

Emerging Contours in the MSME Sector of Uttarakhand

A survey based empirical study

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PHD Research Bureau

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Message

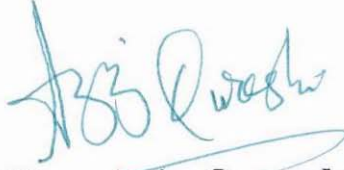
Uttarakhand has emerged as one of the most attractive industrial destinations in India. The state has focused on the development of the **Micro Small and Medium Enterprises (MSME)** sector to achieve economic growth. It has witnessed remarkable growth of MSMEs over the years which have contributed significantly in employment generation.

Uttarakhand offers a wide range of benefits in terms of tax exemptions, interest incentives, financial assistance, subsidies and concessions.

The state has also taken pro industry initiatives to attract industrial investment and encourage entrepreneurship among people of Uttarakhand.

It gives me immense pleasure to know that the PHD Chamber of Commerce and Industry, alongwith the Department of Industry, Government of Uttarakhand, is bringing out a report based on a study to highlight the strengths and weaknesses of the MSME sector in Uttarakhand. I am confident that the report “**Emerging Contours in the MSME Sector of Uttarakhand: A Survey Based Emperical Study**” will facilitate industrialization in the state.

I congratulate the PHD Chamber for this initiative.


(Dr. Aziz Qureshi)





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MESSAGE

Uttarakhand has emerged as one of the fastest growing states of India, supported by its vibrant agriculture, industry and services sectors. The state of Uttarakhand has been growing at considerably high rates. The real GSDP of Uttarakhand grew at an annual average rate of 10.8 % during the period FY2009-13 while the state contributes 1.2% to GSDP of India states.

The newly formed state since its inception has made significant progress for harnessing the untapped potential in agriculture but also in strengthening the industrial framework of the state. The state has emerged as a rapidly growing industrial hub of the northern India and the role of MSME sector has been crucial in terms of revenue and employment generation. This segment has enhanced production possibilities and helped to achieve higher growth trajectories for the industry sector in Uttarakhand.

MSMEs in the state have played a key role in generating growth, especially pro-poor, more equitable and inclusive growth in the state. Over the recent years, large number of people have benefited from an improved standard of living due to enhanced economic growth and higher income generation.

Going forward, the future prospects of MSME sector is brilliant in the state and hence, state has constituted a separate department for MSMEs in order to offer focused development and promotion of MSME sector of the state.

While conveying my best wishes for the successful organization of this very important meet of experts for effectively managing the MSME sector of Uttarakhand, I congratulate all the stakeholders from research, academia, industry and planning streams for their exemplary service rendered by them in making a significant contribution for the state.


(Harish Rawat)

Harish Chandra Durgapal

Minister

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Dated 4-4-2014

MESSAGE

Uttarakhand has witnessed fast pace industrial development over the years. The industry share in state's GSDP has increased from about 31% in FY2006 to about 37% in FY2013. The Government has also incentivised private participation in all industrial activities in the state.

Uttarakhand has accorded lot of emphasis to the development of MSME sector in order to achieve faster rate of industrial and economic growth. Hence, the state has experienced incremental growth of MSMEs over the years. Further, with a view to strengthen the industrial sector, the state has set up a separate department of MSMEs.

Going forward, MSME sector has a vast potential to emerge as the best vehicle to sustainable industrial growth in the state. Uttarakhand has a large scope for development of floriculture, horticulture, auto components, drugs and pharmaceuticals industry. In the coming years the state plans to stimulate MSME sector of Uttarakhand as the sector is critical for employment generation in the rural areas of the state.

My best wishes for grand success of MSME Sammelan which will be a useful platform for different stakeholders including researchers, policy planners, government officials, administrators, businessmen and business leaders.


(Harish Chandra Durgapal)
Minister
Labour, Employment, I.T.I.,
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Sharad Jaipuria
President, PHDCCI

From President's Desk

Uttarakhand has always been instrumental to bring about all round developments in the state. The state has taken proactive measures to achieve faster rate of economic growth and advancement. The industrial sector of the state has witnessed a growth rate (annual average) of about 12% during the period of FY2009 to FY2013.

The MSME sector of the state has emerged as a very crucial sector for the economic and social development of Uttarakhand. The sector is one of the fastest growing and employment intensive segments in Uttarakhand's economy. The Government has also recognised the need for focused development and promotion of MSMEs and created a separate department for MSMEs in the state in order to explore the untapped potential for MSMEs.

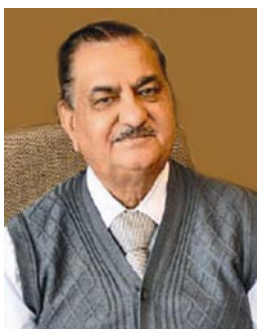
The state offers enormous potential for attracting large scale industrial investments. The state's fast pace of infrastructural developments and its proximity to the national capital region has always served as an additional advantage for investing in MSMEs in Uttarakhand.

Going forward, the state should focus on establishing sound infrastructural developments and facilitate MSMEs with the help of supportive industrial policy.

I am sure MSME Sammelan will be a useful platform for industry stakeholders to tap the emerging investment avenues in the MSME sector of the state by exchanging views, best practices and success stories.

I wish all the best to distinguished participants at MSME Sammelan.





S.P.Kochhar

Chairman, Uttarakhand
Committee, PHDCCI

From Chairman's Desk, Uttarakhand Committee

Uttarakhand has been an agrarian economy but during the recent years industry and services have contributed significantly to the economic growth of the state. The state has shown consistent industrial growth since its inception.

The process of industrialization has picked up pace in Uttarakhand during the recent years. The key industries contributing significantly to economic growth of the state are tourism, IT, education, agro and food processing and biotech. Large number of small and medium scale enterprises has been established in the major cities of the state. Further, numerous industrial sops have also encouraged industrial development of the state.

Uttarakhand, despite being a small state, has some distinct features which offer enormous growth potential for MSMEs sector. Being abundant in natural resources, there exist vast business opportunities in sectors like floriculture, processing of medicinal and aromatic herbs, horticulture and agro based industries, handicrafts, pharma products, wool and silk products as well as information and communication technology.

Going forward, the state should harness its resources in order to improve its economic growth. MSMEs should be facilitated as they can drive growth prospects of the state. The state government should focus on their different departments such as labor, ESI, PF, taxation and others to support the industries in a fair manner. There should be a provision for some interest subsidy in the industrial policy for existing units also along with tax benefits to flourish the MSME sector of the state.





Saurabh Sanyal
Executive Director
PHDCCI

From Executive Director's Desk

Emerging Contours in the MSME sector of Uttarakhand pertains to focus on the growth dynamics of the MSME sector in Uttarakhand with special reference to the operational issues faced by various stakeholders across manufacturing and services sectors in the state.

The study highlights the strengths and weaknesses of the MSME sector in Uttarakhand and examines the issues and challenges faced by MSME sector of the state. The study has been undertaken to identify the state specific operational issues faced by MSME sector with regards to infrastructure framework, availability of credit, access to capital, availability of land, identification of new markets, clearance mechanism and to assess the future growth prospects of the sector with special reference to exports growth. Further, the study has put forth recommendations to perk up the MSME sector of the state.

PHD Chamber of Commerce and Industry has always played an important role in economic development of Northern and Central states of India. I hope this study will help in further policy formulation for MSMEs, so as to serve as a vehicle for its inclusive growth and development.

I commend and appreciate the tireless efforts of PHD Research Bureau team led by Dr. S P Sharma, Chief Economist, PHD Chamber and assisted by team members Ms. Nidhi Gautam, Ms. Surbhi Sharma, Ms. Rashmi Taneja, Ms. Megha Kaul and Ms. Bhawana Sharma for producing this study of analytical value. I hope that this report serves as an informative guide to the policy makers, researchers and industry stakeholders.



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Abbreviations

AEZ	Agri Export Zones	MSC	Multimedia Super Corridor
APEDA	Agriculture & Processed Food Products Export Development Authority	MSMED	Micro, Small & Medium Enterprises Development
ARI	Agro and Rural Industry	MW	Mega Watts
ATM	Automated Teller Machine	NCR	National Capital Region
BPO	Business Process Outsourcing	NHB	National Horticulture Board
C&F	Cost & Freight	NMFP	National Mission on Food Processing
CBRC	China Banking Regulatory Commission	NPIT	National Policy on Information Technology
CFC	Common Facility Centres	NMPB	National Medicinal Plants Board
CST	Central Sales Tax	OECD	Organisation for Economic Co-operation and Development
EPCH	Export Promotion Council for Handicrafts	PF	Provident Fund
ESI	Employees State Insurance	PPP	Public-Private-Partnership
FDI	Foreign Direct Investment	R&D	Research & Development
FMCG	Fast Moving Consumer Goods	RR	Revenue Receipt
FPI	Food processing industry	SABTIA	South Africa Business and Technology Incubation Association
FY	Financial Year	SBIR	Small Business Innovation Research
G&J	Gem and Jewellery	SEZs	Special Economic Zones
GDP	Gross Domestic Product	SICOP	Jammu & Kashmir Small Scale Industries Development Corporation
GFD	Gross Fiscal Deficit	SIDCUL	The State Infrastructure & Industrial Development Corporation of Uttarakhand Limited
GSDP	Gross State Domestic Product	SME	Small and Medium Enterprises
GST	Goods & Services Tax	SPV	Special Purpose Vehicles
HSI IDC	Haryana State Industrial & Infrastructure Development	SSI	Small Scale Industry
ICT	Information & Communication Technology scheme	STPI	Software Technology Parks of India
IIE	Integrated Industrial Estate	STWC	Short Term Working Capital
IIUS	Industrial Infrastructure Upgradation Scheme	TEQUP	Technology and Quality Upgradation Programme
ISO	International Organisation for Standardisation	TREAD	Trade Related Entrepreneurship Assistance and Development Scheme
IT	Information Technology	CBRC	China Banking Regulatory Commission
ITeS	Information Technology Enabled Services	UPS IDC	Uttar Pradesh State Industrial Development Corporation
KV	Kilo Volt	UHHDC	Uttarakhand Handloom & Handicraft Development Council
KVI	Khadi and Village Industries	USA	United States of America
KVIC	Khadi and Village Industries Commission	UT	Union Territory
MAT	Minimum Alternate Tax	VAT	Value Added Tax
MDA	Market Development Assistance Scheme	VTEs	Villages and Township Enterprises
MGIRI	Mahatma Gandhi Institute of Rural Industrialization	WCTL	Working Capital Term Loan
MSME	Micro Small and Medium Enterprises		



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Dr. S.P.Sharma
Chief Economist
PHDCCI



Executive Summary

“Emerging Contours in the MSME sector of Uttarakhand: A survey based empirical study” pertains to focus on the growth dynamics of the MSME sector and operational issues faced by various stakeholders across manufacturing and services sectors in the state. In order to conduct the survey, a structured questionnaire was prepared and circulated amongst the representatives of the various firms located across the major industrial cities of Uttarakhand including Dehradun, Haridwar, Haldwani, Kashipur, Kotdwar, Rudrapur and Udham Singh Nagar among others. The survey pertains to analyse 772 responses received from various representatives across the sectors and industrial segments. MSMEs are significantly contributing to the industrial development and economic growth of the state. The industry share in GSDP of Uttarakhand was around 35% during 2008-09 which increased to about 38% during 2012-13. Industry grew at around 12% (annual average) during the last five years from FY2009 to FY2013.

The study pertains to analyse viewpoint of a large share of MSMEs of which 75% are from small enterprises, 16% from medium enterprises and 9% from micro enterprises. The survey found that MSMEs in Uttarakhand generate (on an average) gross annual sales of more than Rs 23 crore in the domestic markets while an average gross annual sales of Rs 3 crore in international markets. Nearly 54% of respondents affirmed that gross annual sales growth has increased during the last three years while about 32% of them said that gross annual sales growth has remained same whereas it has decreased according to 14% of respondents. The major reasons responsible for boosting the gross annual sales growth of MSMEs in Uttarakhand has been attributed to be rising demand, technological advancements, increasing overall size of the economy and incentives offered by the government. However, the key reasons attributed to the decline in gross sales growth of MSMEs in the state includes extensive competition from domestic as well as foreign markets, rising prices of the products, recent financial crisis, lack of innovative products, currency fluctuations, lack of quality in products etc.

The survey reveals that MSMEs operating in the state supply their final output not only in domestic but in foreign markets too. The major states where MSMEs of the Uttarakhand are supplying their products include Delhi, Uttar Pradesh, Haryana, Himachal Pradesh, Rajasthan, Punjab etc. Further, there have been respondents who cater to Southern parts of the country such as Andhra Pradesh, Tamil Nadu etc. According to the survey, MSMEs cater appreciably to foreign markets which is evident with the fact that 29% of respondents who participate in export business have reported an increase in their exports growth during the recent years. The countries which are catered by MSMEs of Uttarakhand for exports are Brazil, Combodia, Europe, Indonesia, Iraq, Jordon, Kazakhstan, Malaysia, Philippines, Saudi Arabia, Thailand, Turkey and USA.

However, respondents felt that they face difficulties while selling their products in different markets. The major problems encountered while selling products within Uttarakhand and rest of the country are lack of transportation and communication facilities, marketing and distribution, excessive government regulations, labour availability and rigidity, environment and various multiple taxation issues at central and state level, technology obsolesce and extensive competition creates roadblocks to sell products in the diversified markets. Majority of the respondents felt that overall tax burden has increased in last three years and most over burdening taxes have been found to be VAT, central sales tax, services tax, excise duties, minimum alternate tax, custom duty,



corporate tax and surcharge. However, almost all the MSMEs stakeholders felt that the implementation of GST is expected to reduce the burden of taxation on them in the coming times. The survey revealed that despite the fact that infrastructure is one of the grey areas of the state which impacts the activities of the MSMEs, however, almost all the respondents unanimously felt that there has been tremendous improvement in the infrastructure facilities in the state in terms of transportation, abundance supply of water, technological advancement during the recent times, however, still there exists huge infrastructural deficit. The respondents were optimistic that infrastructure developments would continue on the improvement trajectory in the near future. The respondents suggested that development of logistic hub, excellent transportation connectivity and telecom facility with high band width should be addressed in order to attract huge industrial investments in the state in the coming times.

MSMEs of the state unanimously felt that the state should focus in establishing a sound financial infrastructure (credit registries/ bureaus, collateral, and insolvency regimes) as a major priority in the financial development agenda, as it can lower the costs and risks to financial institutions of serving MSMEs. However, MSMEs across all the sectors unanimously opined that they face critical operational issues in terms of unnecessary, burdensome, expensive and at times even counterproductive regulations, alarming gap between the demand and supply of energy, high energy costs, unskilled workers, limited awareness about government schemes, rising competition, scope for limited R&D activity and lack of finance. It is worrying to note that the state encounters the issue of non availability of skilled manpower. Almost all the respondents opined that they face scarcity in manpower in terms of the right skill sets for major areas like, manufacturing, services, marketing, etc. Hence, they suggested that skill development and capacity building programmes should be organized in order to boost employment opportunities and entrepreneurship in the state.

Going ahead, the state government should promote and facilitate MSMEs with help of supportive industrial policy. The capital investment policy should be increased to boost capital investment in Uttarakhand. The state government should focus on their different departments such as labor, ESI, PF, taxation and others to support the industries in a fair manner. There should be a provision for some interest subsidy in the industrial policy for existing units also along with tax benefits. GST should be introduced at the earliest as it will offer conducive milieu for MSMEs and would curtail the issues of multiple taxation. In addition, single window registration should be enhanced in the state.

Majority of respondents felt that current schemes of central and state government have significant positive impact on their businesses and have benefited the growth of their businesses. Some of the significant government schemes which have boosted MSMEs growth in the state are excise duty exemption, duty free imports, subsidy in central sales tax, facilitating hill development policy, subsidy in plants and machinery, relaxation in bank loans etc. The respondents felt that the state government should be proactive in spreading awareness about the government schemes with a view to facilitate increase in quality and quantity of credit to MSMEs, to bring larger number of MSMEs under the net and leading eventually to sustainable and inclusive growth of the sector. Proper intimation regarding new policies and any changes in the rules and regulations should be effectively informed and announced. Almost all the respondents opined that industry chambers can play a major role in spreading awareness about the government schemes which will benefit the business operations at large in the state.



1. MSME sector in India

Micro Small and Medium Enterprise (MSME) sector has emerged as a dynamic sector of the Indian economy over the last five decade. The sector is considered to be the strategic asset for the Indian economy as it contributes significantly to the growth of economy with a vast network of around 36 million units, providing employment to about 81 million persons and manufacturing more than 6000 products. The sector accounts for about 45% in manufacturing output and 40% in total exports of the economy. Overall, it contributes 8% in the country's Gross Domestic Product (GDP), which is expected to reach at 10% by the end of 12th Five Year Plan.

Table 1.1 India's MSME sector so far...

Particulars	Contribution
Contribution in GDP	8%
Estimated contribution in GDP by the end of 12 th Plan	10%
Contribution in manufactured output	45%
Contribution in exports	40%
Total employment	81 million persons
Total number of enterprises in MSME sector	36 million
Total number of working enterprises in registered sector	1.6 million
Total number of working enterprises in unregistered sector	34.6 million
No. of products produced by MSMEs	6,000

Source: PHD Research Bureau, compiled from Annual Report 2012-13, Government of India, Ministry of Micro, Small and Medium Enterprises

MSME sector in India was earlier based on simple model, wherein it was easy to operate with small amount of capital and by using simple technology; standardised methods, and research base was also not much required by these MSMEs. However, in the recent times, a wave of globalisation has transformed the business environment for the MSME sector not only in India but across the world. This has posed several new challenges for the MSMEs in terms of cut-edged competition, frequent technological updation, rising expectations of the consumers etc.

Globalisation has also generated numerous opportunities for the sector, in terms of new sources of inputs such as raw material, intermediaries, technology, and managerial skills; wide consumer base and a broad platform for their expansion and development. This change in the global economy has enforced the MSME sector to strengthen its financial, technological, human, research and development base to survive in the global competitive market.

Thus, presently the development of the MSME sector has become crucial to achieve desirable economic growth. It is expected that the next level of growth will have to come from the MSMEs and it is the MSME sector which can propel India's growth rate



from the current level of around 5% to a sustainable growth rate of more than 9% in the medium-to long-term. In this light it is necessary to have a vibrant and competitive MSMEs sector in the economy.

India's almost all States have also recognized the importance of the MSME sector for the growth and development of their region. Thus, the States' governments have also undertaken various initiatives relating to catering the financial, technological, institutional, skilled manpower requirements of their MSME sector. As a result, MSMEs have received a great push and exhibited the improved performance in the recent years. However, the States are also encountered with their own set of problems related to taxation, administrative procedures, lack of proper infrastructure, unskilled labour etc. At this juncture, it has become imperative to understand the present status and future potential of the MSME sector in India as a whole and pertaining to different states.

2. Definition of MSMEs

In accordance with the provision of this new MSMED Act, 2006 enterprises have been classified broadly into two categories: manufacturing; and service. Both categories of enterprises have been further classified into micro, small and medium enterprises based on their investment in plant and machinery (for manufacturing enterprises) or in equipment (in case of enterprises providing or rendering services).

i. Manufacturing Enterprises- The enterprises engaged in the production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951) are taken in the scope of manufacturing enterprises. These enterprises are defined in terms of investment in plant and machinery. Micro enterprises are classified as those with investment in plant and machinery not exceeding Rs 25 lakh. While an investment in plant and machinery for a small enterprise is kept in the range between Rs 25 lakh and Rs 5 crore, a medium enterprise is defined with investment in plant and machinery in the range between Rs 5crores and Rs 10 crore.

ii. Service Enterprises: The enterprises engaged in rendering services making investment in equipment are specified as service enterprises. Micro enterprise where investment in equipment does not exceed Rs 10 lakh; small enterprise where investment in equipment falls between Rs. 10 lakh and Rs. 2 crore; and a medium enterprise where investment in equipment falls between Rs. 2 crore and Rs. 5 crore .



Table 2.1 Definition in accordance with MSME Act, 2006

Classification	Manufacturing Enterprises*	Service Enterprises**
Micro	Upto Rs 25 lakh/ Rs 2.5 million	Upto Rs 10 lakh / Rs 1 million
Small	Above Rs 25 lakh & upto Rs.50 million / Rs.5 crore	Above Rs 10 lakh & upto Rs 20 million / Rs 2 crore
Medium	Above Rs 5 crore & upto Rs 100 million / Rs 10 crore	Above Rs 2 crore & upto Rs 50 million / Rs 5 crore

*Source: PHD Research Bureau, compiled from Annual Report 2012-13, Government of India, Ministry of Small, Medium and Micro Enterprises, * Investment limit in plant & machinery ** Investment limit in equipment*

3. Global outlook of the MSME sector

MSMEs play a crucial role in the economic growth of an economy. It is either developed country or the developing country; contribution of MSME sector in GDP, employment, exports is relatively higher than the contribution of large scale industries. This is evident with the fact that in OECD economies, MSMEs account for over 95% of the firms, 70% of employment and 55% of the total GDP. While in developing countries more than 90% of total firms, exclusive of agricultural sector, are MSMEs and generating a considerable portion of GDP. Recognizing the importance of MSME sector for the socio-economic growth, governments in various countries have established a range of institutions and initiated several support programmes to strengthen their SME sector. Few of the major supportive measures undertaken by different countries are highlighted below:

3.1 Technology Support: Governments all over the world provide a range of technological support to their respective SME sectors in order to equip them with the requisite know how to optimize their processes. Some of the best practices followed by countries all over the world are highlighted as under:

In China, government has set up an innovation fund for small technology based firms to promote technological innovation amongst SME units. Apart from this, a national plan named “Spark Programme” has been launched which aims at promoting the application of appropriate technologies in the Villages and Township Enterprises (VTEs). Japan has initiated a “Small Business Innovation Research” (SBIR) programme to promote new technological product activities including research and exploitation by Japanese small and medium sized enterprises. A special ‘Law on Supporting Business Innovation by Small and Medium Enterprises’ has also passed in Japan which intends to promote creative development of SMEs.

In order to build technological capacities among Malaysian SMEs, the Government of Malaysia initiated the “Multimedia Super Corridor” (MSC). Under this programme, venture capital and special grants are provided for developing R&D and risk taking culture among SMEs.



The government of Italy has introduced a national programme “Startech” to promote industrial research and facilitate contacts between researchers and commercial enterprises. It also boosts setting up of new high tech ventures. In South Africa, the “South Africa Business and Technology Incubation Association” (SABTIA) has been set up to foster best practices in technology incubation through links with similar agencies in other parts of world.

3.2 Marketing Support: Small and medium sized businesses often do not have the resources to employ adequate number of marketing professionals which impacts business processes. Hence, governments worldwide provide support to MSMEs by designing various schemes and plans which are briefed as follows:

China has established SME “International Market Development Fund”, under the SME Promotion Act, to support the market development and promotional activities of SMEs. Japan has set up an “External Trade Organisation” which helps Japanese SMEs in various promotional activities through organizing a number of business partnering events, trade fairs, exhibitions etc.

The government of Italy has created an agency “The Italian Institute for Foreign Trade” which is entrusted with the promotion of trade, business opportunities and industrial cooperation. It also conducts public promotion programmes to enhance the image of Italian SMEs through the ‘Made in Italy’ brand. The government of Mexico has devised the “Impulsoras Programme” which provides custom made solutions to inform SMEs about technical specifications, regulations and quality requirements in target markets.

3.3 Financial Support: Access to finance is vital in developing a vibrant SME sector in any economy. However, in many emerging markets, access to finance remains one of the major challenges for the growth prospects of SMEs. Hence, governments across the world support SMEs with lot of incentives to overcome financial constraint.

