can directly procure lands from land owners and certain lands required for this kind of projects may be approved by the Government.

10.4.5 Private industrial parks.

Government proposes to encourage establishment of industrial areas and estates in the State either by private investors or through PPP mode. These would be approved by SHLCC / SLSWCC.

Table 10.9: Category of Private Industrial Parks and Minimum Acreage

Sl No.	Category	Minimum Acreage
1	Knowledge Based Industries / Flatted Factories	5
2	Logistics	50
3	Multi / Sector Specific Industrial Parks	75
4	Integrated Industrial Parks	250

Source: Policy & Promotion section, Industries & Commerce Dept.

Government of India released draft MSME policy. It has proposed 8 'action areas' to overhaul the sector: intergovernmental role and responsibility, legislation/regulatory framework for MSMEs in India, access to finance/ financial assistance for MSMEs, technology upgradation, knowledge management, ease of doing business, skill development and exit code.

10.5 Conclusions and Way Forward

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. MSMEs face many challenges that can be addressed through the following measures.

- 1. Improving access to capital** – Karnataka is relatively underbanked compared to its neighboring states. Businesses in Karnataka receive a lesser share of bank credit relative to their economic size, as many firms within the MSME sector are credit constrained. Karnataka's share of loans sanctioned under CGTMSE during FY 2020-21 is 9.2%, which is higher than its share of GDP. This shows that banks are ready to provide credit to constrained firms if part of the credit risk is shared by the government. Yet Karnataka's share of credit given through ECLGS is lower than its GDP share. The State Government should encourage banks and NBFCs through SLBCs to provide credit to businesses affected by Covid under ECLGS. The state government can also devise a credit-linked subsidy scheme to encourage borrowing to small and medium businesses in specific sectors that are identified as highly credit constrained.
- 2. Infusion of Equity Capital** - The MSME sector depends heavily on debt financing to meet its capital demand. High levels of debt without enough equity distort the incentives of the entrepreneur and encourage them to make poor investment choices. In this respect, State government can establish a Fund of Funds to infuse equity capital into MSME sector. In order to address these challenges associated with operating MSME fund, government intervention is required to allay the fears of the investors worried about these problems. Government should guarantee the principal value invested for a limited number of years, while building an operating model for fund management that mitigates the risks and challenges associated with investing in SMEs. Therefore, government guarantee is essential to attract diverse set of investors.
- 3. Enhanced productivity through management practices** – State government should hold workshops and training programs to impart management practices

based on simple principles of operation management to small business owners and entrepreneurs. Research by a group of management researchers investigated the impact of improved management practices by running field experiment on large Indian textile firms. They provided free consulting on management practices to randomly chosen treatment plants and found that management practices raised productivity by 17% in the first year through improved efficiency, better quality and lower inventory

- 4. Ease of doing of business** – Karnataka's rank on the ease of doing business index has fallen to 17 in 2019. Reducing regulatory burden and the compliance costs of small businesses would facilitate a business-friendly environment. Another hindrance in growth of small businesses is the applicability of stringent labour laws on becoming medium sized businesses. Karnataka government can amend the threshold for labour laws by increasing it to 300 workers like other states such as Rajasthan and Gujarat.

Government of India released draft MSME policy. It has proposed 8 'action areas' to overhaul the sector: intergovernmental role and responsibility, legislation/regulatory framework for MSMEs in India, access to finance/ financial assistance for MSMEs, technology upgradation, knowledge management, ease of doing business, skill development and exit code. Implementation of this policy will significantly contribute to the growth of the MSME sector.