In China, “The China Banking Regulatory Commission” (CBRC) has been set up to give priority to SME financing through a separate department working on SME financial needs and also through a network of credit guarantee agencies. In Japan, low-cost funding is being provided through major government financial institutions such as “Japan Finance Corporation for Small Business” and “Shoko Chukin Bank”. In South Korea, a “SME Promotion Fund” has been founded for restructuring sick SMEs and to nurture business start-ups. In Malaysia, Bank Negara Malaysia has launched new trade finance products such as “Multi Currency Trade Finance” for financing small and medium enterprises.



4. Growth trend of the MSME sector in India

Government earmarked a special role for small and medium scale industries in the Indian economy. Various focused measures have undertaken to develop the MSME sector over a period of time. As a result of this, presently the Micro small and medium enterprises (MSMEs) sector constitutes a very important segment of the Indian economy and has become a source of a sound entrepreneurial base in the economy. Overall, according to the data of fourth all India censuses on the MSMEs, the MSME sector has shown a significant growth in terms of its number of enterprises, employment generation, exports etc. A brief analysis of the growth trend of MSME sector is discussed here below:

4.1 Number of enterprises

The number of working MSMEs in India has been increasing every year. Though the rate of increase in number of MSMEs have remained resilient and exhibited steady growth trend of 4% over the past many years¹.

It is encouraging to note that with the increased government's focus on the sector and favourable policies, this sector has been able to grow strong, despite several international and home-grown challenges facing it.

Table 4.1 Growth in number of MSMEs in India

Year	No. of Working Enterprises(in lakhs)	Growth (%)
2001 - 02	105.21	
2002 - 03	109.49	4.07
2003 - 04	113.95	4.07
2004 - 05	118.59	4.03
2005 - 06	123.42	4.12
2006 - 07	361.76**	193.11
2007 -08*	377.37	4.31
2008 -09*	393.70	4.32
2009 -10*	410.82	4.34
2010 -11*	428.77	4.36
2011-12*	447.73	4.42

Source: Source: PHD Research Bureau compiled from Ministry of Micro, Small and Medium Enterprises, Annual Report 2012-13
The data for the period up to 2005-06 is Small Scale Industries (SSI). Subsequent to 2005-06, data with reference to Micro, Small and Medium Enterprises are being compiled., The growth for the year 2010-11 is based on the average growth rate for the previous three years *: Projected, **Including activities of wholesale/retail trade, legal, education & social services, hotel & restaurants, transports and storage & warehousing (except cold storage) for which data were extracted Economic Census 2005, Central Statistics Office, M/o SPI.

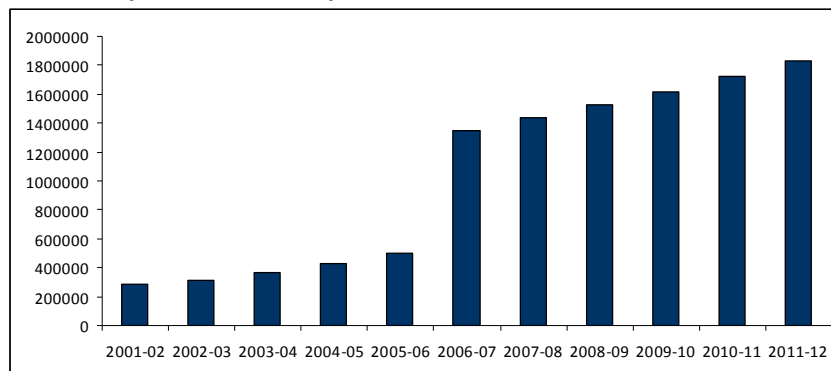
¹ The year 2006-07 shows abnormal rise in number of MSMEs operating in India and an exceptionally high growth figure of 112%. This may be attributed to the introduction of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 under which the concept of 'enterprise' was stated to include both manufacturing and services sector besides, defining the micro and medium enterprises. Thus, by defining micro and medium enterprises and including all service enterprises with manufacturing sectors, the number of working MSMEs in India increased substantially.



4.2 Gross Output

Output in MSME sector is increased substantially over a period of time. During 2011-12, MSMEs have marked nearly 6 times or 550% increase in output since 2001-02. This is the result of favorable government policies which have propelled the increase in number of enterprises in the economy and increased productivity.

Graph 4.1 Gross output of MSMEs in India (in Rs. Crores)

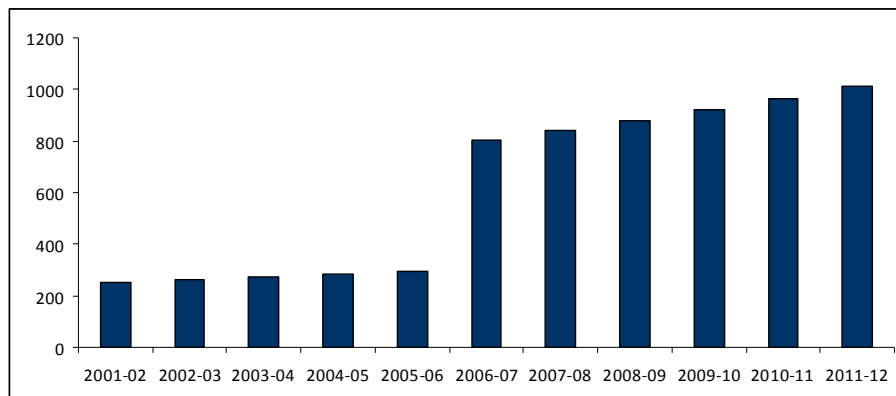


Source: PHD Research Bureau compiled from Ministry of Micro, Small and Medium Enterprises, Annual Report 2011-12 and Annual Report 2012-13

4.3 Employment

The growth of employment contributed by the MSMEs has also increased phenomenally over the years. During 1991-92, MSMEs employed around 16.6 million which has increased to around 101 million² in 2011-12. This has been a spectacular achievement and is indicative of the importance of the sector to the Indian economy.

Graph 4.2 Employment generation by MSMEs in India (in lakhs)



Source: PHD Research Bureau compiled from Ministry of Micro, Small and Medium Enterprises, Annual Report 2012-13, Note: Data is projected from 2007-08 to 2011-12

² Projected by Annual Report of Ministry of Micro, Small and Medium Enterprises 2012-13

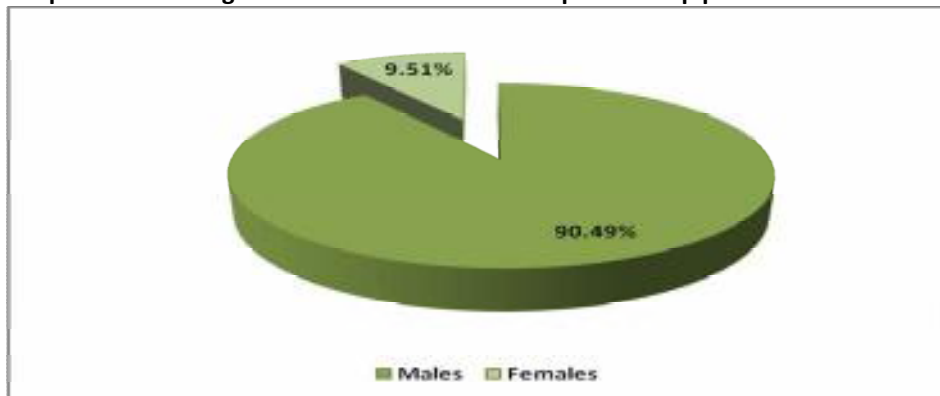


5. MSME sector in Uttarakhand

The MSME sector is one of the fastest growing and employment intensive segments in the Uttarakhand's economy. Since its formation, the government of Uttarakhand has undertaken significant initiatives to bring about all round development. The emphasis has been laid on stimulating development in all three sectors of the economy – agriculture, industry and services. The State Infrastructure & Industrial Development Corporation of Uttarakhand Limited (SIDCUL), a government of Uttarakhand enterprise, was incorporated in the year 2002 to promote industrial development in the state. It provides financial assistance to promote industries and develop industrial infrastructure in the state of Uttarakhand directly or through Special Purpose Vehicles, Joint Ventures, assisted companies, etc. Uttarakhand is estimated to have around 3.7 lakh MSMEs among which 0.2 lakh MSMEs fall in registered sector and remaining 3.5 lakh come under unregistered sector.³ The major reasons for this growth are the development of infrastructure facilities, favorable industrial policies, a talented pool of human resources and simplified administrative processes and procedures.

As per the Annual Report of the Ministry of Micro, Small and Medium Enterprises 2012-13, the number of employment generation by MSMEs in Uttarakhand is 7 lakh. This remarkable growth has made Uttarakhand an attractive investment destination.

Graph 5.1 Percentage distribution of female entrepreneurship profile in Uttarakhand



Source: PHD Research Bureau, compiled from Fourth All India Census of Micro, Small & Medium Enterprises: Registered Sector

MSMEs in Uttarakhand are mainly dominated by males in terms of ownership. Females own only 2.4 thousand enterprises while male ownership extends to 21.3 thousand enterprises. Thus, females own 9.5% of total MSMEs whereas males have possession of around 90.5% of MSMEs in the state.

³ Annual Report of Ministry of Micro, Small and Medium Enterprises 2012-13



Table 5.1 MSMEs in Uttarakhand

Estimated no. of MSMEs	3.7 (lakh)*
Estimated number of MSMEs in registered sector	0.2 (lakh)*
Estimated number of MSMEs in unregistered sector	3.5 (lakh)*
Estimated employment generated	7 (lakh)*
Total MSME clusters	44
No. of working enterprises in the clusters	0.1 (lakh)
Employment generated in the clusters	0.2 (lakh)
Gross output from clusters	675.9 (crores)
Total working enterprises	23765
Total no. of micro enterprises	23349
Total no. of small enterprises	389
Total no. of medium enterprises	27
Enterprises in manufacturing/assembly/processing sector	13437
Enterprises in services sector	6607
Enterprises in Repairing & Maintenance sector	3721
Perennial enterprises	22668
Seasonal enterprises	1084
Casual enterprises	13
Enterprises owned by proprietors	22534
Partnership based enterprises	655
Private companies	306
Public Ltd. Co.	131
Co-operatives	63
Others	77
No. of enterprises owned by females	2.4 (thousand)
No. of enterprises owned by males	21.3 (thousand)

Source: PHD Research Bureau, compiled from Fourth All India Census of Micro, Small & Medium Enterprises: Registered Sector

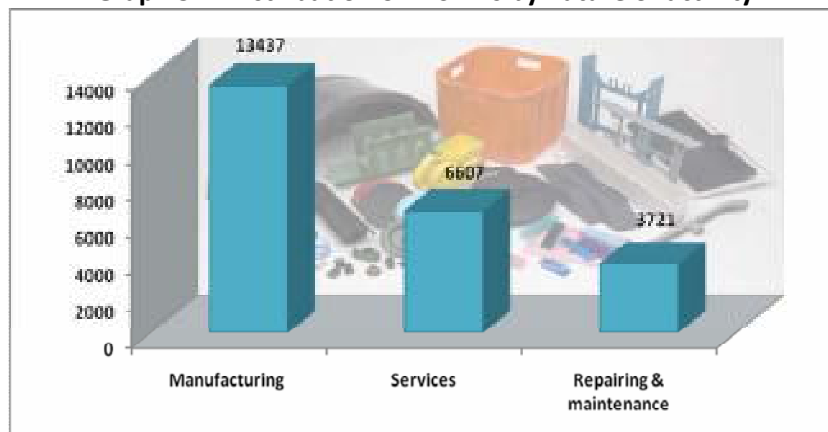
Note: (*) Compiled from Annual Report (2012-13), Ministry of MSME, Government of India

The total MSMEs in Uttarakhand are diversified among different sectors of operation. The number of MSMEs in manufacturing/assembling/processing sector is nearly 13437 whereas enterprises in services sector stands at about 6607. While enterprises in repairing and maintenance sector comprises of 3721 units in the state.⁴

⁴ Fourth All India Census of Micro, Small & Medium Enterprises:2006-07: Registered Sector



Graph 5.2 Distribution of MSMEs by nature of activity



Source: PHD Research Bureau, compiled from Fourth All India Census of Micro, Small & Medium Enterprises: Registered Sector

5.1 Factors contributing to development of MSMEs in Uttarakhand

Uttarakhand has emerged as one of the most attractive industrial destinations in India. The State with its vast natural resource base, large forest cover and enormous power potential holds the potential of being one of the most flourishing states in the country. The Government has encouraged private participation in all industrial activities in the state. Further, the state offers favourable and appropriate investment destination owing to various factors:

- i. Apart from the Concessional Industrial Package, the state's Industrial Policy also provides various benefits for the industrial development in the state of Uttarakhand. A number of fiscal and non fiscal benefits are offered by the state in terms of tax exemptions, reimbursement on loans, interest incentives, financial assistance, subsidies and concessions. The state has proactively deployed the single window clearance mechanism to facilitate and ease investments into the state.
- ii. Uttarakhand enjoys location advantage as it is situated in proximity to the National Capital Region (NCR) of Delhi which is one of the leading markets of the country. Moreover, the state is also very well connected to all its neighboring states by road, air and railways.
- iii. The state's fast pace of infrastructural development makes it a potential investment destination. With the setting up of industrial estates, growth centres, pharma city and IT-parks, there is an upward swing in Uttarakhand's investment scenario. Apart from basic amenities like water, power, connectivity and transport linkages, these estates have access to leisure, education, health and other facilities.



- iv. The literacy rate of Uttarakhand has always been higher as compared to the national average. The literacy rate of the state stands at around 80% as compared to national average of around 74%. Further, the state is home to several renowned educational institutions making it a rich pool of talented manpower. This serves as an additional advantage for investing in MSMEs in Uttarakhand.

5.2 Opportunities for MSMEs in Uttarakhand

Uttarakhand, despite being a small state, has some distinct features which offer enormous growth potential for MSME sector. Being abundant in natural resources, there exist vast business opportunities in sectors like floriculture, processing of medicinal and aromatic herbs, horticulture and agro based industries, handicrafts, pharma products, wool and silk products as well as information and communication technology. Several opportunities pertaining to different promising sectors are outlined here below:

5.2.1 Floriculture and horticulture: The rich biodiversity and ideal climatic conditions act as a significant advantage to the growth of floriculture and horticulture industry in the state. The rising demands in domestic and international markets have driven government to focus on floriculture development. This has helped to create employment and income generation opportunity for farmers in Uttarakhand.

5.2.2 Agro and food processing: The state offers geographical advantages making it particularly conducive for boosting commercial agro and food processing industries. Fruits such as apples, oranges, pear, grapes, peach, plum, apricot, litchi, mangoes and guava are widely grown in the state and therefore have immense potential for development of food processing units in Uttarakhand.

5.2.3 Biotechnology: Uttarakhand has a natural advantage in this sector and is home to a variety of flora and fauna and rare species of plants and animals. With a view to utilize these resources, government is also planning to develop Uttarakhand as a centre for excellence in biotechnology.

5.2.4 Information and communication technology: Information and communication technology (ICT) has received special attention from the state government and it has been accorded the status of Industry. With the establishment of the STPI earth station at Dehradun, Uttarakhand has emerged as an ideal IT-ITeS destination. Apart from these sectors, there is an immense potential for MSMEs to tap areas like sericulture, fisheries, tea cultivation, bamboo & fiber development, herbs & spices, organic farming etc. Uttarakhand offers huge export prospects to these industries and provides an opportunity for the development of MSMEs in these untouched areas.



6. Policy support to Uttarakhand in the MSME sector

The Government of Uttarakhand has initiated several incentive measures to ensure rapid, impartial and sustainable industrial development in the state. The policies intend to develop an investor friendly environment, enhance infrastructure and investment inflows, generate additional employment opportunities, and ensure balanced industrial development in all regions of the state. The Industrial Policy of the state was announced in 2003 keeping in view the sectors prevailing in Uttarakhand namely Tourism, Agro & Food processing, Floriculture, Handicrafts & Handlooms etc. Further, the industrial policy of the state was amended as New Industrial Policy to encompasses more sustainable and investor friendly policy initiatives for the industrial development of the state.

An array of fiscal incentives has been provided under the Industrial Policy to boost the industrial advancement in the state. The various policy incentives in terms of tax concessions, power concessions, marketing assistance have benefited the entrepreneurs to a great extent. Similarly, in the case of sick non-SSI units, Government has considered measures required under revival/rehabilitation package drawn by Operating Agency/Financial Institutions/Banks. The state has also offered a matching state subsidy on approved projects of National Horticulture Board (NHB), Agriculture & Processed Food Products Export Development Authority (APEDA), and National Medicinal Plants Board (NMPB) subject to a maximum of Rs. 20 Lakhs subject to a total subsidy not exceeding over 50% of the project cost.

Further, the Hill Policy has been introduced in 2008 as a Special Integrated Industrial Promotion Policy in order to accelerate industrial development in the remote and backward hilly regions of the state. The policy has been enforced for ten years and provided assistance to entrepreneurs willing to set-up industries as well as generating more employment in the state. The industries eligible for the scheme include manufacturing industries which are of non-polluting nature under green and orange categories, thrust industries declared by Government of India, activities having the status of 'Industry' declared by the State Government such as the poultry farming and tourism, petrol diesel pumping and filling, gas go-downs, bio-technology industry, protected agriculture & cold storage activities, medical and health services and vocational training institutes. The policy also provides marketing promotion incentives by organizing and facilitating participation in trade fairs, exhibitions at national & state levels at concessional rates. The government of Uttarakhand has also established Udyog Mitra which works as an apex interactive and problem redressal body under the Chairmanship of the Chief Minister of the State. It aims to create conducive environment for industrial development and to continuously review and take decisions in respect of policy requirements. Further, it serves as a consultative



mechanism between the government and industries and simultaneously looks into issues related to sick industries and their rehabilitation. A Single Window Clearance Mechanism has been enforced at state and district levels to expedite project clearances by simplifying cumbersome rules and regulations. The state government has created a separate department of Micro, Small and Medium Enterprises in 2013. A separate policy for MSMEs has been brought out in order to give a boost to the MSME sector of the state. The state's first MSME policy has offered several incentives to boost state's MSME sector. The sectors identified as thrust areas for investment are agro and food processing and allied industry, automobile and automotive components, biotechnology, electronics, forest based industry, handicrafts, handloom, hosiery, textile, pharma, khadi and village industry, industry based on herbal and medicinal plants and others.

7. Key highlights of the Union Budget 2013-14 for the MSME sector

Recognizing the importance of the MSME sector, the government has taken several measures to promote the sector further. This is manifest in the huge amount of plan and non plan outlay which is allocated for MSME sector in the Union Budget of 2013-14. The plan outlay for the Ministry of MSME for 2013-14 is Rs. 2977 crore and the non plan outlay for the sector stands at Rs. 313 crore.

Table 7.1 Plan outlay for the MSME sector		(Rs. crore)
1.	ARI Sector (Agro & Rural Industry)	1842
2.	Development Commissioner, MSME	870
3.	SME Sector	265
4.	Total	2977

Source: PHD Research Bureau, compiled from Outcome Budget 2013-14, Ministry of Micro, Small and Medium Enterprises

Several schemes have also formulated for the development of the sector for which financial outlays and budgets have been allocated for the financial year 2013-14. A detailed review of this outlay is described as follows:-

7.1 Khadi and Village Industries Commission (KVIC): Budgetary allocation under KVIC has been made for the promotion and development of khadi through market development assistance, financial assistance for revitalisation of KVI institutions, replacement of charkhas and looms and encouraging value addition by converting khadi fabric into readymade garments. Under this scheme, bank loans are provided to khadi institutions at a subsidized interest rate of 4% to enable them to meet their working capital needs. An outlay of Rs. 178.9 crore has been allocated to KVIC from which Rs. 152.3 crore has been kept for administrative expenses and Rs. 15 crore has been allocated to enhance the efficiency, productivity and competitiveness of khadi



industry with special focus on spinners and weavers to promote inclusive growth of the sector.

7.2 Coir Board: The Coir Board is a statutory body established under the Coir Industry Act, 1953 in order to promote overall development of the coir industry and improve the living conditions of the workers engaged in this traditional industry. It also promotes co-operative organisations among producers of husks, coir fibre, coir yarn and manufacturers of coir products; ensuring remunerative returns to producers and manufacturers. A plan outlay of Rs. 68 crore has been allocated to it to undertake modernization of production process, development of machinery & equipments, product diversification and development of eco-friendly technologies. A non plan budget of Rs. 12.7 crore has also allocated to cover administrative expenses of the board.

7.3 Central sector schemes: In order to enhance the competitiveness of MSME sector, a plan budget of Rs. 18 crore has been allotted to Information & Communication Technology scheme (ICT) while Rs. 20.5 crore has been allotted towards Technology and Quality Upgradation Programme (TEQUP) to promote energy efficiency in MSMEs and encourage product certification. Further, a plan outlay of Rs. 10.5 crore has been allocated to entrepreneurial and management development schemes to nurture innovative business ideas among the MSMEs.

7.4 Trade Related Entrepreneurship Assistance and Development Scheme (TREAD): The scheme envisages economic empowerment of women through development of their entrepreneurial skills in non-farm activities. A plan outlay of Rs. 2.5 crore has been allocated to this scheme.

7.5 Market Development Assistance Scheme (MDA): Under MDA scheme, assistance is provided to individuals for export promotion, participation in overseas fairs/ exhibitions, providing stalls for showcasing their products at MSMEs India stall. An outlay of Rs. 0.25 crore has been assigned for encouraging MSMEs to excel in packaging in order to achieve export growth.

Table 7.2 Non-plan outlay for the MSME sector (Rs. crore)

1.	Khadi and Village Industries Commission (KVIC)	179
2.	Coir Board	13
3.	Mahatma Gandhi Institute of Rural Industrialization (MGIRI)	0.5
4.	Loan and advances	0.8
5.	Secretariat Service of the Ministry of Micro, Small and Medium Enterprises	9
6.	Office of Development Commissioner, MSME	20
7.	Promotional Services Institutions and Programmes	90

Source: PHD Research Bureau, compiled from Outcome Budget 2013-14, Ministry of Micro, Small and Medium Enterprises

Note: Figures have been taken nearest to the single decimal place



8. States' MSME policy focus

In view of the fact that MSMEs are the growth engine for achieving higher growth trajectories, states have taken various policy initiatives in order to promote MSME sector. Bihar has provided 100% stamp duty exemption, reimbursement of VAT among others to promote MSMEs.

Chandigarh has incentivized its MSME sector by promoting congenial environment for their development in terms of financial and marketing support. Chattisgarh has emphasized the growth of MSMEs through various policy initiatives to ensure balanced industrial development through setting up of MSMEs in the state.

Haryana has encouraged new entrepreneurs, implementation of e-governance and setting up of a dedicated cell for MSMEs in the state. Himachal Pradesh has promoted MSMEs in the state through purchase preference, setting facilitation councils and adopting cluster development approach.

The state of Jammu and Kashmir has also taken several initiatives in terms of various tax reforms for the promotion of MSMEs. The newly established state of Jharkhand has focused to establish linkages between MSMEs and large industries.

Madhya Pradesh has provided several assistance to its MSME sector through various schemes such as Small Scale Industrial Revival Scheme 2010, Madhya Pradesh Laghu Udyog Nigam etc. While Punjab aims to strengthen its MSME sector by providing support to the sick micro and small industries, exemption from power cuts etc.

Further, Rajasthan has promoted MSMEs by providing institutional support for quality improvement and several other policy measures. The state of Uttar Pradesh has laid emphasis on technological development, state level financial institutions and encouraging MSME associations in order to boost development of MSME sector in the state.



Table 8.1 States' MSME policy focus

State	Concessions/Incentives
Bihar	<ul style="list-style-type: none"> 100% (First time) exemption from Stamp Duty / Registration Fees being levied on Lease/ Sale / Transfer of Industrial Land for new Micro, Small, Medium (MSME) and Large sector industries. New MSME industrial units will be granted 20% capital subsidy on the amount spent on plant and machinery subject to a maximum of Rs. 75 lacs Re-Imbursement of VAT and Entry-Tax to new MSME/ Large Industries MSME industries registered by competent authority will pay only 1% CST on their item of production.
Chandigarh	<ul style="list-style-type: none"> Offers congenial environment for the development of tiny, micro, small & medium enterprises and promoting marketing of SSI products The Chandigarh Administration would provide financial assistance so as to undertake various activities necessary to increase SSIs sales turnover in the domestic and export market and to finance corporate entities to enable them to provide support service and/or infrastructural facilities to small scale sector to improve its marketing capabilities. Subsidy for marketing assistance to small scale industries of food processing sector. The reimbursement of actual expenditure for putting up the stall in the exhibition of National level, State level exhibition/seminar or for advertisement for it would be reimbursed 20% of the expenditure for putting the stall subject to a maximum of Rs. 20,000/- per annum.
Chhattisgarh	<ul style="list-style-type: none"> For balanced industrial development, industrial areas will be developed for micro and small industries in different districts as per requirement. In large industrial area 20% reservation will be made for micro and small industries out of allocable land In order to develop the industrial infrastructure in state permission shall be granted for construction of Industrial Area of minimum 75 acres in private sector. For this concession and facilities shall be given. In these area there shall be binding for reservation of 20% minimum allocable land for micro & small industries. Efforts will be made that the Mega industrial projects will procure the material needed for production from the micro and small industries of the state and help the State Government in developing the allied industries Expansion of the Existing Industrial Unit" --In the matter of Micro and small Industries, medium industries, large industries, mega project and ultra mega project, an industrial unit started production after appointed day of industrial policy 2009-14 which additionally invests minimum 25% of eligible invested capital in the plant & machinery till date of commencement of commercial production and expands its production capacity by minimum 25% of its originally installed capacity registered with industries department or three year's average production, whichever is higher.
Delhi	<ul style="list-style-type: none"> New projects in tiny and small scale sectors for manufacturing, preservation or processing of goods can avail the loan for acquisition of land, construction of building, plant and machinery, pre-operatives and other assets To encourage existing industrial units in Small Scale Sector to modernize their production facilities and adopt improved and updated technology so as to strengthen their manufacturing facilities Working capital term loan (WCTL) for existing profit making SSI units to meet need based working capital



	<ul style="list-style-type: none"> • Short term working capital (STWC): for existing profit making SSI units to meet short term working capital requirements. The maximum quantum of Loan subject to Rs 10 crore for companies and societies and Rs 4.00 Crore for proprietorship and partnership firms • Acquisition of ISO-9000 series certification: by existing profit making SSI units can be financed for costs of acquiring equipments & expenses towards consultancy/documentation etc. • Marketing Support to Small Scale Inds., Cottage & Village Inds for purchase of mobile sales vans (upto 6 vehicles) and for setting up of Sales outlets • Equipment Finance Scheme to assist the existing SSI for acquisition of machinery/equipment, both indigenous and imported.
Haryana	<ul style="list-style-type: none"> • HSIIDC would provide the required hand-holding services to the new entrepreneurs in order to improve the confidence level of a new investor • The Directorate would take steps for implementation of an e-Governance system for efficient delivery of services and development of content-rich portal for dissemination of all the required information • The Directorate of Industries would set-up a dedicated cell for MSMEs for an effective interface • All universities, technical and research institutions would be encouraged to provide incubation facility for new and promising entrepreneurs to establish various clusters in partnership with the industry and financial support from the Government of India under the Industrial Infrastructure Upgradation Scheme (IIUS). • Technology upgradation in a cost effective manner
Himachal Pradesh	<ul style="list-style-type: none"> • Products of small scale enterprises including village enterprises would be given purchase preference • Working of the facilitation councils set up in the state will be made time bound and more effective to ensure timely payments of the dues • Cluster development approach and simplification of law and procedures and adoption of best technologies
Jammu & Kashmir	<ul style="list-style-type: none"> • Upto 15% Price Preference shall be available on the landed cost of the product to the local MSMEs, in all government purchases. • Earnest Money/Security Deposits--SSI unit shall be required to pay only 50% of the amount of earnest money prescribed by the tendering authority or Rs.5000 whichever is lower. • Tender documents shall also be supplied to the SSI units at 50% of the price of the documents or Rs.100 whichever be lower. • SICOP shall be treated at par with the SSI units for the purpose of the aforementioned provisions • TOLL TAXES-- There will be no additional toll tax on the raw materials, fuel and consumables, procured from outside the state by the existing or new SSI units till 31-01-2015 except for items brought on the negative list from time to time. • ii) There will be no additional toll tax on finished goods manufactured by the existing or new SSI, Medium and Large units and sent outside the state upto 31-03-2015 except for items brought on the negative list from time to time. • iii) There will be no additional toll tax on the Raw materials, fuels, consumables brought from the existing new medium and large units upto 31-03-2015 except in case of items brought on the Negative list from time to time.



	<ul style="list-style-type: none"> iv) There will be no additional toll tax on components, machinery, plant and other equipments procured from outside the state for building the factory, for a period of five years from the date of registration of the unit in SSI, Medium or large sector. v) There will be no additional toll tax on 100% export oriented units on the goods exported under proper export documents from the state to any foreign country. vi) There will be no additional toll tax on empty containers brought into the state which are used for stuffing products of industry for export out of the state. Central sales tax-- The existing and new SSI, Medium & Large industrial units shall be exempt from charging and payment of CST on sale of their finished goods outside the state upto 31-3-2015 except for the items on the negative list
Jharkhand	<ul style="list-style-type: none"> Focuses to establish linkages between MSMEs and large industries To develop link between MSMEs and the Technical Institutions by connecting each cluster with a technical institution to solve the technical and design related problem Focuses to provide linkages for MSMEs with micro-finance institutions, raw materials, focused market access etc. Awareness programmes on export marketing and other related issues A minimum of 40% area of such private industrial estate will be earmarked for the setting up of MSMEs by investors other than the developer of the private industrial area. Setting up a permanent exhibition-cum-convention centre for exclusive display of MSME products Creating Jharkhand Micro and Small Enterprises Facilitation Council to redress the problems being faced by local MSEs in marketing their quality products Special emphasis will be given on providing Common Facility Centres (CFC) mainly through Public-Private-Partnership (PPP) initiatives to MSME projects of a cluster
Madhya Pradesh	<ul style="list-style-type: none"> Micro and small manufacturing enterprises having fixed capital investment of Rs.1crore or more but less than Rs10crores would be given industrial investment promotion assistance⁵. Major and Medium industries would be provided 50% assistance (with ceiling of 15% of the capital expenditure of industry subject to the, maximum of Rs. 1 crore) of expenditure on development of infrastructure such as road, water and power supply upto the premises of industrial unit⁶. Micro and small industries will be given 50% exemption in land revenue on diversion for upto five acres of land for industrial purpose, purchased by them. Madhya Pradesh Laghu Udyog Nigam focuses on vendor development and linkage among the micro, small, medium and major industries Buyer-seller meets, trade fairs for expansion of marketing activities industrial trade fairs Madhya Pradesh Small Scale Industries Revival Scheme 2010 for small scale sick industries. Subsidy on fixed capital to eligible micro and small enterprises (15%) subject to maximum limit of Rs. 15 lakhs. MSMEs setup by persons belonging to SC/ST/Women/Disabled category in industrially

⁵ In all the districts of the state as applicable to category 'C' of backward districts.

⁶ This assistance will be available to only industries being set up at locations which are 10 km or more from the limit of such an industrial area where land and building are available for allotment. The distance criterion will not be applicable in respect of the industrial areas where land/building is not available for allotment.



	<p>advanced districts will be eligible for capital investment subsidy at 20% subject to a maximum limit of Rs. 20 lakhs.</p> <ul style="list-style-type: none"> Small Scale units under thrust sector industries like textiles, information technology, bio-technology, automobile, pharmaceuticals, herbal, food processing, agro and urban & industrial waste processing based units having fixed capital investment of over Rs. 50 lakhs will be given special subsidy of 25% subject to maximum of Rs.30 lakhs
Punjab	<ul style="list-style-type: none"> Relief to sick micro and small industries such as deferment of recovery arrears of sales tax, purchase tax, electricity duty, power bills, house tax and water charges for a period upto five years. These funded dues be made repayable within a period of five years thereafter with interest at a specified rate. Exemption from power cuts to sick units will be ensured. In case this is not possible in view of reduced power availability and other compelling demands, the board will reduce power cuts applicable to sick units to about 50% of the stipulated power cuts in case of other industrial units. Prompt permission of the State Government to the sick units for the sale of surplus land. Minimum charges for electricity connection would be exempted during the closure period. Banks / financial institutions will grant reliefs and concessions to the potentially viable sick units Punjab Small Industries and Export Corporation Limited to assist small scale Industries in the State and is mainly engaged in distribution of iron and steel materials, development of infrastructure promotion of export from small scale industries and marketing of products manufactured by small scale units through a network of emporia.
Rajasthan	<ul style="list-style-type: none"> Exemption from Entry Tax on inputs (Raw materials, processing materials, packaging materials except fuels) CST shall be reduced to 0.25% only and stamp duty chargeable on loan agreements and deposit of title deed and lease Contract shall be reduced to Rs. 100 per document Exemption of 75% from Electricity Duty to the units located in rural areas Institutional support for quality improvement by way of bearing 50% of the capital cost incurred by the Small & Medium Enterprises for establishment of effluent treatment plant/facility provided the unit uses 80% of the recycled water. Issue of at least 10,000 'Artisans Credit Cards' per year to ensure easy and smooth credit flow to the artisans RIICO shall develop separate rural small industrial areas for Micro, Small and Medium Industry with 24 hours three-phase uninterrupted power supply and enabling infrastructure, viz. road connectivity, drainage system, street lighting, water supply 30% plots will be reserved for MSMEs in new industrial areas which are to be developed by RIICO.
Uttar Pradesh	<ul style="list-style-type: none"> Modernisation and technological development schemes will be implemented to provide loans at lower interest rates to entrepreneurs Scheme to be implemented to develop city <i>Haat</i> kind of markets in Kanpur, Allahabad, Varanasi, Agra and Lucknow (KAVAL towns) where both display and sale facilities will be made available to industrial units particularly to micro, small and medium enterprises. Poorvanchal (Eastern U.P.), Madhyanchal (Central U.P.) and Bundelkhand regions will be given special concessions, such as Capital Investment Scheme for small enterprises, Interest Subsidy Scheme and other Capital Subsidy Schemes



	<ul style="list-style-type: none"> State level financial institutions will be revived for financing Micro, Small and Medium Enterprises (MSMEs), through which implementation of the Central government and the State government schemes will be ensured. Non-polluting micro and small enterprises, which operate without deforming or harming the form of buildings and which do not pollute land, water and atmosphere, will be allowed to be run in residential areas. UPSIDC and other industrial agencies will identify the land up to Tehsil (Sub Division) level in the State to develop Mini Industrial Areas, as per the demand of Micro and Small industries. Association of MSME entrepreneurs will be encouraged to establish industry specific clusters in the State through Special Purpose Vehicles (SPVs) so that basic facilities like sewage treatment plant, common effluent treatment plant (waste treatment plant, pollution control plant) and testing labs etc. are developed swiftly as per the requirements of the entrepreneurs.
Uttarakhand	<ul style="list-style-type: none"> An interest incentive at 3% with a maximum of Rs. 2 lakhs/annum shall be provided to New SSIs and to existing SSIs for modernization and substantial expansion⁷ For SSI units coming up in remote areas, the rate of interest incentive will be at 5% with a maximum of Rs. 3 lakhs/annum. For revival/rehabilitation of sick SSIs units, an interest incentive at 3% with a maximum of Rs. 2 lakhs per annum shall be provided on the revival and rehabilitation package loan taken from financial institutions, banks etc Entrepreneurs in remote areas, the interest incentive⁸ will be granted at 5% with a maximum of Rs. 3 lakhs per annum Marketing assistance will be provided to the Small Scale Enterprises through organisation of buyer-seller meets, and facilitating participation in Trade Fairs

Source: PHD Research Bureau compiled from various state governments

9. Objectives of the present study

In the wake of analyzing the opportunities and challenges for the MSME sector pertaining to different States, the PHD Chamber of Commerce and Industry jointly with Department of Industry, Government of Uttarakhand, has conducted a survey based empirical study “Emerging Contours in the MSME sector of Uttarakhand”. The study aims at knowing the strengths and weaknesses of the MSME sector and to understand the issues and challenges faced by MSME sector in Uttarakhand. The specific objectives of the study pertain to analyze:

- i. The structure of MSME sector in Uttarakhand.
- ii. The growth dynamics of the MSME sector in Uttarakhand with regard to:

⁷ provided they have availed loan from State level Financial Institutions and Banks

⁸ The interest incentive shall be admissible only if the unit remains in operation for a minimum of 3 years from the date of disbursement of last installment



- a. Sectoral concentration
 - b. Sourcing of raw materials
 - c. Export potential/ global integratedness
- iii. To know the state specific operational issues faced by MSME sector with regard to infrastructure framework, availability of credit, access to capital, availability of land, identification of new markets, clearance mechanism.
- iv. To analyse the opportunities and challenges faced by the MSME sector in the state with regards to scale of operation and sector specific issues.
- v. Future growth prospects of the sector in terms of exports growth and competitive advantage with other states.

10. Research Methodology

The present study attempts to understand the present status and future prospects of MSME sector in Uttarakhand in terms of its several opportunities and challenges. In order to conduct the study several key activities have been initiated in June 2013 and extended for a period of six months.

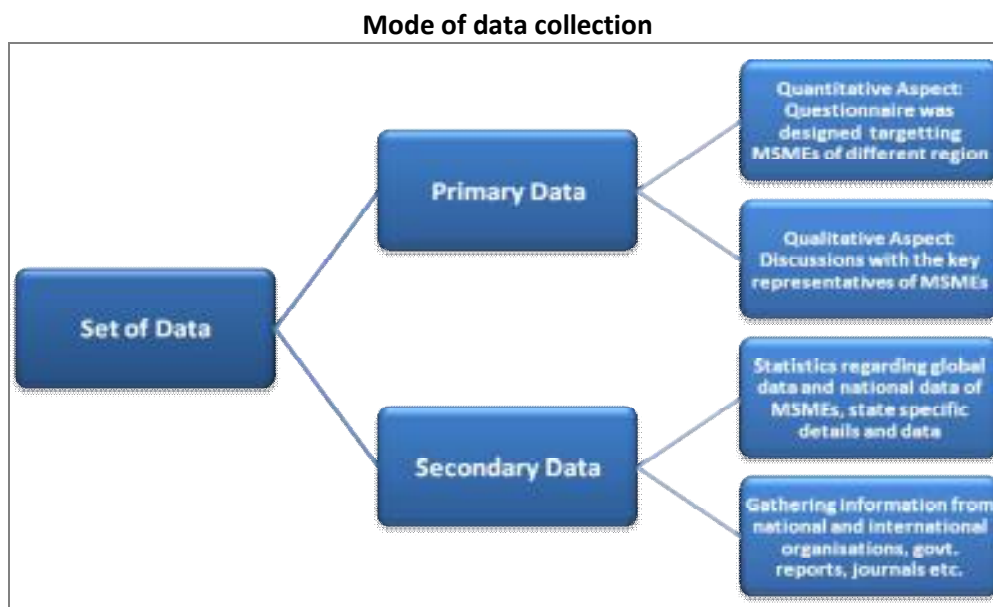
These activities ranged from preparation of questionnaires, data retrieval, gathering inputs from the entrepreneurs, industry experts etc. have been undertaken.

10.1 Data collection

The report takes into consideration both primary and secondary data sources. For the primary data both qualitative and quantitative methods have been used. The primary data collection comprises of in-depth field survey of the MSMEs through structured questionnaires and discussions with the key representatives of the MSME sector in Uttarakhand and the collection of secondary data includes sources like websites of national and international organizations, government reports, journals, newspapers and others.

During the survey, various stakeholders of the MSME sector were approached and valuable inputs were collected through face to face interactions, telephonic interviews, mailing the structured questionnaires.





Source: PHD Research Bureau

10.2 Data collection technique

The survey has been conducted using systematic sampling technique in which the respondent firms have been chosen on the basis of data available with the state government and the chamber across the various cities of the state. The structured questionnaire has been designed and disseminated to the respondents selected on the basis of a definite sampling methodology. However, efforts have been made to ensure that each and every segment existing in the state is touched upon, in terms of:

- a) Scale of the firm, micro/small/medium
- b) Area of location of the firm
- c) Sectoral concentration of the firm

10.3 Sample Selection

The sample selection for the study comprises of selection of Districts, selection of industrial sectors and finally selection of representatives from MSMEs sector.

10.3.1 Selection of Districts

To conduct the survey, all the 13 districts of Uttarakhand have taken into account namely Dehradun, Haridwar, Haldwani, Kotdwar, Kashipur, Nainital, Pauri Garhwal, Pantnagar, Rudrapur, Rurkee, Rishikesh, Tehri Garhwal and Udham Singh Nagar. The inferences have been derived on the basis of unanimity of the views received from the states on various issues addressed in the questionnaire.



10.3.2 Selection of Industrial Sectors

The survey has broadly considered 8 major sectors and few other sectors of the State namely auto components & automotive, agro and food processing, drugs and pharmaceuticals, electronics & electricals, engineering, Fast Moving Consumer Goods(FMCG), forest based industry and gems and jewellery. The rationale of selecting these industrial sectors is that these sectors either contribute significantly to overall MSME sector of the State or are promising sectors which hold high potential for driving future growth of the State.

Table 10.1 Major products of different sectors in Uttarakhand

S.No.	Sectors	Major products
1	Auto components & automotive	Auto accessories, spare parts, sheet covers
2	Agro and food processing	Bakery stuff, pickles, juices, sauces
3	Drugs & pharmaceuticals	Medicines, injections, ayurvedic medicines
4	Electronics & Electricals	Cable and wires, fans, bulbs etc
5	Engineering goods	Equipments and turbine parts, nuts and bolts etc
6	FMCG	Cosmetics
7	Forest Based Industry	Ply wood products, timber products, furniture
8	Gems & jewellery	Artificial jewellery

10.3.3 Selection of MSMEs representatives

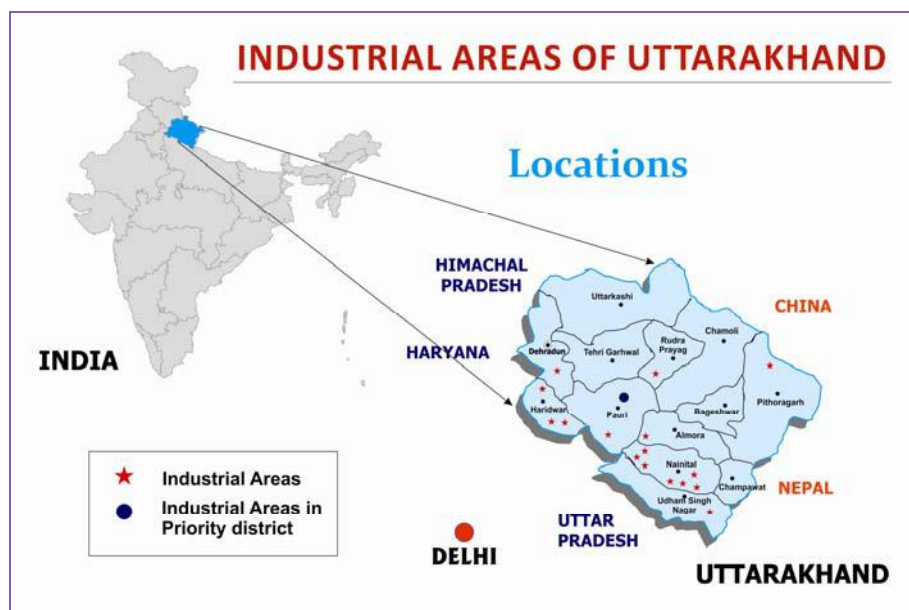
The field survey has been undertaken ensuring the representation of all categories of MSMEs manufacturing, trading and service units and representation from the employers at the top or middle level positions. The questionnaire is disseminated to around 1000 target respondents, however, about 772 responses have been received to determine the final results pertaining to the stated objectives of the study.

11. Profile of the industrial estates in Uttarakhand

Uttarakhand is a land of opportunities, strategically located at the foothills of the Himalayan ranges and has a mountainous topography. Uttarakhand is one of the fastest growing states of India; the State's economy grew more than 9% during the last decade. The state has a peaceful and pollution free conducive environment for Industrial Investments. It is rich in power resources with availability of assured, uninterrupted, quality power at affordable and competitive rates. Agriculture is one of the most important and thrust areas of the economy of Uttarakhand.



In present times, Uttarakhand has undergone a paradigm shift owing to its competitive stand in India. In recent years, it has emerged as one of the most attractive industrial destinations in India. From being an agro-based state, it is now attracting IT and biotech companies. This economic development has worked towards creating employment and income opportunities for its people and simultaneously, enhancing the resources of the state. As per the Annual Report 2012-13, Government of India, Ministry of Small, Medium and Micro Enterprises, the gross output of small and medium enterprises in Uttarakhand state is around Rs 16188 crores. The state comprises 13 districts namely Almora, Bhageshwar, Champawat, Chamoli, Dehradun, Haridwar, Nainital, Pauri Garhwal, Pithoragarh, Rudrapur, Tehri Garhwal, Udham Singh Nagar and Uttarkashi. Each of the districts is blessed with several investment opportunities depending on their geographical location and availability of natural resources.



11.1 Industrial estates in Dehradun

Dehradun is the capital city of Uttarakhand and is located at the foothills of Himalayas. The key industries flourishing here are floriculture, food processing, biotechnology, information technology and tourism. The major export items in the region are spices, herbs, khukris, mushrooms, wood crafts, medicines, frozen dried foods, helmets and cosmetics etc. Being rich in the forest cover, Dehradun has a great potential in industries like pharmaceutical products, herbs & medicinal plants, bee keeping and sericulture. Essential oil industry too has an ample scope in the city. Dehradun has experienced a commercial and information technology boom, augmented by the



establishment of Software Technology Parks of India and various SEZs (special economic zones) throughout the city. The city has 16 industrial estates with 541 established units among which IT Park and Pharma City are the most significant ones. Favourable government policies and availability of natural resources has led to the development of a large number of small scale industries in Dehradun.

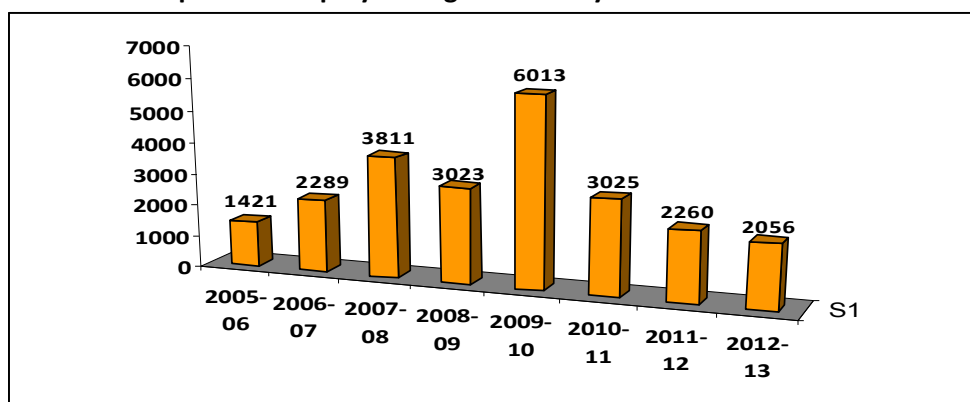
Table 11.1 Employment vis-à-vis investment in Dehradun

Year	Employment	Investment (Crore)
2005-06	1421	9.7
2006-07	2298	29.3
2007-08	3811	87.9
2008-09	3023	87.7
2009-10	6013	141.8
2010-11	3025	151.4
2011-12	2260	58.0
2012-13	2056	53.7

Source: PHD Research Bureau, compiled from Ministry of Micro, Small & Medium Enterprises, Government of India

MSMEs have contributed significantly in employment generation within the state capital. MSMEs have generated 1421 employment in Dehradun during 2005-06 which increased more than doubled to 2056 during 2012-13. Further, investment in the sector in the city stood at around Rs 10 crore during 2005-06 which hiked significantly to Rs 151 crore during 2010-11. However, city observed a slump in industrial investment from Rs 151 crore in 2010-11 to Rs 54 crore in 2012-13. This has directly impacted the employment generation which declined from 3025 employment during 2010-11 to 2056 employment during 2012-13.

Graph 11.1 Employment generated by MSMEs in Dehradun



Source: PHD Research Bureau, compiled from Ministry of Micro, Small & Medium Enterprises, Government of India



11.1.1 Information Technology Park

State Industrial Development Corporation of Uttarakhand Ltd. (SIDCUL) and Department of Information Technology & Industrial Development has undertaken the establishment of “International Quality” IT infrastructure in more than 60 acres at Sahastradhara Road, Dehradun. Further, the State Government has undertaken major initiatives in IT education, formulation of a pro-active IT Policy and development of international quality infrastructure in the capital city of Dehradun. The government has undertaken several initiatives like setting up a STPI Earth Station with connectivity up to 100 mbps fiber optic networks and state of the art intelligent buildings in the region. The IT Park offers several amenities to support business such as conference hall, training centers, guest houses, travel & forex service, banks, ATM’s and recreational needs of the occupants. In addition, there are recreational amenities such as a multi-cuisine food court, a health club and sports facilities etc. The proposed employment generation in this park is around 8037 approx.⁹

11.1.2 Pharma City - Selaqui Industrial Area

Pharma City, Selaqui Industrial Area is located at 25 kms from Dehradun in an area of 50 acres. The area available for industrial allotment is 30 acres. The estate is very well connected with rest of the country via railway routes, national highways and airports.

Table 11.2 Existing Industrial Estates in Dehradun

S. No.	Name of Industrial Area	No. of units established	Employment (in Numbers)
1.	Govt. Industrial Estate, Patel Nagar, Dehradun	13	160
2.	Govt. Industrial Estate Vikasnagar, Dehradun	6	77
3.	Govt. Mini Industrial Estate, Ranipokhari, Dehradun	2	15
4.	Govt. Mini Industrial Estate, Langha Road, Dehradun	2	26
5.	Co-operative Industrial Estate, Patel Nagar, Dehradun	24	259
6.	Industrial Area, Langha Road, Chabra, Dehradun	44	1853
7.	Industrial Area, Camp Road, Selaqui, Dehradun	50	2357
8.	Industrial Area, Central hope town, Selaqui, Dehradun	59	2382
9.	Industrial Area, UPSIDC, Selaqui, Dehradun	156	5472
10.	Industrial Area, Mohobewala, Dehradun	35	1435
11.	Industrial Area Laltappar, Dehradun	28	1681
12.	Industrial Area Kuanwala, Dehradun	10	316
13.	Sara Industrial Estate, Shankarpur, Dehradun	22	984
14.	SIDCUL Pharmacity, Selaqui, Dehradun	24	1245
15.	SIDCUL IT Park, Sahastradhara Road, Dehradun	9	246
16.	Other Industrial Area (thrust Sector), Dehradun	57	1688

Source: PHD Research Bureau, compiled from Directorate of Industries, Govt. of Uttarakhand

⁹ Right to information Manual-6, SIDCUL, Directorate of Industries, Government of Uttarakhand



The industrial area has an adequate supply of water and power having facilities of tube wells, underground storage tanks, overhead tanks and electric sub stations. Further, several financial incentives have been provided such as 100% central excise exemption for 10 years, 100% income tax exemption for first 5 years and 30% for next 5 years, CST at 1% for 5 years and capital investment subsidy at 15% with a maximum of Rs.30 Lakhs.

11.2 Industrial estates in Haridwar

Haridwar is famous for its religious importance as it is situated on the right bank of river Ganga. In addition to large scale pilgrimage tourism the city offers a strategic industrial location. Over the years, industries have grown exponentially in the regions around Haridwar. The city is well endowed with natural and mineral resources. The major export items from the area are fabric, automobile parts, electronic meters, pharma and personal care products. A large number of Micro, Small & Medium Enterprises have been established in the city as a result of the concessional industrial package offered by the government which provides a conducive environment for setting up of new MSMEs. There are tremendous opportunities for exploiting horticulture, floriculture, herbs extractions, fisheries, bee keeping and sericulture. The city has 7 industrial estates, managed by SIDCUL (State Infrastructure and Industrial Development Corporation of Uttarakhand Limited) and Government of Uttarakhand. The SIDCUL Industrial Area of Haridwar is a Special Economic Zone (SEZ) and one of the most important industrial estates in the state.

Employment generation by MSME sector in the city has shown steady increment over the recent years. The total employment generated by MSME sector during 2005-06 was 1721 which increased considerably to 7333 in 2009-10 marking a percentage increase of about 326%. Industrial investments in the sector has also experienced a gradual but significant growth due to the suitable sector-specific policies.

Table 11.3 Employment vis-à-vis investment in Haridwar

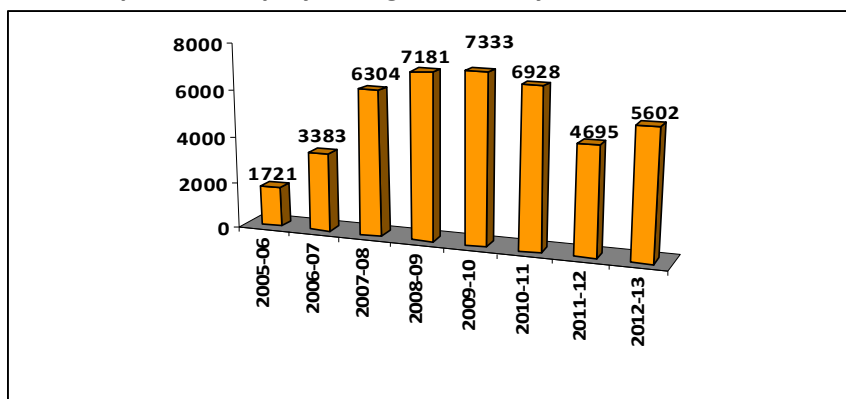
Year	Employment	Investment (Crore)
2005-06	1721	29
2006-07	3383	193
2007-08	6304	436
2008-09	7181	539
2009-10	7333	551
2010-11	6928	617
2011-12	4695	400
2012-13	5602	381

Source: PHD Research Bureau, compiled from Ministry of Micro, Small & Medium Enterprises, Government of India



Industrial investment has significantly scaled up in Haridwar. Industrial investment in Haridwar was about Rs 29 crore in 2005-06 which rose significantly to Rs 617 crore during 2010-11. However, industrial investment in Haridwar recorded a sharp decline to Rs 381 crore during 2012-13 from Rs 617 crore during 2010-11.

Graph 11.2 Employment generated by MSMEs in Haridwar



Source: PHD Research Bureau, compiled from Ministry of Micro, Small & Medium Enterprises, Government of India

11.2.1 Integrated Industrial Estate–Haridwar

The Integrated Industrial Estate is located 3 km from Delhi-Haridwar National Highway in an area of 2034 acres. IIE Haridwar is very well connected to the other parts of the state which serves as a major factor for industrial settlement in and around the city. The nearest domestic airport is Jolly Grant which is situated at a distance of 35 km and the nearest national highway is just 3 km away from the estate.

Table 11.4 Existing status of industrial areas in Haridwar

S.No.	Name of Industrial Area	No. of units established	Employment
SIDCUL Industrial Estate			
1.	IIE Ranipur Hardwar SIDCUL	522	38261
2.	Industrial Area Bahadrad	120	3605
3.	Industrial Area Haridwar	60	1776
4.	Industrial Area Landhaura	2	59
5.	Ancillary Industrial Estate Ranipur Haridwar	5	157
Government Industrial Estate			
1.	Mini Industrial Estate Pipali Laxer	1	11
2.	Industrial Estate Roorkee	23	375

Source: PHD Research Bureau, compiled from Directorate of Industries, Govt. of Uttarakhand



The major industries operating in the estate are soap, cosmetics, apparel, pharmacy, electrical, food processing, packaging and other allied industries. The estate caters effectively to the infrastructural facilities of water and power supply through a water distribution line of 46 kms and electric sub stations.

The various incentives offered by the integrated industrial estate are 100% central excise exemption for 10 years, 100% income tax exemption for first 5 years and 30% for next 5 years and CST at 1% for 5 years. Moreover, a capital investment subsidy at 15% is also offered with a maximum of Rs.30 Lakhs. The other facilities at the estate include an arrangement of hotels, banks, hospitals, schools, and petrol pumps etc. The total employment generation in IIE¹⁰, Haridwar is estimated at 69353.

11.3 Industrial estates in Udham Singh Nagar

Udham Singh Nagar lies in the vicinity of Kumaon region and is an industrial district. It has the maximum number of industrial units in the state of Uttarakhand.¹¹ Udham Singh Nagar is a hub of automobile sector, paper industries, rice mills and sugar industries. Hence, there exists a huge potential for sub vendors in all categories in the city. The major export items in the district are automobile parts, paper & paper products, sugar, rice, packaging material etc. Favorable government policies and availability of natural resources in the district have led to a remarkable growth in the number of small scale units. There are more than 4200 MSMEs with total 21 industrial estates, out of which 3 are established by State Government and rest are developed by private owners. There are three major industrial areas in the district namely, IIE SIDCUL Pantnagar, SIDCUL Sitarganj and Bio-Tech Park Pantnagar.

Table 11.5 Employment vis-à-vis investment in Udham Singh Nagar

Year	Employment	Investment (Crore)
2005-06	279	13
2006-07	1177	69
2007-08	3239	254
2008-09	4776	554
2009-10	6244	696
2010-11	5616	560
2011-12	4626	328
2012-13	3946	382

Source: PHD Research Bureau, compiled from Ministry of Micro, Small & Medium Enterprises, Government of India

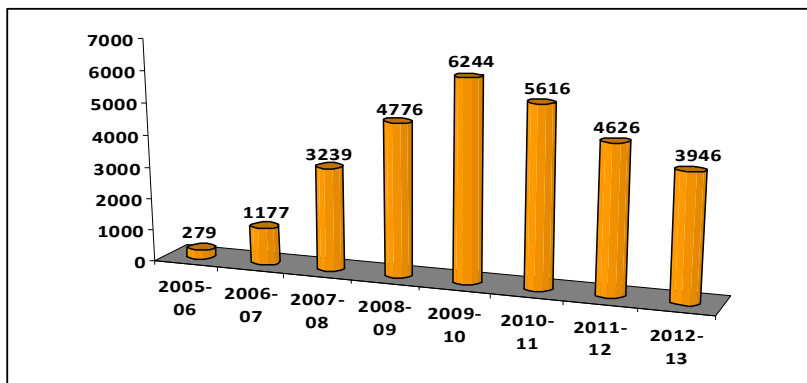
¹⁰ Right to information Manual-6, SIDCUL, Directorate of Industries, Government of Uttarakhand

¹¹ Directorate of Industries, Government of Uttarakhand



Udham Singh Nagar has witnessed an upward trend in employment generation as well as industrial investments over the years. The employment generation was at 279 during 2005-06, which increased significantly to 6244 during 2009-10. However, the city observed decline of around 37% in the employment generation from 6244 during 2009-10 to 3946 during 2012-13.

Graph 11.3 Employment generated by MSMEs in Udham Singh



Source: PHD Research Bureau, compiled from Ministry of Micro, Small & Medium Enterprises, Government of India

Correspondingly, the industrial investments in Udham Singh Nagar during 2005-06 was around Rs 13 crore which scaled upto Rs 696 crore during 2009-10 as a result of the attractive package of facilities, incentives and concessions provided to small scale industries by the state government. However, industrial investments observed decline during 2012-13 to Rs 382 crore witnessing a decline of about 45% as compared to investment of Rs 696 crore during 2009-10.

11.4 Integrated industrial estate – Pantnagar

SIDCUL has established the first Integrated Industrial Estate (IIE) in Kumaon region at Pantnagar. IIE Pantnagar is located at National Highway no. 87 which is 235 Km from national capital Delhi and 300 km from state capital Dehradun. Pantnagar also has the only airport in Kumaon region capable of landing commercial flights.

The estate has main industries operating in cosmetics, plastic, apparel, agro food, pharma products, electronics and furniture. The city has attracted some of the big industries at IIE Pantnagar. Further, SIDCUL has developed state of the art infrastructure at Integrated Industrial Estate to facilitate industrial expansion. The estate has a dedicated 220KV substation to ensure uninterrupted power supply. An arrangement of tube wells and underground storage tanks has been prepared to ensure perennial supply of water in the area.



Moreover, a lot of financial incentives have also been provided to boost industrial investment at Pantnagar. These include 100% Central Excise exemption for 10 years, 100% income tax exemption for first 5 years and 30% for next 5 years, CST at 1% for 5 years and Capital Investment Subsidy at 15% with a maximum of Rs 30 Lakhs. The total number of units in the estate¹² is 486 which leads to an employment generation of around 60975.

11.5 Integrated industrial estate – Sitarganj

The integrated industrial estate of Sitarganj lies in an area of 1093 acres located 300 km from Delhi. The estate has 339 units which provide estimated employment to 20000 people.¹³ It is being developed as a futuristic Industrial Park, slated to become the future Industrial hub of this region.

The estate has abundant water resources and boasts of cheapest and uninterrupted hydro power to cater high demands of the industry. The fair climate and surrounding areas provide suitable location for production and industrial growth. The estate has easy availability of skilled and semi-skilled manpower which serves as a significant factor in the expansion of MSMEs in the region.

Table 11.6 Existing status of Industrial Areas in Sitarganj

S.No.	Name of Industrial Area	No. of units in production
1.	IIE SIDCUL Pant Nagar	465
2.	SIDCUL Sitarganj	284
3.	Bio-Tech Park Pantnagar	12

Source: PHD Research Bureau, compiled from Ministry of Micro, Small & Medium Enterprises, Government of India

11.6 Industrial Estates in Pauri Garhwal

The land of Pauri Garhwal falls partly in the Gangetic plains and a major part in the Himalayan North. It encompasses an area of 5230 square kilometers. The district has major industries of agro based, cotton textile, jute, wooden furniture, paper products, rubber, plastic and petro based products. The region offers main items for export such as light weight concrete blocks, concrete tiles etc. Being diverse in topography, the district offers enormous prospects for sectors like food processing, floriculture, processing of honey, ayurvedic medicine formulation, cold storage etc. The only railway station of the district is at Kotdwara as a result of which some large and small scale industrial units have been established around the city to fasten the industrial growth in the region.

¹²Right to information Manual-6, SIDCUL, Directorate of Industries, Government of Uttarakhand

¹³Right to information Manual-6, SIDCUL, Directorate of Industries, Government of Uttarakhand



Pauri Garhwal has witnessed a steady employment generation since 2005-06. The employment generation in the region stood at about 630 during 2005-06 which increased remarkably to 901 during 2009-10. However, employment generation slipped to 765 during 2012-13 as compared to 901 from 2009-10.

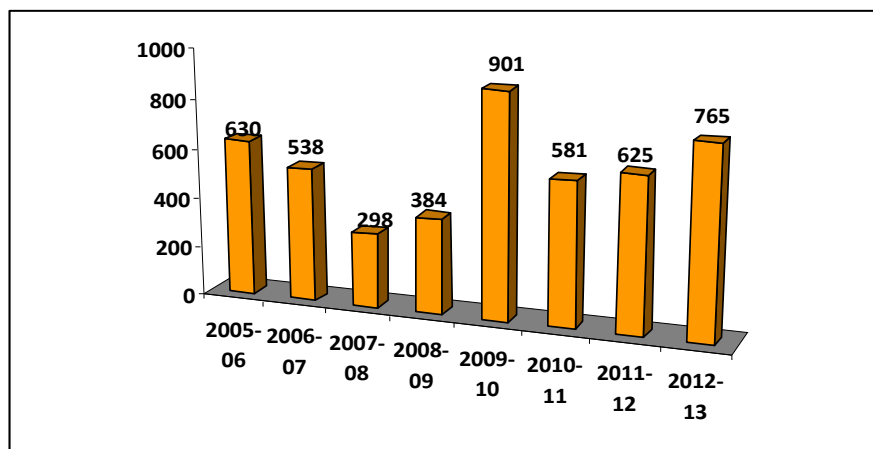
Table 11.7 Employment vis-a-vis investment in Pauri Garhwal

Year	Employment	Investment (Crore)
2005-06	630	3
2006-07	538	4
2007-08	298	3
2008-09	384	6
2009-10	901	59
2010-11	581	11
2011-12	625	15
2012-13	765	22

Source: PHD Research Bureau, compiled from Ministry of Micro, Small & Medium Enterprises, Government of India

Further, the investments have shown a fluctuating trend over the years. During 2005-06, the total investments in MSMEs in Pauri Garhwal stood at Rs 3 crore which shot up to Rs 22 crore during 2009-10.

Graph 11.4 Employment generated by MSMEs in Pauri Garhwal



Source: PHD Research Bureau, compiled from Ministry of Micro, Small & Medium Enterprises, Government of India

11.7 Sigaddi growth centre – Kotdwar

The Sigaddi growth centre is located 120 km from Dehradun and 200 km from Delhi. The estate has been established in a total area of 100 acres out of which 60 acres is available for industrial allotment. The estate has well maintained infrastructural



facilities in terms of regular water and power supply, tube wells, underground storage tanks and a 33/11KV electronic sub station.

The units operating in this estate belong to “Thrust Sector” which includes industries like floriculture, horticulture, agro and food processing, information & communication technology industry, handicrafts, sugar industry and establishment of eco-tourism hotels, resorts, spa, entertainment/amusement parks and ropeways. The estate generates a total employment of about 2354¹⁴. Numerous financial incentives have been provided to stimulate MSMEs growth such as 100% central excise exemption for 10 years, 100% income tax exemption for first 5 years and 30% for next 5 years, CST at 1% for 5 years and capital investment subsidy at 15% with a maximum of Rs 30 lakhs.

11.8 Industrial estates in Nainital

Nainital lies in the Kumaun division of Uttarakhand and is blessed with a varied topography and variety of natural resources. A major portion of the district is covered with forests which serve as rich sources of government revenue in the form timber wood, turpentine extraction from pine trees and various types of herbs. As a result there has been a mushroom growth of industrial estates in the region. The key industries flourishing here are flour mill, bakery & confectionary, diamond cutting, readymade garments, rickshaw assembling, candle making, wooden furniture etc.

The major export items of the district are barberin hydrochlorid, phytochemicals & herbal concentrate, water filters, metallic polyester films, pulp & paper and decorative candles. Further, Nainital offers vast scope for processed fruits, candles & handicrafts items. Nainital has about 2634 number of industrial units with 9678 estimated average number of daily worker employed in small scale industries. These SMEs have an estimated turnover of Rs. 49268 lakhs.¹⁵

Table 11.8 Existing status of industrial areas in Nainital

S. No.	Name of industrial area	Land acquired (Acres)
1	Industrial Estate Bhimtal	7
2	Mini Industrial Estate Batelghat	2.5
3	Industrial Area Bhimtal	107.9
4	Industrial Area Pepalsana	30.2
5	Industrial Area Kaniya	10
6	Mahabeer Industrial Estate Padalipur	47

Source: PHD Research Bureau, compiled from Directorate of Industries, Haldwani, Government of Uttarakhand

¹⁴ Right to information Manual-6, SIDCUL, Directorate of Industries, Government of Uttarakhand

¹⁵ Directorate of Industries, Haldwani, Government of Uttarakhand



A lot of scope lies in sectors like fruit processing, floriculture, gems & jewellery, tracking & adventure sports, aromatic & medicinal herbs for potential MSMEs to set up units in Nainital. It has been observed that both employment generation and industrial investment pattern has shown a positive trend in the city. Nainital recorded an employment generation of 505 during 2005-06 which rose considerably to 833 during 2012-13.

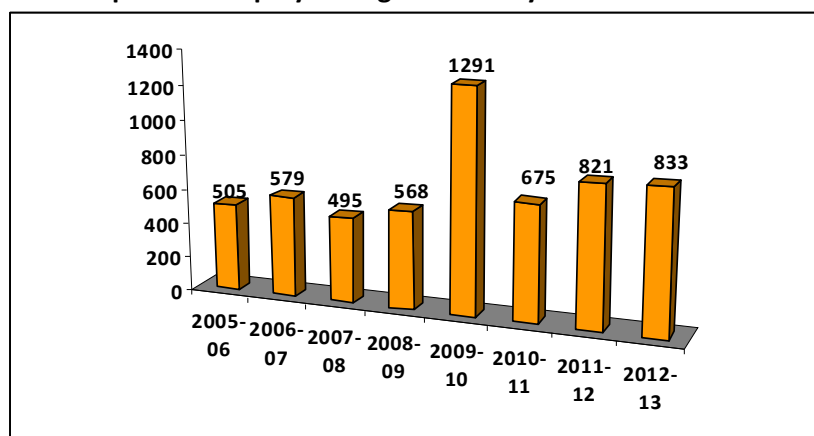
Table 11.9 Employment vis-à-vis investment in Nainital

Year	Employment	Investment (Crore)
2005-06	505	2
2006-07	579	4
2007-08	495	13
2008-09	568	23
2009-10	1291	54
2010-11	675	33
2011-12	821	64
2012-13	833	51

Source: PHD Research Bureau, compiled from Directorate of Industries, Haldwani, Government of Uttarakhand

Similarly, investment pattern in the city has also shown a constant upward trend over the years. During 2005-06, investments in the city stood at Rs. 2 crore which witnessed significant increase to Rs. 51 crore during 2012-13 owing to implementation of favorable government policies for the promotion of MSMEs in the state.

Graph 11.5 Employment generated by MSMEs in Nainital



Source: PHD Research Bureau, compiled from Ministry of Micro, Small & Medium Enterprises, Government of India



11.9 Industrial scenario in other cities of Uttarakhand

11.9.1 Uttarkashi: Uttarkashi lies in the extreme north-west corner of the state and has a rich and diverse flora and fauna. A large number of medicinal plants having great commercial value are found in the region. Ganeshwar, Saini, Purola and Sarsadi are four industrial estates set up in the district. The major export items offered by the area are herbs and medicinal plants, building wood, woolen products and forest based products.

Table 11.10 Existing micro & small enterprises and artisan units in Uttarkashi

Type of Industry	No. of Units
Agro based	102
Woolen, silk & artificial thread based clothes	45
Ready-made garments & embroidery	610
Leather based	7
Repairing & servicing	90
Handloom	29
Handicraft	26

Source: PHD Research Bureau compiled from Directorate of Industries, Uttarkashi, Government. of Uttarakhand

11.9.2 Rudraprayag: The region offers a varied diversity of aromatic plants, herbs and fruit bearing trees. The city has one industrial area. The average number of daily workers employed in small scale industries¹⁶ is estimated at 2560. The area offers untapped potential in the services sector such as tourism, hotels & restaurants, adventure sports etc.

11.9.3 Pithoragarh: Pithoragarh is a hilly district of Uttarakhand. In the year 2012-13, the district registered 98 units having an investment of around Rs 6 crores, generating employment for 310 persons.¹⁷ Although the district has a huge potential for food based enterprises as numerous types of fruits are grown here in abundance however, hilly terrain poses a challenge for fast pace industrialisation. Further, floriculture and tourism industries too have an immense scope in Pithoragarh.

11.9.4 Almora: Almora is located in the Kumaon region of Uttarakhand. There are 7 industrial estates namely, Pataldevi, Dwarahat, Mohaan, Tarikhet, Bhikiyasain, Daniya and Syalde established in the district. Some of the major export items offered by Almora are textile items, pashmina shawls, wooden baskets, walking sticks and other forest based products. The handicraft industry significantly contributes towards revenue and employment generation in Almora. There exists lot of scope for small and

¹⁶ District Industries Centre, Directorate of Industries, Government of Uttarakhand

¹⁷ Annual Report 2012-13, Directorate of Industries – Government of Uttarakhand



medium enterprises in areas like herbal & medicinal plants, tea cultivation, horticulture, and plantation of tree borne oilseed crops.

11.9.5 Chamoli: Chamoli is the second largest district in the state as per the geographic area and has a plethora of flora, ferns, mosses, medicinal plants and many varieties of flowers. Simli and Jaikandi-kaleshwar are two industrial areas set up in the district. During 2012-13, 80 new production units have been established generating an employment for 239 persons.¹⁸ There lies a great potential in areas such as fruit processing, carpet manufacturing, fisheries and bee keeping.

Table 11.11 Existing micro & small enterprises and artisan units in Chamoli

Type of Industry	No. of Units
Agro based	558
Woolen, silk & artificial thread based clothes	1007
Ready-made garments & embroidery	138
Leather based	4
Repairing & servicing	204
Wood/wooden based furniture	193

Source: PHD Research Bureau compiled from Directorate of Industries, Chamoli, Government of Uttarakhand

11.9.6 Tehri Garhwal: Tehri Garhwal lies in the western part of the state and has one industrial of Dhalwala Industrial Area. A large variety of fruits and vegetables like apple, apricot, pear, onion, ginger, potato etc. are found here in abundance which make the district a cultivation zone. Further, there exists a tremendous scope for MSMEs in sectors such as handloom, handicrafts, extraction of herbs, mushroom cultivation etc.

Table 11.12 Existing micro & small enterprises and artisan units in Tehri

Type of Industry	No. of Units
Agro based	703
Woolen, silk & artificial thread based clothes	28
Ready-made garments & embroidery	1883
Leather based	9
Repairing & servicing	352
Wood/wooden based furniture	323
Paper and paper products	7

Source: PHD Research Bureau compiled from Directorate of Industries, Tehri Garhwal, Government of Uttarakhand

¹⁸ Annual Report 2012-13, Directorate of Industries – Government of Uttarakhand



11.9.7 Bageshwar: Bageshwar lies in the northern part of Uttarakhand and has a mini industrial estate at Garur which is developed for the expansion of small and medium enterprises. Bageshwar has 69 registered units which provide employment to 176 persons.¹⁹ Forest based products, aromatic & medicinal herbs and woollen products constitute major export items of the district. A few artisan clusters are also found in the district.

Table 11.13 Existing micro & small enterprises and artisan units in Bageshwar

Type of Industry	No. of Units
Agro based	192
Woolen, silk & artificial thread based clothes	65
Ready-made garments & embroidery	37
Chemical/Chemical based	13
Repairing & servicing	137
Wood/wooden based furniture	38

Source: PHD Research Bureau compiled from Directorate of Industries, Bageshwar, Government of Uttarakhand

11.9.8 Champawat: Champawat has a mountainous topography having presence of rich mineral deposits. It has a mini industrial estate with a total of 816 registered industrial units in it. During 2012-13, 72 units have been registered in the district having an investment of Rs 3.96 crores and employing 144 persons.²⁰ Champawat offers a lot of scope for food based industries, horticulture, floriculture and tourism related services.

12. Sectoral profiles

The promising sectors offering impetus to Uttarakhand's economy are auto components & automotive, drugs & pharmaceuticals, engineering goods, gems and jewellery, handicrafts, textile and leather. Also Uttarakhand is rich in various natural resources such as best quality seasonal fruits like Litchi, Apple, Plum, Peach, etc which offers conducive environment for the growth of agro and food processing in the state.

12.1 Agro and food processing

Food processing industry (FPI) in India is a sunrise sector that has gained prominence over the recent years. This sector serves as a vital link between the agriculture and industrial segments of the economy. It is one of the largest industry in terms of production, consumption, exports and growth prospects. The sector contributes as

¹⁹ Annual Report 2012-13, Directorate of Industries-Government of Uttarakhand

²⁰ Annual Report 2012-13, Directorate of Industries-Government of Uttarakhand



much as 9-10% of GDP in agriculture and manufacturing sector. The industry has enormous potential for uplifting agriculture in terms of creation of large scale processed food manufacturing and food chain facilities resulting in generation of massive employment and export earnings. India's strong agricultural base and accelerating economic growth holds a significant potential for the food processing industry.

Indian food market is estimated²¹ to reach US\$ 310 billion in 2015. As the sector promises vast prospects for future growth, many big international players have entered the Indian markets. In order to provide stimulus to the food processing sector, Ministry of Food Processing Industries has implemented a number of programmes for infrastructure development, technology up-gradation and modernization, human resources development and Research & Development. The Ministry of Food Processing Industries has launched a new Centrally Sponsored Scheme namely, National Mission on Food Processing (NMFP) during 12th Plan which is to be implemented through State/UT Governments.

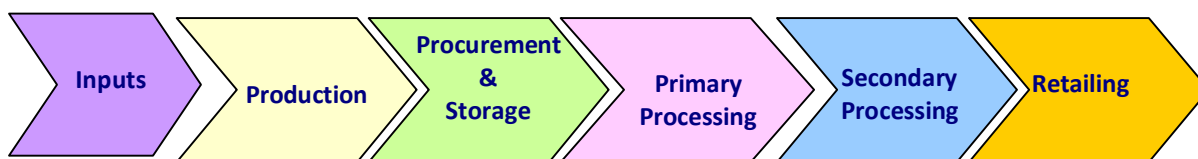
The food processing industry in India is among the sectors reserved for the small scale industry. Though de-reservation of food products began during the 1990s, still many products have been reserved for manufacturing in the small scale sector. These products include bread, pastries, confectioneries, rapeseed oil (except solvent extracted), mustard oil, sesame oil, groundnut oil, sweetened cashew nut products, ground and processed spices, tapioca sago and tapioca flour.

Uttarakhand has emerged as one of the most attractive destinations for agro and food processing sector in India. The state is blessed with abundant water resources, favorable climatic conditions where agriculture is the major source of income for more than three-fourth of the State's population. The state has largescale production of fruits such as apple, orange, pear, grapes, peach, plum, apricot, litchi, mango and guava. The state government also provides assistance in establishing small and medium size agro parks, food parks etc., which in turn are expected to provide common infrastructure facilities for storage, processing, grading and marketing. Four Agri Export Zones have already been declared under the AEZ scheme of the Government of India for leechi, horticulture, herbs, medicinal plants and basmati rice. Further, the state is making considerable efforts in increasing its real farm productivity and also achieving global competitiveness.

²¹ IBEF



The Supply chain of food processing industry



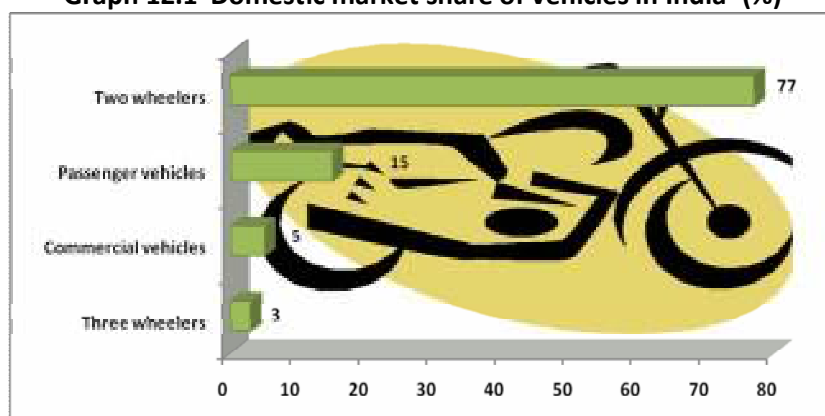
Source: PHD Research Bureau, compiled from various sources

The scheme of Food Parks was under implementation during 8th to 10th Plan Periods, envisaged to make available common infrastructure facilities for the food processing industries, especially SMEs. The scheme provided a grant of up to 25% of the project cost subject to a maximum of Rs. 4 crore in general areas. Higher scale of assistance @33.33% was admissible for difficult areas including North-Eastern states, Jammu & Kashmir, Himachal Pradesh and Uttarakhand.²²

12.2 Auto components & automotive

The auto components and automotive sector has become one of the key segments of the Indian economy. The auto component industry is one of the fastest growing segments in India's manufacturing sector. The sector has registered a growth rate of about 12% in overall domestic sales during 2011-12 amounting to sale of 17,376,624 vehicles²³. The sector provides direct and indirect employment to about 1.3 crore people²⁴. The auto component segment supports several other industries including automobiles, machine tools, steel, aluminium, rubber, plastics, electronics, forging and machining.

Graph 12.1 Domestic market share of vehicles in India (%)



Source: PHD Research Bureau, compiled from Society of Indian Automobile Manufacturers, India. Note: Data pertains to 2011-12

²² Annual Report 2012-13, Ministry of Food Processing Industries, Government of India

²³ Society of Indian Automobile Manufacturers, India

²⁴ Automotive Mission Plan 2006-2016, Ministry of Heavy Industries & Public Enterprises, Government of India



The Indian auto component sector has over 500 organised players and about 5000 unorganised players.²⁵ The unorganized sector predominantly caters to the aftermarket. MSMEs in the auto component sector are witnessing a higher growth trend as they are experiencing growth in demand, driven by rising per capita income, changing demographic distribution and demand from global auto manufacturers. Over the years, the Indian auto component industry has created a robust capacity base which has led to the setting up of manufacturing units of world's major manufacturers in the country.

Uttarakhand has attracted high investments in the auto component & automotive sector over the years. The state has now become a hub of northern India in manufacturing of automotives & auto components. Most of the auto companies operating in Uttarakhand are expanding their capacities owing to the special incentives offered by the state. This has enabled the state to attract some of the big automobile giants which has further enlarged the scope of establishment of ancillary units in Uttarakhand. Hence, the sector displays tremendous potential in generating employment and boosting entrepreneurship in the state.

12.3 Drugs & pharmaceuticals

The pharmaceutical industry is one of the crucial sectors of Indian economy. The Indian pharmaceutical industry ranks third globally by volume (production) and accounts for about 14th largest by value and around 10% of total global production.²⁶ With a well established domestic manufacturing base and low-cost skilled manpower, India is emerging as a global hub for pharma products and the industry continues to be on a growth trajectory.

Some of the major factors that drive pharmaceutical industry growth are increase in domestic demand, rise in outsourcing activities, growth in healthcare financing products, demand in the generics markets, demand from emerging segments and various initiatives taken by the government such as allowing 100% FDI, increasing Research & Development activities and providing capital support. The Indian pharmaceutical industry contributes significantly towards exports. The share of drugs and pharmaceuticals and fine chemicals in national trade stood at Rs. 47551 crores²⁷ during 2010-11 while share in total exports stood at 4.2%.

²⁵ Automotive Mission Plan 2006-2016, Ministry of Heavy Industries & Public Enterprises, Government of India

²⁶ Planning Commission, Government of India

²⁷ Annual Report, 2011-12, Department of Pharmaceuticals, Ministry of Chemicals & Fertilizers, Government of India



Table 12.1 Export growth in pharmaceutical industry

Year	Value of Exports* (Rs. crore)	Growth (%)
2006-07	25666	20.9
2007-08	29354	14.4
2008-09	39821	35.7
2009-10	42456	6.6
2010-11	47551	12

Source: PHD Research Bureau compiled from Annual Report of Ministry of Chemicals & Fertilizers, Department of Pharmaceuticals 2011-12, Note: () pertains to the value of exports of drugs and pharmaceuticals and fine chemicals*

The industry has seen remarkable progress in terms of infrastructure development, technology base and the wide range of products manufactured. Demand from the exports markets has been growing rapidly due to the capability of Indian players to produce cost-effective drugs with world class manufacturing facilities. The industry has registered significant rise in capital investments over the years and has been a major source of employment for the country.

The Indian pharmaceutical industry has a large number of players operating in the unorganized segment. Over the years, several new opportunities have opened up for the MSMEs in this sector. Outsourcing opportunities are being acquired by MSMEs with better economies of scale and constant quality delivery. MSMEs in the pharmaceutical industry are also linking up with large players to enter into clinical trials and contract manufacturing.

Uttarakhand has done exceptionally well to build a concrete industrial base for the pharmaceuticals and biotechnology sector. The favorable climatic conditions which supports the growth of medicinal plants, herbs and ayurvedic oils makes Uttarakhand an attractive destination for setting up MSMEs in this sector.

During the recent years the state has attracted a large chunk of pharma investors. This growth is primarily driven by the incentives offered by the state government owing to which many pharma companies have set up their plants in the state. Uttarakhand has around 60 small pharma companies located near Dehradun²⁸. State has also taken several initiatives in order to promote this sector. Pharma City has been established in Selaqui Industrial Area near Dehradun scattered in an area of 50 acres. Various fiscal and non-fiscal incentives have been provided by the state government which has boosted the clustering of pharma companies in the estate. Integrated Industrial Estates (IIEs) established at Haridwar and Pantnagar provide tax exemptions for establishing pharma industry within the state. Similarly, the Sigaddi growth centre which has been setup near Dehradun is also a tax free zone.

²⁸ Financial Express, dated 31-03-2011



12.4 Engineering goods

Engineering is one of the largest industrial sectors in India. The sector has diverse number of segments which can be broadly classified into heavy engineering and light engineering. It is relatively less fragmented at the top and more fragmented at the lower end in terms of technology and capital investment and is dominated by smaller players. Growth in the India's domestic engineering industry has been powered by user industries and several new projects undertaken in various core industries. Capacity creation in sectors such as infrastructure, oil and gas, power, mining, automobiles, auto components, steel, refinery and consumer durables and global players prefer India as an outsourcing hub which drives growth of this sector.

Table 12.2 India's export of engineering goods (US\$ Million)

Engineering Goods	2012-13
1. Machinery	
a) Machine tools	399
b) Machinery & Instruments	15304
c) Transport Equipments	18384
2. Iron & Steel	6232
a) Iron & Steel Bar rod etc	1136
b) Primary & semi-finished	5096
3. Other Engineering Items	16478

Source: PHD Research Bureau, compiled from Department of Commerce, Ministry of Commerce & Industry, Government of India, Note: The figures have been taken as round offs.

India's export of engineering goods accounts at about US\$ 56,797 millions during 2012-13 contributing a share of nearly 19% in country's total exports²⁹. The engineering sector has been de-licensed and permit of 100% FDI and foreign technology agreements under automatic route and tariff protection on capital goods has been withdrawn which resulted in reducing custom duties on a wide range of engineering equipments in a move towards facilitating the sector.

The engineering MSME sector has become an integral part of the supply chain due to its contribution to the cost competitiveness and employment generation. The engineering sector employs over 4 million skilled and semi-skilled workers³⁰. The engineering industry in India manufactures a wide range of products, with heavy engineering goods accounting for bulk of the production. Majority of leading players produce high-value heavy engineering goods using high-end technology. The requirement of huge capital investments is a major entry barrier in this sector.

²⁹ Department of Commerce, Ministry of Commerce & Industry, Government of India

³⁰ Department of Scientific & Industrial Research, Ministry of Science & Technology, Government of India



Consequently, small and unorganized firms have little market presence in this sector. Hence, the unorganized sector specializes in manufacturing low-technology products and a few small-scale units are involved only in assembly of imported components. This segment caters to the replacement market for few products such as low-quality small bearings.

On the other hand, light engineering goods manufacturers use medium to low-end technology. Since, the entry barrier is low due to lower requirement of capital and technology, this segment is characterized by dominance of small and unorganized players. However, a few medium and large scale firms produce high value-added products. This segment is also characterized by small capacities and high level of competition.

Uttarakhand has untapped potential for engineering sector as it has vast resources for hydropower generation. Nearly 15000 MW of hydropower can be generated in the state. The government has identified 47 small hydro sites (upto 25 MW) for allotment to the private sector. Also, 17 major hydro sites (25-100 MW) have been taken up for development³¹. Further, the state boasts of boundless opportunities for potential investors, exporters and technology advancement which can boost the growth of engineering sector in the state.

12.5 Gems and jewellery

Gems and Jewellery forms an important part of India's rich culture. India has emerged as the largest cutting and polishing industry for diamonds in the world. India's Gem and Jewellery (G&J) industry is an important foundation of the country's export-led growth. It is a leading foreign exchange earner and one of the fastest growing sectors of our economy accounting for about 17% of India's total merchandise exports during FY 2010-11. India accounts for nearly 55% of world net exports of cut and polished diamonds in value terms, 90% in terms of pieces and 80% by cartage. The industry employs about 2 million highly skilled workforces out of which one million are exclusively engaged in export production³².

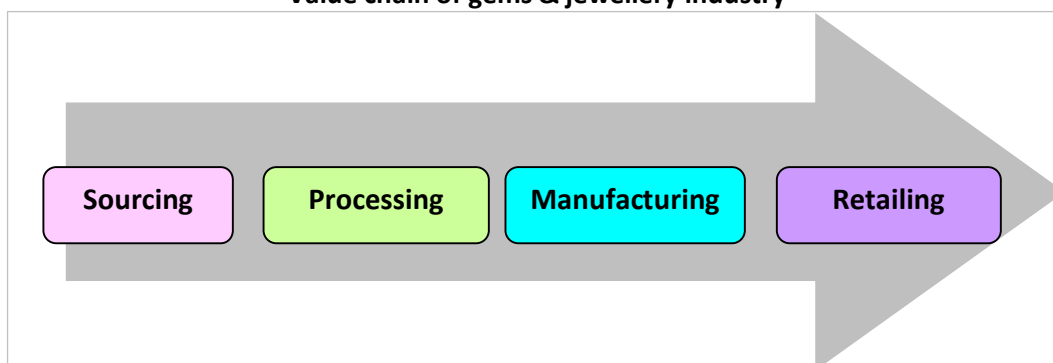
The sector is growing due to rising buying power of the Indian middle class, increase in aspirations and as a lucrative means of investment. In addition, increased awareness and changing preferences, favourable government policies, rising disposable income, low cost of labour and a variety of other factors have added to the growth of this sector. The gems and jewellery industry in India comprises sourcing, processing, manufacturing and selling of precious metals, diamonds, pearls, precious and semi-precious gemstones, and artificial jewellery.

³¹ India in Business, Ministry of External Affairs, Govt. of India, Investment & Technology Promotion (ITP) Division

³² Twelfth Five Year Plan (2012-2017) Economic Sectors, Volume II, Planning Commission, Government of India



Value chain of gems & jewellery industry



Source: PHD Research Bureau, compiled from various sources

In order to facilitate the growth of gems and jewellery sector in India, the government has allowed 100% FDI and has taken various measures such as encouraging global partnerships and collaborative ventures, developing special economic zones (SEZs) etc.

The gems and jewellery industry in India is a highly fragmented industry characterized by family-owned operations. Around 90% of the gems and jewellery players have family-owned businesses³³. However, over the years, the sector has witnessed increased number of organized players. The domestic diamond processing industry consists of a large number of players. The average gestation period for setting up a diamond cutting and polishing unit is around 15 months. The low gestation period allows easy entry into the sector.

As the government has initiated steps to regularize gems and jewellery sector in India, there exists a vast opportunity for MSMEs to create specialized services such as jewellery designing, antique art forms etc. The growth in the gems and jewellery industry, mainly in branded jewellery, has been fuelled up with changing lifestyles, increasing incomes and fast pace urbanization. Uttarakhand is steadily promoting gems and jewellery industry in the state. In order to encourage diamond cutting & polishing and gem industry, a Gem and Jewellery Park has been proposed to be established in Uttarakhand³⁴.

³³ Human Resource and Skill Requirements in the Gems & Jewellery Sector (2022), A Report, National Skill Development Corporation

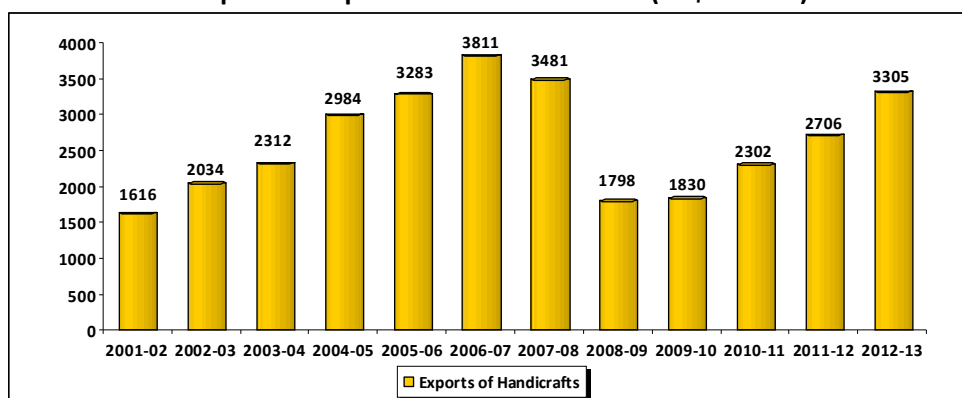
³⁴ Industrial Policy 2003, Government of Uttaranchal, Dehradun



12.6 Handicrafts

India is a country of rich culture, history, traditions and is one of the major producer and supplier of handicraft products in the world. The sector has always been a potential economic advantage for the country. During the recent years, importance of handicrafts has been surged due to their cultural and intrinsic values. In developing countries such as India and China, handicrafts are as high as the mechanized products in quality and volume and major source of foreign exchange earnings. Indian handicraft products have witnessed huge demand in both national and international markets. The exports of handicrafts from India increased significantly from US\$ 1616 million during 2001-02 to about US\$ 3305 million during 2012-2013.

Graph 12.2 Exports of handicrafts (US\$ Million)



Source: PHD Research Bureau, compiled from Export Promotion Council of Handicrafts

Indian handicraft sector is a highly creative sector which produces large array of craft products. The sector is highly labour intensive, cottage based and decentralized. The sector holds the advantage of setting up business at a very low small scale. The handicraft industry has spread all over the country. Most of the manufacturing units in the handicrafts sector are located in rural and small towns, and there lies a huge market potential in all Indian cities and abroad. The small scale and cottage sector provides employment to over 6 million artisans (including those in the carpet trade), which includes a large number of women and people belonging to weaker sections of the society.³⁵

Uttarakhand has large number of handicrafts industries like carpet weaving, woodcarving, brassware and copper based industries. This sector provides employment to a large number of people especially women in rural areas of the state. The Uttarakhand Handloom & Handicraft Development Council (UHHDC) is the apex

³⁵ Press Information Bureau, Government of India (<http://pib.nic.in/infonug/infyr98/inf1198/l1311981.html>)



body for overall development and promotion of handlooms and handicrafts in the state. Some important handloom clusters located in the state are at Kashipur, Jaspur, Mahuadabra (Udham Singh Nagar), Rampur, Kalsi (Dehradun), Imlikhera (Haridwar) Khateema (Champawat). The state government has established a design centre at Kashipur to provide training, designs and latest technologies to the weavers of the state.

Wool and wax based industry and khadi and village industries are some of the key traditional industries operating in the state. The wax industry in Uttarakhand contributes significantly in employment and revenue generation for the state. MSMEs located in Nainital produce decorative candles and other wax items which have large demand both in domestic and international markets. While the wax-based industry is an important handicraft industry in the hilly regions of the state, large section of the population in the state is also associated with the wool based industry. Further, the state plans to stimulate these industries to ensure adequate backward and forward linkages by introducing sponsored schemes. In view of the fact that the handloom industry is critical for employment generation in rural areas of the state, the state plans to tap the potential of these skill-rich industries by providing infrastructure support, training, design development, new techniques, packing, marketing support for exhibitions etc.

12.7 Information Technology

IT sector in India has today become a growth engine for the economy contributing substantially in GDP, employment and exports. India has gained brand identity as a knowledge economy due to its IT and ITeS sector. Over the years, the industry has diversified its product offerings, expanded into new markets, changed its pricing models and undertook significant research & development activities. All these factors have enabled the Indian IT-ITeS sector to become a leading sector in India as well as in abroad.

As a proportion of national GDP, the sector has observed an increase in the revenue growth from³⁶ 1.2% in FY1998 to nearly 8% in FY2013. The National Policy on Information Technology³⁷ (NPIT) 2012 envisions strengthening and enhancing India's position as the global hub for IT and using IT as an engine for rapid, inclusive and sustainable development of the national economy. Large scale growth opportunities exist for MSMEs in the IT and ITeS sector in the areas of software services, product development and IT consulting besides human resources.

³⁶ Electronics and Information Technology, Annual Report 2012-13, Ministry of Communications & Information Technology, Government of India

³⁷ NPIT approved by the cabinet on 14th September 2012



Uttarakhand is naturally endowed and has all prerequisites for developing as a preferred destination for IT-ITeS along with hardware production. IT and IT related services have been accorded industry status in the state. Several measures have been taken to promote IT-ITeS industry in the state. Uttarakhand has an Earth Station at Dehradun and an Information Technology Park is in the process of establishment. Further, Uttarakhand is among the 37 selected states where e-District Pilot³⁸ project has been implemented under National e-Governance Plan.

12.8 Leather & leather products

The leather industry holds a prominent place in the Indian economy in view of its massive potential for employment generation, growth and exports. The industry has been spread over organized as well as unorganized sector dominated by the presence of family units. The industry has witnessed robust growth and has developed from a mere supplier of raw material to a value added product exporter. The exports of leather and leather products gained momentum during the past two decades. Indian leather industry is amongst the top ten foreign exchange earners for the country. Apart from a significant foreign exchange earner, leather industry has tremendous potential for employment generation. The leather sector employs nearly 3 million people of which 30% are women³⁹. With rising disposable income, changing consumer preferences, availability of abundant leather as a raw material and low cost manufacturing base offers strong potential for future growth prospects of the leather industry in India.

Table 12.3 India's export of leather goods (US\$ Millions)

Leather Sector	2012-13	% Growth	% Share
1. Footwear	2047	-3.2	0.7
2. Leather & manufacturing	2836	5.5	0.9

Source: PHD Research Bureau, compiled from Department of Commerce, Ministry of Commerce & Industry, Government of India

The leather industry is spread in different segments, namely, tanning and finishing, footwear and footwear components, leather garments, leather goods including saddlery and harness, etc. The Indian leather sector is dominated by micro and small units with bigger units accounting for just around 5% of the total manufacturing units. Though footwear is produced by both large and small scale sector, the small scale sector contributes almost 90% share in the total production of footwear in India.

³⁸ Under the e-District Mission Mode Project (MMP), backend computerization would be undertaken and services would be delivered through the Common Service Centers established across the country

³⁹ Report on Working Group on Leather & Leather products, Twelfth Five Year Plan Period (2012-17), Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, Government of India

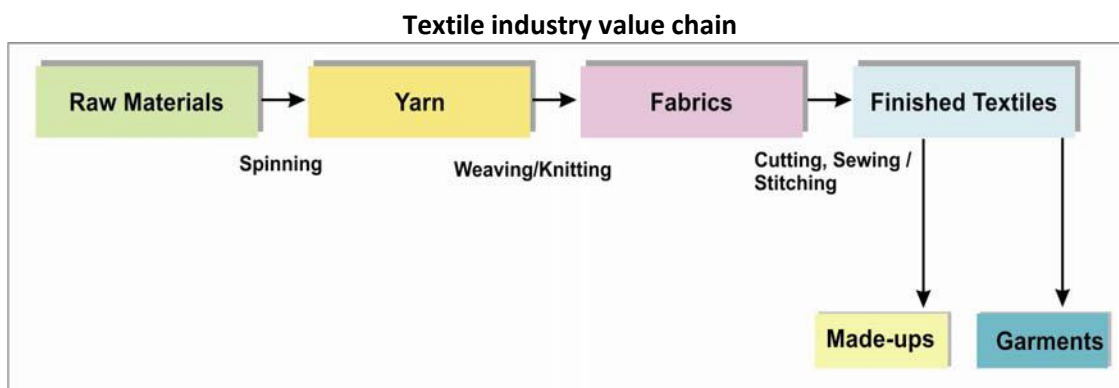


Uttarakhand offers a wide range of benefits in terms of tax exemptions, interest incentives, financial assistance, subsidies and concessions as a result of which leading companies of footwear manufacturing have established their units in the State. Uttarakhand has transformed into a hub of industrial activity and the future prospects of this industry are very bright and promising in the state.

12.9 Textile

The Indian textile industry is one the largest and oldest sectors in the country and is among the most important in the economy in terms of industrial output, export earnings and employment generation. The sector contributes about 14% to the industrial production, 4% to GDP and 11% to the country's export earnings⁴⁰. The major sub-sectors that comprise the textiles sector include the organized Cotton/Man-Made Fibre Textiles Mill Industry, the man-made fibre/filament yarn industry, the wool and woollen textiles industry, the sericulture and silk textiles industry, handlooms, handicrafts, the jute and jute textiles industry, and textiles exports.

India is one of the major producer of both raw jute and jute products in the world. The textile sector in India also contributes significantly in employment generation as the sector employs 45 million people⁴¹. The Government of India under its concessional industrial package has introduced Deendayal Hathkargha Protsahan Yojna in Uttarakhand to benefit MSMEs and registered group of handloom weavers. Keeping in view the availability of high quality of silk in the State, silk and silk products have been declared as thrust industries. In wool based industry, the state government is giving special emphasis on improving availability of good quality raw material, wool processing, grading, and quality and design improvement, providing training to artisans, strengthening of marketing arrangements and mobilizing institutional finance for development of MSMEs in this sector.



Source: PHD Research Bureau, compiled from various sources

⁴⁰ Annual Report (2012-13), Ministry of Textiles, Government of India

⁴¹ Annual Report of Ministry of Textiles 2012-13, Government of India



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13. Survey analysis of the MSME sector in Uttarakhand

“Emerging Contours in the MSME sector of Uttarakhand: A survey based empirical study” pertains to focus on the growth dynamics of the MSME sector and operational issues faced by various stakeholders across manufacturing and services sectors in the state. In order to conduct the survey, a structured questionnaire was prepared and circulated amongst the representatives of the various firms located across the major industrial cities of Uttarakhand including Dehradun, Haridwar, Haldwani, Kashipur, Kotdwar, Rudrapur and Udham Singh Nagar among others. The survey pertains to analyse 772 responses received from various representatives across the sectors and industrial segments.

The survey revealed that MSMEs in Uttarakhand generate on an average gross annual sales of more than Rs 23 crore in the domestic markets while an average annual sales of worth Rs 3 crore in international markets. It has been found that MSMEs across various segments have observed robust growth of nearly 38% during the last three years. The major reasons responsible for boosting the gross annual sales growth of MSMEs in Uttarakhand has been attributed to be rising demand, technological advancements, increasing overall size of the economy and incentives offered by the government.

Respondent MSMEs across the state opined that they procure inputs mainly from domestic markets (within India) (48%) and around 43% respondents from local markets (within Uttarakhand). The major states supplying inputs to MSMEs includes Assam, Bihar, Delhi, Gujarat, Haryana, Himachal Pradesh, Karnataka, Kerala, Maharashtra, Tamil Nadu, Uttar Pradesh and West Bengal. However, MSMEs face difficulties in procuring inputs from local and domestic markets such as unavailability of appropriate transportation, financial constraints, inter state taxes, administrative bottlenecks, law and order situation etc.

A small share of MSMEs (8%) has been found to be integrating with the world economy in search of more competitive sources of raw materials and better markets. They procure inputs from different foreign markets around the world. The inputs are sourced from foreign markets on the basis of quality, timely delivery, less prices, credit facility by supplier, easy access of inputs, better technology etc. The difficulties faced by them while procuring inputs from foreign markets are transportation, import finance, cumbersome custom procedures, import duties, lengthy and time consuming procedural regulations.



MSMEs operating in the state supply their final output in domestic as well as foreign markets thereby generating significant earnings for the state. MSMEs are significantly responsible for economic growth of the state pertaining to the fact that nearly 46% respondents have marked an increase in their profit percentage. The major states where MSMEs supply their products are Delhi, Haryana, Himachal Pradesh, Punjab, Rajasthan, Uttar Pradesh, etc. MSMEs cater appreciably to foreign markets which is evident with the fact that 29% of respondents engaged in exports have reported increased export growth rate in the recent years. The countries which are catered by MSMEs are Brazil, Cambodia, Europe, Indonesia, Iraq, Jordan, Kazakhstan, Malaysia, Philippines, Saudi Arabia, Thailand, Turkey and USA.

Majority of the respondents felt that overall tax burden has increased in last three years and most over burdening taxes have been found to be VAT, central sales tax, service tax, excise duty, minimum alternate tax, custom duty, corporate tax and surcharge. However, almost all the MSMEs felt that the implementation of GST is expected to reduce the burden of taxation on them in the coming times.

The key infrastructural changes which have been observed by the MSMEs in the state are implementation of effective rules and regulations, abundant supply of water, technological advancements during the recent times. Industrial developments in some of the important cities of the state such as Dehradun and Haridwar have been observed as remarkable development for the growth of MSME sector. However, respondents believed that state should focus on improving the electricity conditions which is a growing concern for them. They suggested that development of logistic hub, transportation connectivity and telecom facility with high band width should be addressed in order to attract industrial infrastructure in the state.

Majority of respondents opined that current schemes of Central and State governments have significant positive impact on their businesses. Some of the major government schemes which have boosted MSMEs growth in the state are excise duty exemption, duty free imports, subsidy in central sales tax, Hill development policy, subsidy in plants and machinery, relaxation in bank loans etc. Some of the state government schemes which have positively impacted MSME sector of the state are reimbursement of VAT, power concessions, friendly investment policies, promising industrial policy of the state.

13.1 Procurement of inputs by MSMEs in Uttarakhand

A large share of the respondents (48%) affirmed that they procure inputs from domestic markets which includes Assam, Bihar, Delhi, Gujarat, Haryana, Himachal

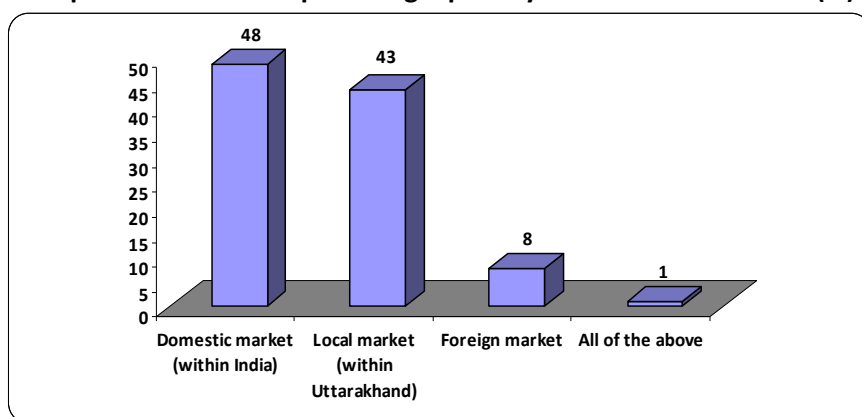


Pradesh, Karnataka, Kerala, Maharashtra, Tamil Nadu, Uttar Pradesh and West Bengal and around 43% of them added that they procure inputs for production from the local markets (within Uttarakhand).

Most of the respondents opined that the MSME sector is also integrating with the world markets though slowly. However, only a small proportion of them (8%) procure inputs from world markets. It has been observed that China has emerged as one of the key supplier of inputs for MSMEs in Uttarakhand.

Other key supplier of inputs includes Belgium, Bhutan, Bangladesh, Denmark, Europe, France, Germany, Ireland, Italy, Iraq, Korea, Mexico, Malaysia, Nepal, Spain, Saudi Arab, Sri Lanka, Taiwan, Thailand and USA. Nearly 1% of the respondents said that they procure inputs across local, domestic and foreign markets.

Graph 13.1 Sources of procuring inputs by Uttarakhand MSMEs (%)



Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July -September 2013)

13.2 Factors determining suppliers' selection by Uttarakhand MSMEs

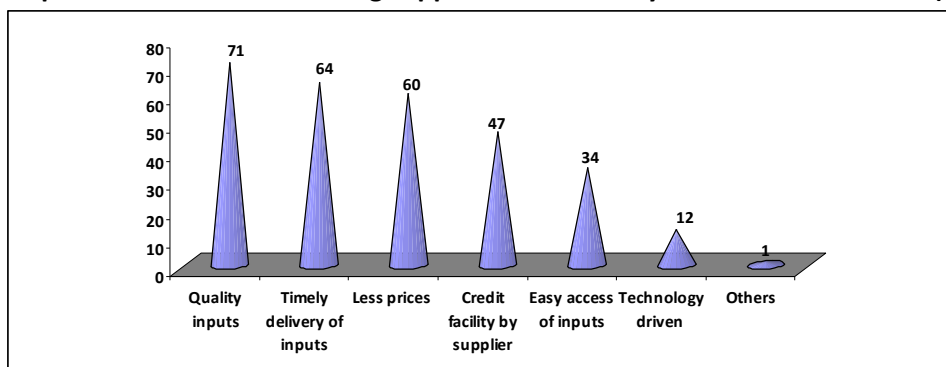
About 71% of the MSMEs⁴² opined that one of the critical factors in selecting suppliers is based on providing high-quality raw materials. Further, a large share of respondents (64%) said that timely delivery of inputs, less prices also carries immense significance in selecting the suppliers. It has also been observed that around 47% of the respondents have favored suppliers who provide easy access to credit facilities in procuring raw materials. While only 12% of the respondents have favored suppliers who are more techno friendly in nature and adopts efficient techniques of supplying inputs and nearly 1% respondents have preferred suppliers on the basis of

⁴² Respondents have chosen more than one option for this question hence, the sum may not be equal to 100



recommendation by family and friends supported with healthy past records in offering better services.

Graph 13.2 Factors determining suppliers' selection by Uttarakhand MSMEs (%)



Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July-September 2013), Note: Others includes better services, customer preference or recommendation by friends and family, The respondents have chosen more than one option

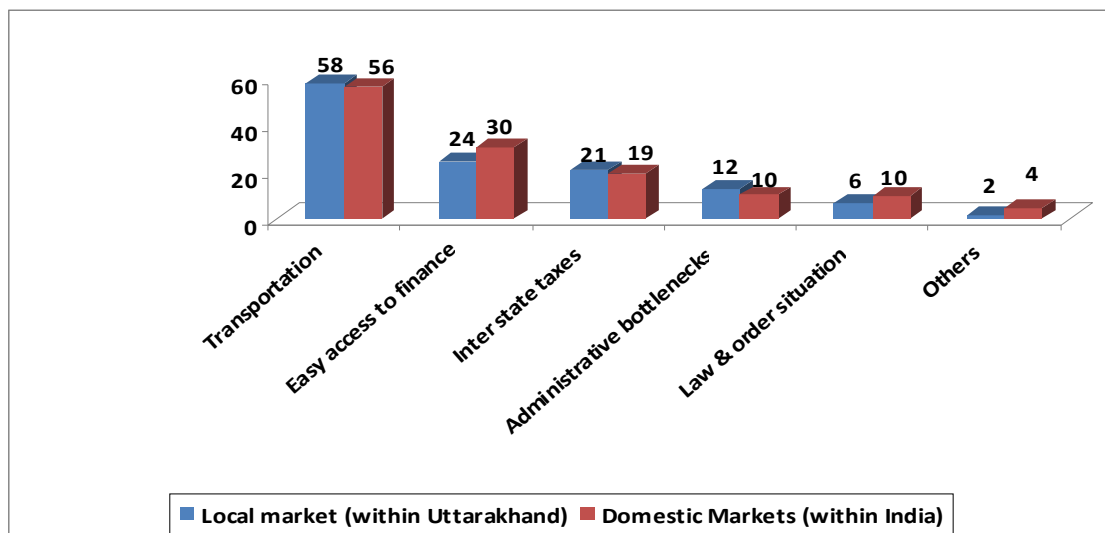
13.3 Problems in procuring inputs by Uttarakhand MSMEs

MSMEs face difficulties in procuring inputs from local and domestic markets as majority of respondents (almost all the respondents) said that they face plethora of problems while procuring inputs. It has been observed that most of the problems have found to be common for the MSMEs while procuring inputs either within Uttarakhand or across the country. Majority of the respondents opined that lack of availability of proper transportation facility has emerged as one of the main problems in procuring inputs from local (within Uttarakhand) and domestic markets (within India), followed by lack of easy access to finance, inter state taxes, administrative bottlenecks and law and order situation.

Further they added that state of road infrastructure in industrial areas, heavy rainfalls, road permit related issues, introduction of trip sheet system by the state government, check post issues in the states, lack of information and communication, poor quality and higher prices of inputs, fluctuating price scenario of raw materials, small number of suppliers and unavailability of raw materials, problems arising due to local union, lack of proper guidance while setting up a unit and panchayat tax impacts the process of procuring inputs. The respondents also felt that kavar mela which is one of the major attractions of the state cause heavy road blockage which also affect their operations.



Graph 13.3 Problems in procuring inputs from local and domestic markets by Uttarakhand MSMEs (%)



Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July-September 2013), Note1: Respondents have chosen more than one option, Note2: Other includes delay in payment, credit limits, quality problem etc.

13.4 Problems in procuring inputs from foreign markets by Uttarakhand MSMEs

According to the survey it has been observed that the MSME sector of the state is also integrating with the world markets though slowly. The inputs are sourced from foreign markets on the basis of quality, timely delivery, competitive prices, credit facility, easy access of inputs, better technology etc.

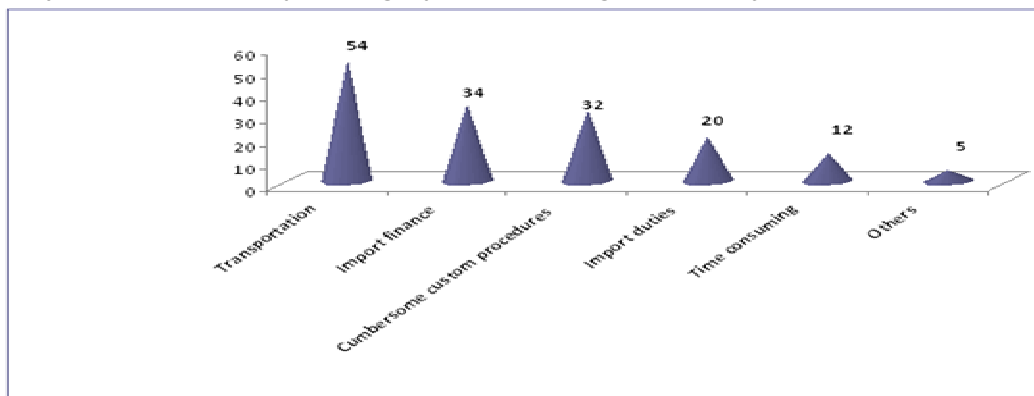
Further, majority of the respondents⁴³ added that the difficulties faced by them while procuring inputs from foreign markets are similar as in the domestic markets. A large share of the respondents (54%) believed that lack of appropriate transportation is one of the major issues in procuring inputs from foreign markets, followed by import finance (34%), cumbersome custom procedures (32%), import duties (20%) and lengthy and time consuming procedural regulations (12%).

While remaining 5% respondents affirmed that information barriers, lesser familiarity with business practices, socio-cultural differences and language barriers, currency fluctuations also impact their well-timed delivery of raw materials from abroad.

⁴³ Respondents have chosen more than one option for this question hence, the sum may not be equal to 100



Graph 13.4 Problems in procuring inputs from foreign markets by Uttarakhand MSMEs (%)

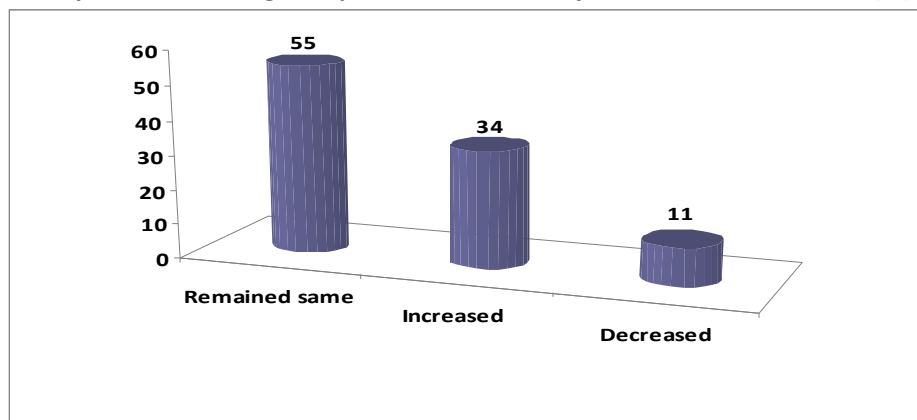


Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July- September 2013), Note1: Respondents have chosen more than one options. Note2: Others include information barriers, lesser familiarity with business practices, socio-cultural differences and language barriers, currency fluctuations etc.

13.5 Sourcing of inputs from abroad by Uttarakhand MSMEs

A large share of respondents (55%) reported that their sourcing of inputs from abroad has remained same over the recent years. Around 34% of the respondents added that their procurement from abroad has increased on the basis of quality, timely delivery, competitive prices, credit facility by suppliers, easy access of inputs, better technology etc. While 11% of respondents said that it has decreased over the recent years which is attributed to the issues related to import duties, import finance, currency fluctuations, cumbersome custom procedures, lack of appropriate transportation, time constraints, information barriers, lesser familiarity with business practices, socio-cultural differences and language barriers etc.

Graph 13.5 Sourcing of inputs from abroad by Uttarakhand MSMEs (%)



Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July-September 2013)

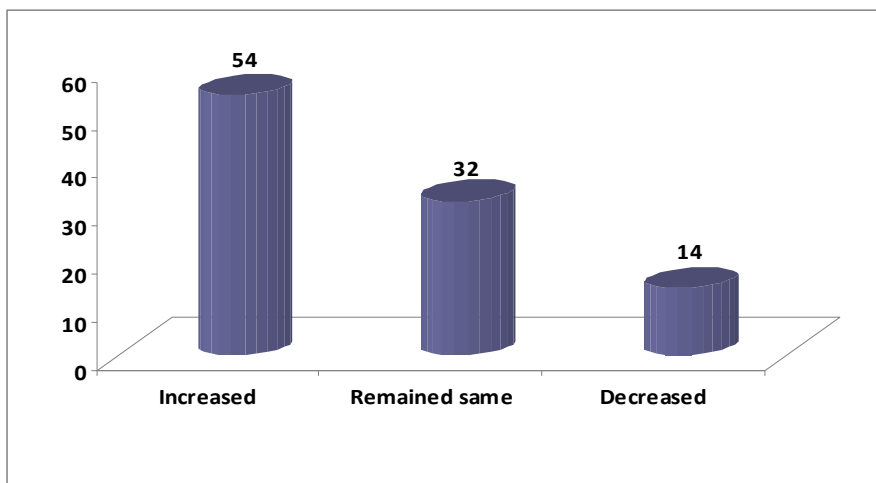


13.6 Growth of sales of MSMEs in Uttarakhand

The survey found that MSMEs in Uttarakhand generate (on an average) gross annual sales of more than Rs23 crore in the domestic markets while an average gross annual sales of Rs3 crore in international markets. The survey observed that MSME sector across various segments have posted robust gross annual sales (average) growth of about 38% during the last three years.

Nearly 54% of respondents affirmed that gross annual sales growth has increased during the last three years while about 32% of them said that gross annual sales growth has remained same whereas it has decreased according to 14% of respondents.

Graph 13.6 Gross annual sales growth of Uttarakhand MSMEs (%)



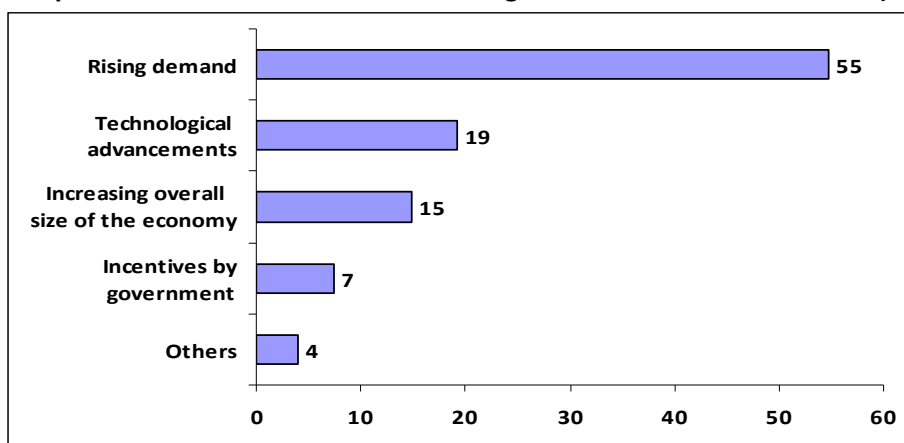
Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July- September 2013)

13.6.1 Reasons for increase in sales growth of MSMEs in Uttarakhand

According to the survey, the major reasons responsible for boosting the gross annual sales growth of MSMEs in Uttarakhand has been attributed to the rising demand (55%), followed by technological advancements (19%), increasing overall size of the economy (15%), incentives offered by the government (7%). However, few respondents (4%) believed that the competitive prices, firms own effort to grow, increase in output, maintaining working capacity, increased capacity level, producing more products and emphasis on quality have significantly helped the firms to increase their efficiencies.



Graph 13.7 Reasons for increase in sales growth of Uttarakhand MSMEs (%)



Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July- September 2013), Note: Others include firms own efforts to grow, emphasis on quality, increased capacity level etc.

13.6.2 Reasons for decrease in gross annual sales growth of MSMEs in Uttarakhand

Majority of the respondents (58%) opined that extensive competition from domestic as well as foreign markets has attributed to the decline in gross annual sales growth of MSMEs in the state.

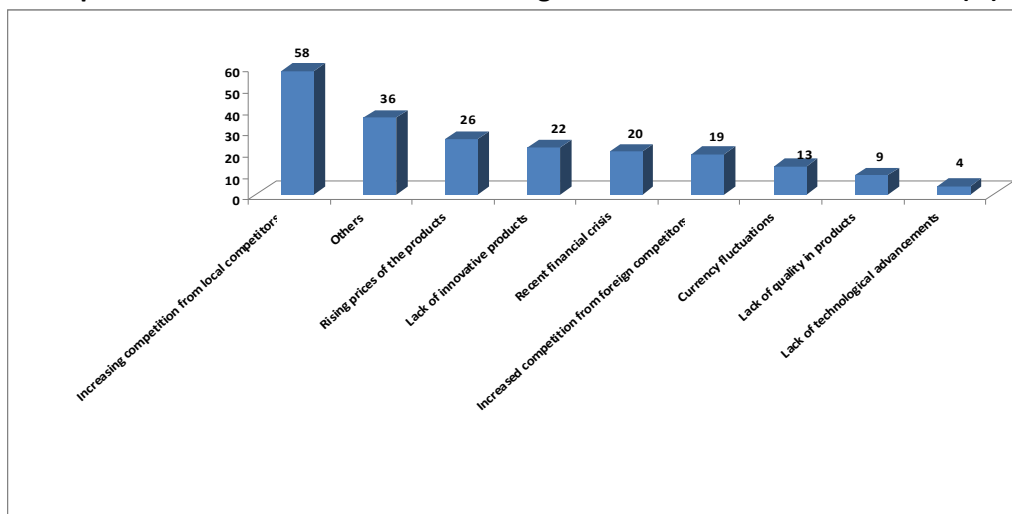
While (36%) respondents felt that other reasons such as small order size, competitive products from China, labour problems, unavailability of raw materials, lack of infrastructure, increase in the expenses, lack of demand, cumbersome government policies, high local taxes, unawareness about new government schemes, increase in the cost of production, shortage of electricity, communication problems have resulted in decline in the gross annual sales growth.

The survey has revealed that gross annual sales growth of MSMEs in the state has also been adversely impacted due to rising prices of the products (26%), lack of innovative products (22%), recent financial crisis (20%) and increasing competition from foreign competitors (19%).

However, respondents also felt that currency fluctuations (13%), lack of quality in products (9%) and lack of technological advancements (4%) are responsible for the decrease in their gross annual sales growth.



Graph 13.8 Reasons for decrease in sales growth of MSMEs in Uttarakhand (%)



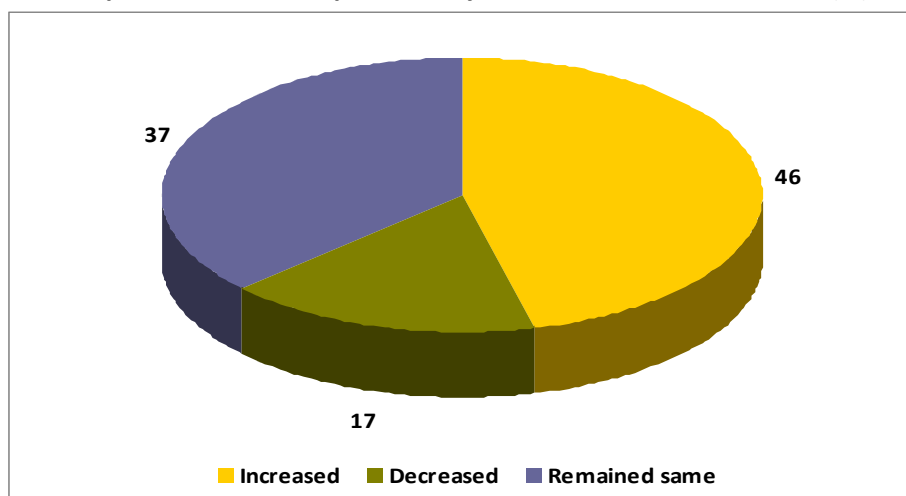
Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July-September 2013), Note1: Respondents have chosen more than one option

Note2: Others include problems such as labour problems, unavailability of raw materials, lack of infrastructure, increasing costs, lack of demand, unawareness and communication constraints etc.

13.7 Growth of profitability of MSMEs in Uttarakhand

The survey revealed that MSMEs in the state of Uttarakhand have witnessed robust growth in their profitability as nearly 46% of the respondents have marked an increase in their profit percentage, while 37% of the respondents reported that their profit percentage has remained same. However, 17% of the respondents felt that the profit percentage has decreased in the state.

Graph 13.9 Growth of profitability of MSMEs in Uttarakhand (%)



Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July-September 2013)

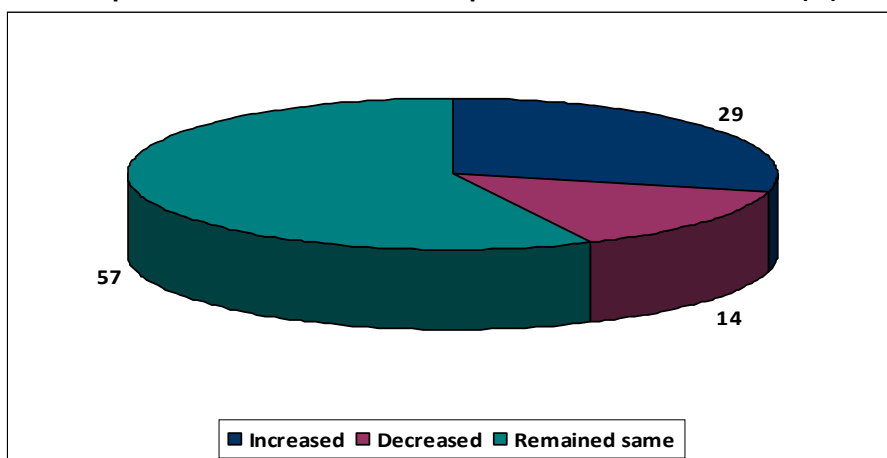


13.8 Growth of MSMEs exports from Uttarakhand

According to the survey, MSMEs cater appreciably to foreign markets which is evident with the fact that 29% of respondents who participate in export business have reported an increase in their exports growth during the recent years. However, a large share of respondents (57%) felt that their exports growth rate has remained same while 14% respondents believed that there has been a decrease in their growth rate of exports.

The countries which are catered by MSMEs of Uttarakhand for exports are Brazil, Cambodia, Europe, Indonesia, Iraq, Jordan, Kazakhstan, Malaysia, Philippines, Saudi Arabia, Thailand, Turkey and USA.

Graph 13.10 Growth of MSME exports from Uttarakhand (%)



Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July-September 2013)

13.9 Major sales markets for Uttarakhand MSMEs (within India)

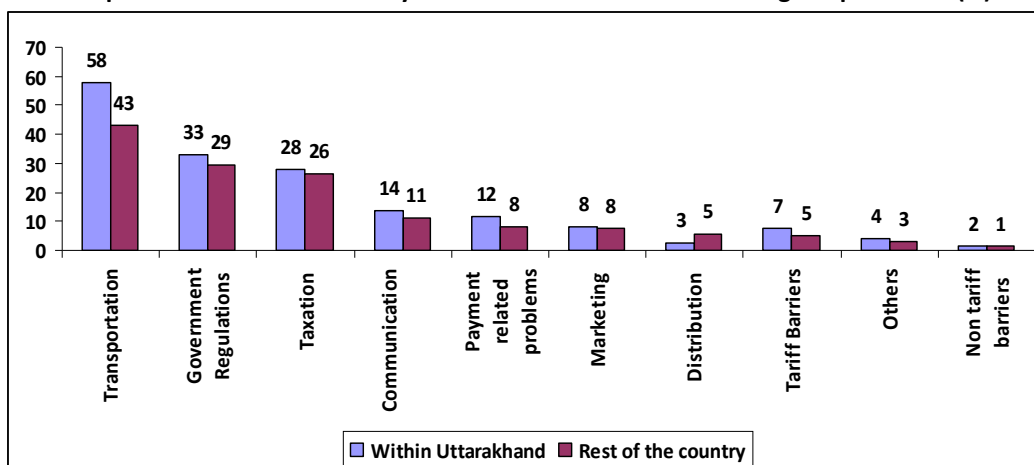
During the survey it has been found that respondents operating in the MSMEs sector in Uttarakhand cater to almost all parts of the country. However, it has been observed that a remarkable percentage of their output is sold in the Northern and Central states of India namely Delhi, Uttar Pradesh, Haryana, Himachal Pradesh, Rajasthan, Punjab etc. Further, there have been respondents who cater to Southern parts of the country such as Andhra Pradesh, Tamil Nadu etc.



The respondents felt that they face difficulties while selling their products in different markets. The major problems encountered by them⁴⁴ while selling products within Uttarakhand are transportation (58%) followed by government regulations (33%), taxation (28%), communication (14%), payment related problems (12%), marketing (8%), distribution (3%), trade barriers (7%), others⁴⁵ (4%) and non tariff barriers (2%).

Further, the problems faced by the respondents while selling their products in rest of the country are transportation (43%) followed by government regulations (29%), taxation (26%), communication (11%), payment related problems (8%), marketing (8%), distribution (5%), trade barriers (5%), others (3%) and non tariff barriers (1%).

Graph 13.11 Problems faced by Uttarakhand MSMEs while selling the products (%)



Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July- September 2013), Note: Respondents have chosen more than one option, Note: Others include delay in payments, check post & labour issues etc.

13.10 Major exports markets for Uttarakhand MSMEs

It has been revealed by the survey that MSMEs operating in Uttarakhand are gaining stimulus and supplying their final output to foreign markets too. The countries which are catered by MSMEs of the state are Africa, Australia, Afghanistan, Brazil, Bhutan, Bangladesh, Cambodia, China, Europe, Egypt, France, Germany, Indonesia, Italy, Iraq, Jordan, Japan, Kazakhstan, Malaysia, Middle East Asia, Mexico, Nepal, Philippines, Pakistan, Russia, Singapore, Saudi Arabia, Spain, Sri Lanka, Thailand, Turkey, Taiwan, USA, and Yemen. However, respondents⁴⁶ felt that they face difficulties while selling their products in foreign markets.

⁴⁴ Respondents have chosen more than one option for this question hence, the sum may not be equal to 100

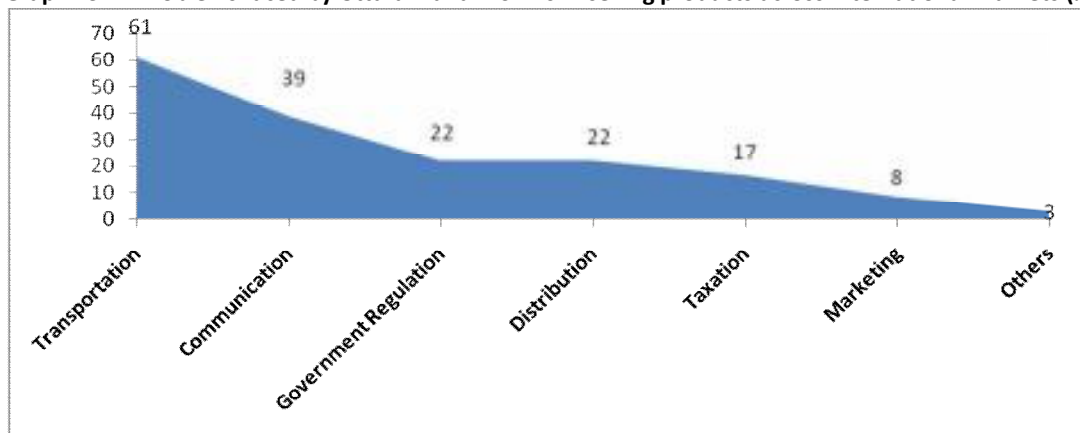
⁴⁵ Others include delay in payments, road blocks, labour issues etc.

⁴⁶ Respondents have chosen more than one option for this question hence, the sum may not be equal to 100



The major problems experienced by them while selling their products in foreign markets are transportation (61%) followed by lack of communication (39%), excessive government regulations (22%), distribution (22%), taxation issues (17%) and lack of marketing (8%). While few respondents (3%) affirmed that cumbersome custom procedures creates problem while selling the products in foreign markets.

Graph 13.12 Problems faced by Uttarakhand MSMEs in selling products across international markets (%)

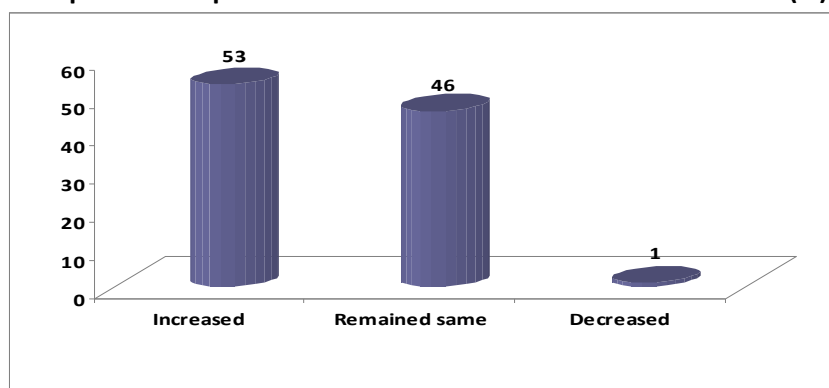


Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July-September 2013), Note1: Others include cumbersome custom procedures, Note2: Respondents have chosen more than one option.

13.11 Impact of taxation on Uttarakhand MSMEs

Large share of the respondents (53%) felt that overall tax burden has increased in the last three years while a share of 46% respondents reported that overall tax burden has remained same. However, a small share of 1% respondents opined that tax burden during the last three years has decreased in the state.

Graph 13.13 Impact of taxation on Uttarakhand MSMEs (%)

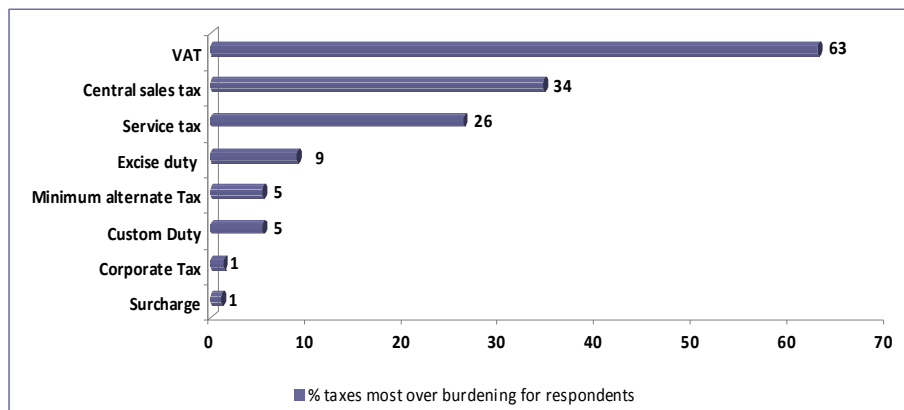


Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July- September 2013)



Majority of respondents⁴⁷ (63%) opined that VAT is most over burdening tax followed by central sales tax (34%), service tax (26%), excise duty (9%), minimum alternate tax (5%), custom duty (5%), corporate tax (1%) and surcharge (1%).

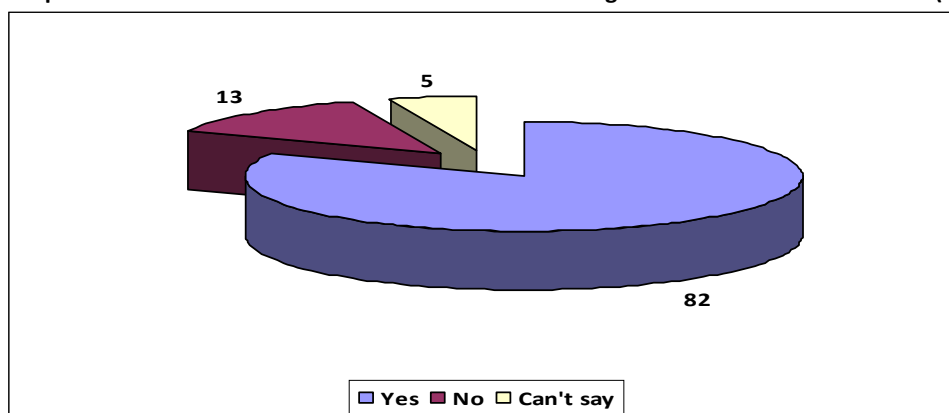
Graph 13.14 Most overburdening taxes for Uttarakhand MSMEs (%)



Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July- September 2013), Note: Respondents have chosen more than one option

However, almost all the MSMEs felt that the implementation of GST would reduce the burden of taxation on them in the coming times. It has been found in the survey that 82% respondents were in favour of implementation of GST and opined that it will reduce their tax burden. However, 13% respondents were having no consensus on GST and remaining 5% respondents felt that introduction of GST would not reduce tax burden.

Graph 13.15 Consensus on reduction of tax burden through GST of Uttarakhand MSMEs (%)



Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July-September 2013)

⁴⁷ Respondents have chosen more than one option for this question hence, the sum may not be equal to 100



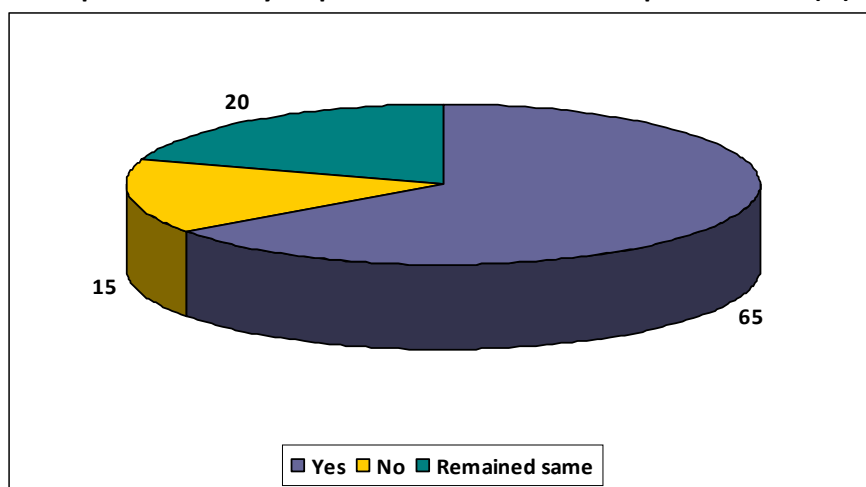
13.12 Impact of Infrastructure on Uttarakhand MSMEs

Availability of good infrastructure is a key determinant of industrial development in a state. MSMEs also seek better infrastructure conditions in order to boost their manufacturing and capitalising on their investments.

The survey revealed that MSMEs unanimously felt that there has been tremendous improvement in the infrastructure facilities in the state. Nearly 65% respondents felt that infrastructure conditions have improved in the state through implementation of effective rules and regulations, abundant supply of water, technological advancements during the recent times. Industrial developments in the some of the important cities such as Dehradun and Haridwar have boosted the growth of MSME sector remarkably.

Infrastructure in the state has also been improved by the construction of highway connecting Haridwar to Delhi which has significantly facilitated the transportation of goods. Further, enhanced airport connectivity in the state has also solved many transportation related problems of the MSMEs.

Graph 13.16 Survey response on infrastructure improvement (%)



Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July- September 2013)

While 20% respondents felt that infrastructure conditions have remained same and 15% respondents observed that state has hardly made any infrastructural improvements over the recent years due to electricity shortages, transportation bottlenecks and poor road conditions and increase in heavy commercial traffic conditions in the state.



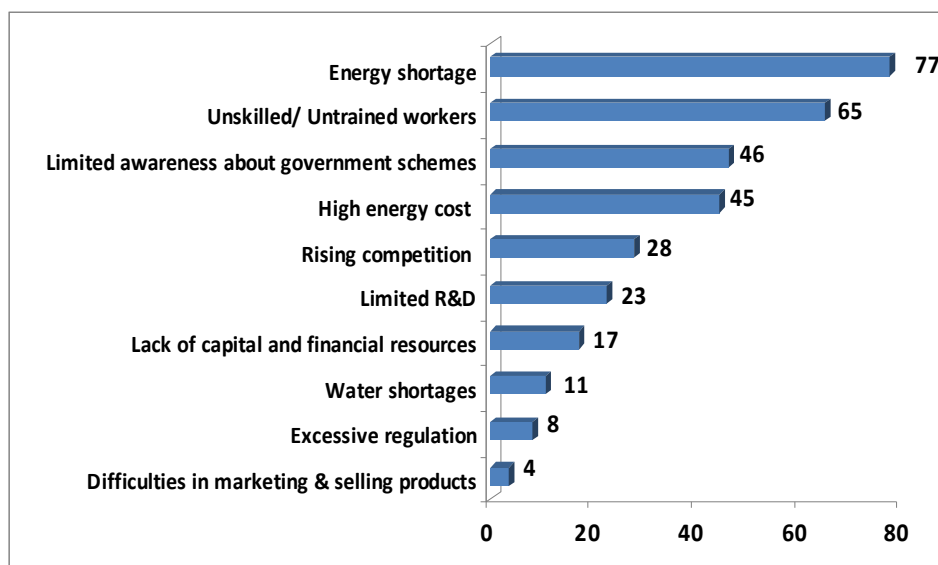
Respondents believed that state should focus on improving electricity conditions which is a growing concern for them. Majority of respondents were of the opinion that the state has lot of scope for infrastructural improvements which will have positive impact on their business activities.

Further, respondents suggested that development of logistic hub, excellent transportation connectivity and telecom facilities with high band width should be enhanced in order to attract huge industrial investments in the state in the coming times.

13.13 Operational issues faced by MSMEs in Uttarakhand

MSME sector in Uttarakhand are exposed to various operational challenges. According to the survey, a large share of the respondents⁴⁸ (77%) opined that energy shortage is one the key operational challenges, followed by lack of skilled and trained workers (65%), limited awareness about government schemes (46%), high energy cost (45%), rising intense competition (28%), limited R&D (23%), lack of capital and financial resources (17%), water shortages (11%), excessive regulations (8%) and difficulties in marketing and selling (4%).

Graph 13.17 Major operational problems faced by MSMEs in Uttarakhand (%)



Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July- September 2013) Note: Respondents have chosen more than one option.

⁴⁸ Respondents have chosen more than one option for this question hence, the sum may not be equal to 100



According to the survey, almost all the respondents opined that they face scarcity in manpower in terms of the right skill sets for major areas like, manufacturing, service, marketing, etc. Hence, they suggested that skill development and capacity building programmes should be promoted in order to boost employment opportunities and entrepreneurship in the state.

13.14 Global integratedness of Uttarakhand MSMEs

Although globalisation has facilitated MSMEs all over the world to evolve innovative and better products, however, MSMEs in Uttarakhand has a small share of tie-ups with foreign firms. The survey revealed that only a small share of 5% respondents have technological tie-up with foreign firms while nearly 95% respondents operate in domestic markets. According to survey, the countries offering tie-ups to the MSMEs in the state include China and Germany among others.

Graph 13.18 Technological tie-ups of Uttarakhand MSMEs with foreign companies (%)

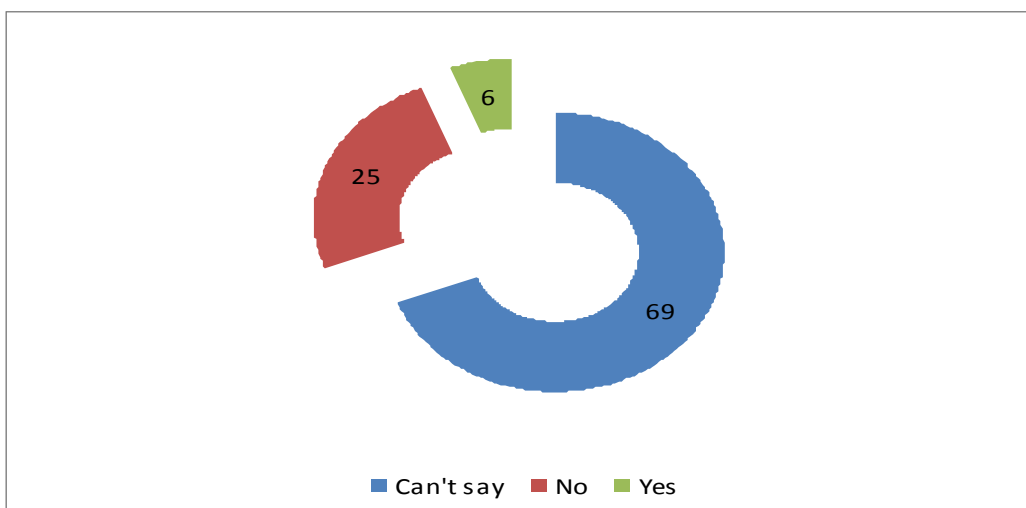


Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July-September 2013)

The survey revealed that only a small share of respondents (6%) were in favour of outsourcing business to foreign investors while 25% of respondents were not in favour of outsourcing business to foreign investors. However, a large share of 69% respondents could not come to any consensus about the same.



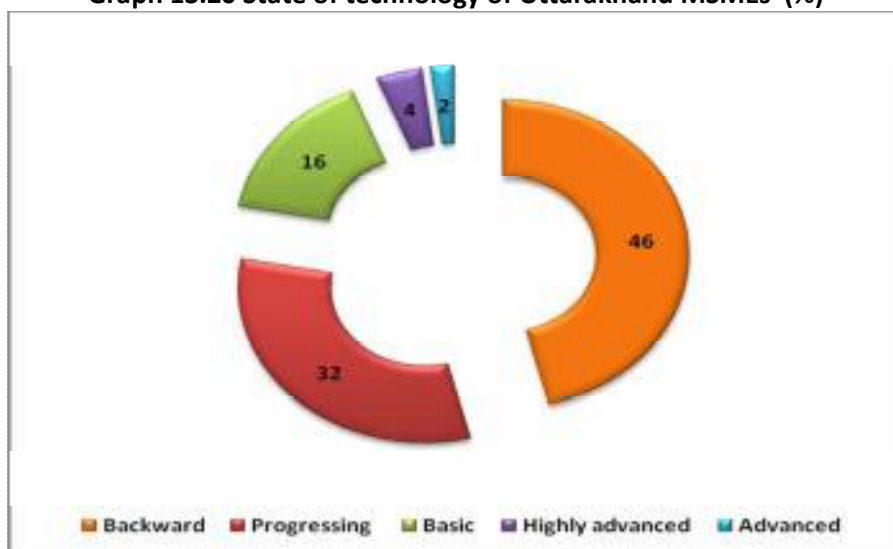
Graph 13.19 Favour on outsourcing to foreign investors by Uttarakhand MSMEs (%)



Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July- September 2013)

According to the survey, about 46% of respondents felt that state of technology is backward in their organisation while a share of 32% respondents felt that it is in progressing stage. Further, 16% of the respondents opined that they are using basic state of technology in their organisation while only 4% respondents felt that the state of technology is highly advanced in their organization and only a small proportion of respondents (2%) believed that state of technology is advanced in their organisation.

Graph 13.20 State of technology of Uttarakhand MSMEs (%)



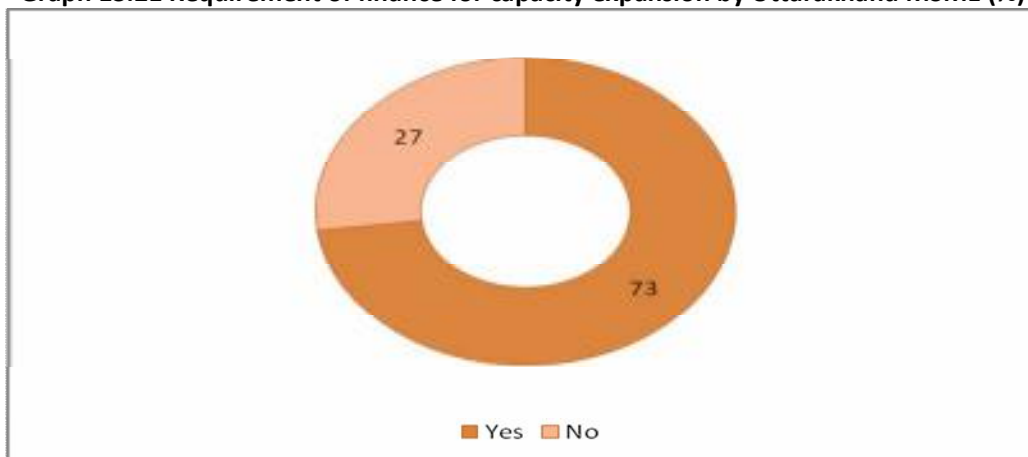
Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July- September 2013)



13.15 Capacity utilization and expansion of Uttarakhand MSMEs

Majority of the respondents have observed that effective capacity utilization and expansion have enabled MSMEs in the state of Uttarakhand to achieve better results. It has been observed that nearly 73% respondents require finance for capacity expansion while 27% respondents have reported that they do not require finance for capacity expansion.

Graph 13.21 Requirement of finance for capacity expansion by Uttarakhand MSME (%)

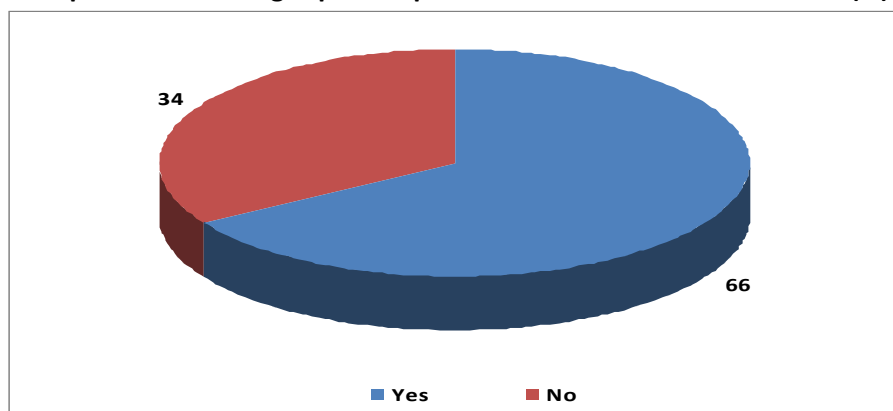


Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July- September 2013)

13.16 Working capital requirements of Uttarakhand MSMEs

Majority of respondents (66%) affirmed that they face shortage of working capital. While 34% respondents said that they don't face shortage of working capital.

Graph 13.22 Working capital requirement of Uttarakhand MSMEs (%)



Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July- September 2013)

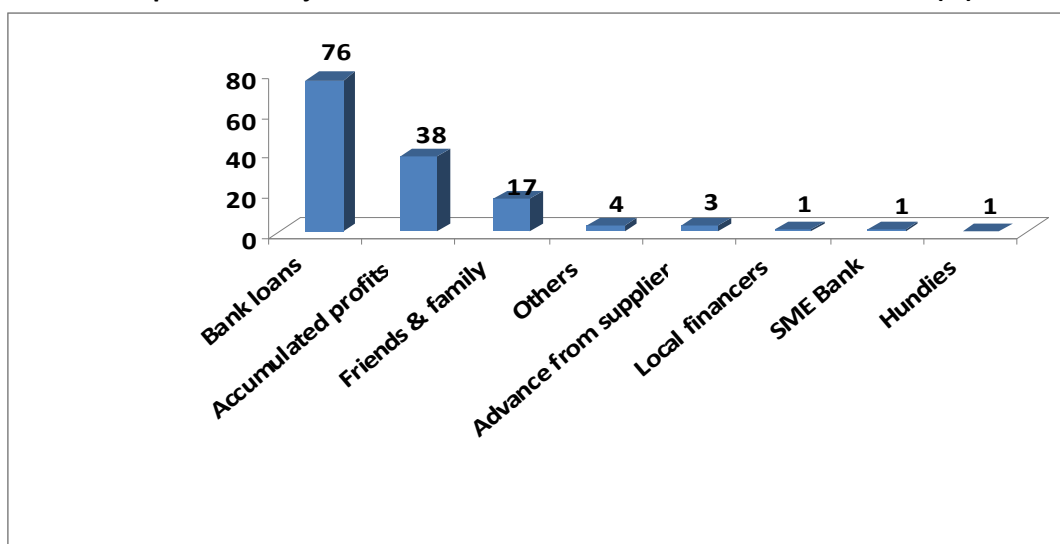


13.17 Major sources of finance of Uttarakhand MSMEs

The survey found that a large share of the respondents⁴⁹ (76%) rely heavily on bank loans to meet up their financial requirements followed by accumulated profits (38%), sourcing of finance from friends and family (17%).

Small share of respondents (4%) have been found to be dependent on corporate offices, buyers credit, personal loans, secured and unsecured loans, partner capital, lenders and cash credit from banks. However, few respondents (3%) said that they prefer to take advances from suppliers while 1% respondents opted for local financiers, SME banks and hundies each.

Graph 13.23 Major sources of finance of Uttarakhand MSMEs (%)



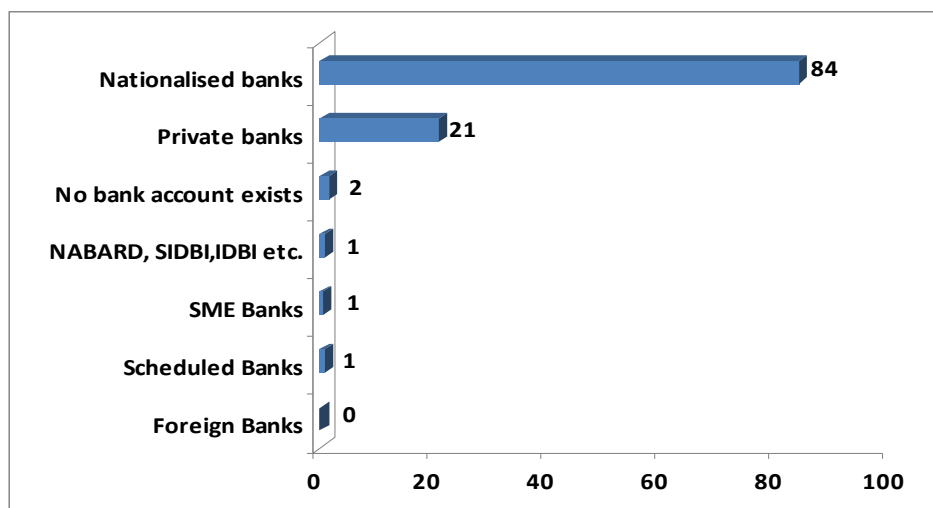
Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July-September 2013), Note: Others include finance from corporate office, buyers credit, personal loans, secured and unsecured loans, self finance, partner capital, lenders and customers, cash credit from banks, Note: Respondents have chosen more than one option

Majority of the respondents (84%) reported that they have bank accounts in Nationalized Banks. This depicts that banks have a major role in narrowing the large finance gap exhibited in MSME sector of the state and there exists a tremendous scope to meet the financial requirements of MSME sector of Uttarakhand and public sector banks can play a significant role in this regard.

⁴⁹ Respondents have chosen more than one option for this question hence, the sum may not be equal to 100



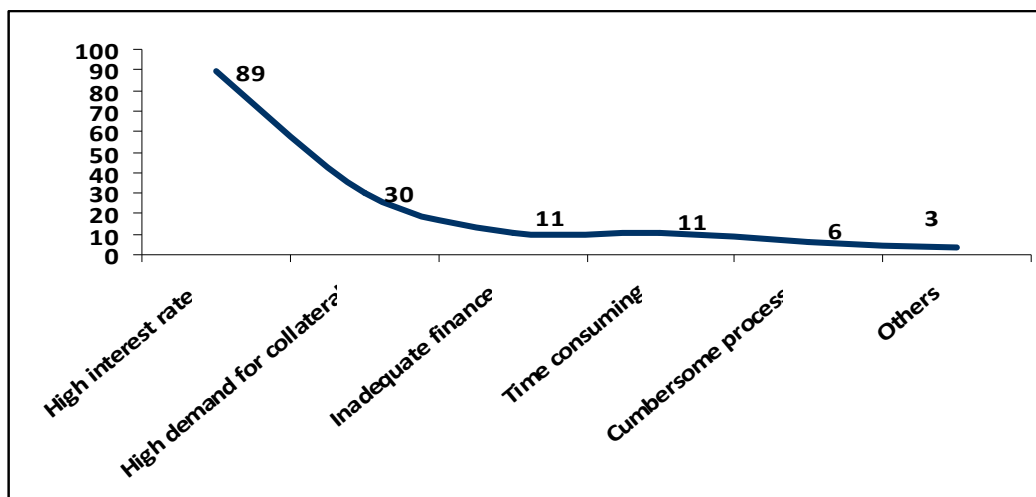
Graph 13.24 Respondents' banking preferences (%)



Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July-September 2013), Note: Respondents have chosen more than one option

According to the survey the key reasons responsible for respondents not approaching the banks for the loans are high interest rate as felt by 89% respondents followed by high demand for collateral (30%), inadequate finance (11%), time consuming procedures (11%) and cumbersome processes (6%). While 3% respondents felt that requirement of formal documents, small size of business etc are other causes for not availing finance from banks.

Graph 13.25 Key reasons for not approaching banks for loans by Uttarakhand MSMEs (%)



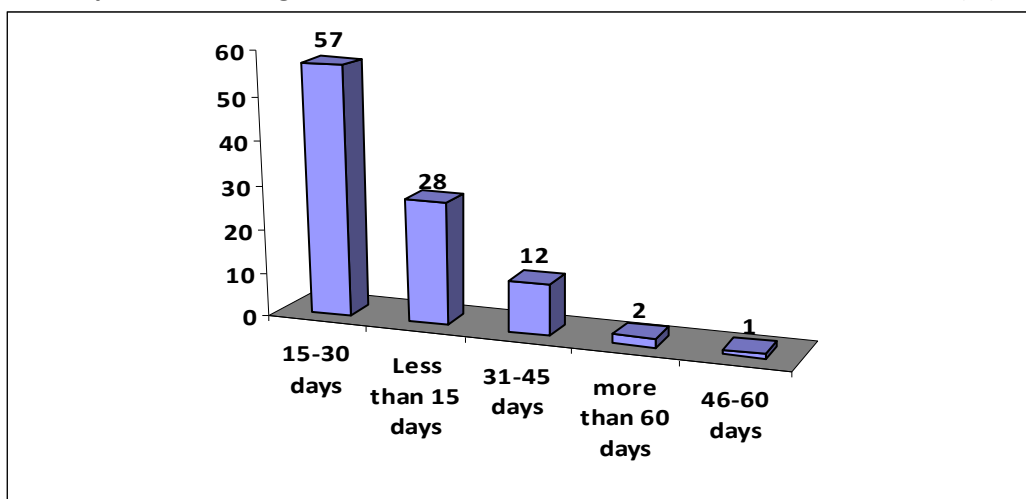
Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July- September 2013), Note1: Respondents have chosen more than one reason. Note2: Others include requirement of formal documents, small size of business.



13.18 Average time taken to obtain finance by Uttarakhand MSMEs

The survey has observed that 57% respondents obtain finance in 15-30 days from different sources followed by 28% respondents getting finance in less than 15 days. Further, 12% respondents get finance in 31- 45 days and 2% respondents obtain finance in more than 60 days and remaining 1% respondents obtain finance in a span of 46-60 days.

Graph 13.26 Average time taken to obtain finance from different sources (%)



Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July- September 2013)

Almost all the respondents unanimously believed that the state should focus on establishing a sound financial infrastructure (credit registries/ bureaus, collateral, and insolvency regimes) as a major priority in the financial development agenda, as it can lower the costs and risks to financial institutions which are serving MSMEs.

13.19 Policy environment for Uttarakhand MSMEs

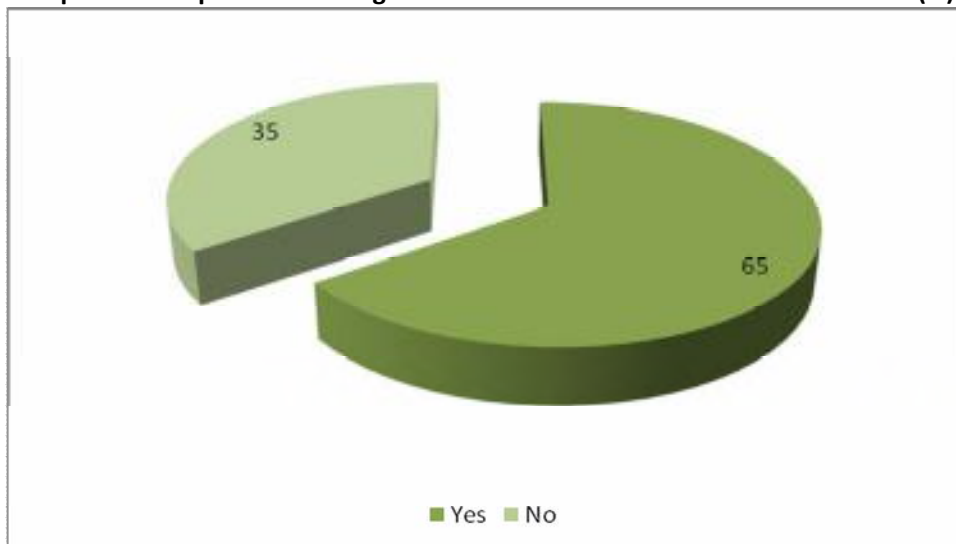
Conducive policy environment enhance the functioning of industries and it is imperative to note that as MSMEs operate in a highly competitive environment, it holds immense significance in contributing to their future growth prospects.

13.19.1 Impact of central government schemes on Uttarakhand MSMEs

Majority of respondents (65%) opined that current schemes of central government have significant positive impact on their businesses. While 35% respondents believed that the central schemes have hardly made any significant impact on their business.



Graph 13.27 Impact of central government schemes on Uttarakhand MSMEs (%)



Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July-September 2013)

Some of the significant government schemes which have boosted MSMEs growth in the state are excise duty exemption, duty free imports, subsidy in central sales tax, facilitating hill development policy, subsidy in plants and machinery, relaxation in bank loans etc.

However, there were respondents⁵⁰ who reported that central government schemes have not been availed by them due to various bottlenecks. Nearly 85% respondents felt that there exists lack of awareness among them about the schemes while 29% respondents said that government schemes involve cumbersome procedures.

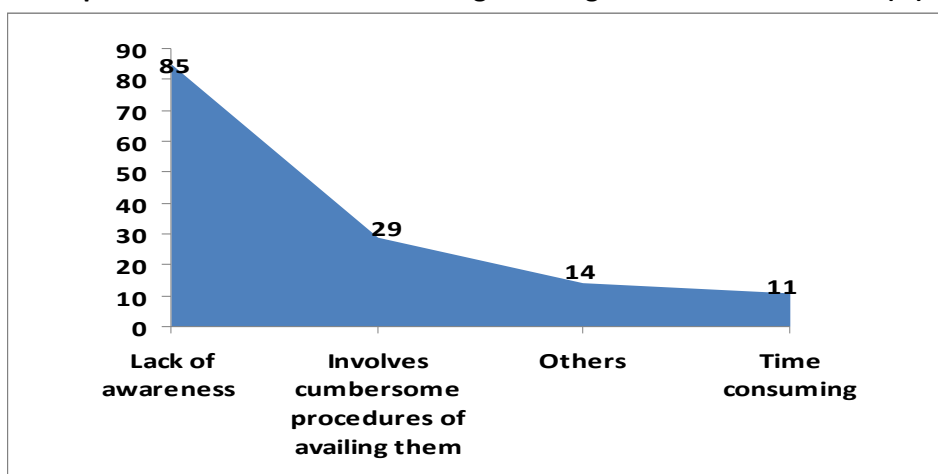
Around 14% share of respondents opined that regular changes in the schemes, smaller business size and non-availability of any particular scheme for agricultural driven units are some of the other reasons for not availing central government schemes.

While 11% respondents said that availing government schemes are time consuming. However, respondents suggested that schemes offered by the government should be widely propagated and large scale awareness should be promoted.

⁵⁰ Respondents have chosen more than one option for this question hence, the sum may not be equal to 100



Graph 13.28 Reasons for not availing central government schemes (%)



Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July- September 2013), Note: Respondents have chosen more than one option

13.19.2 Impact of state government schemes

The schemes offered by the state government have also significantly impacted the output of MSME sector in Uttarakhand. A significant share of the respondents (52%) felt that the current schemes of the state government for MSMEs have benefited them while 48% respondents felt that the schemes offered by the state government for MSMEs have impacted them marginally. Some of the state government schemes which have positively impacted MSME sector of the state are reimbursement of VAT, power concessions, friendly investment policies, promising industrial policy of the state etc.

The respondents felt that the state government should be proactive in spreading awareness about the government schemes with a view to facilitate increase in quality and quantity of credit to MSMEs, to bring larger number of MSMEs under the net and leading eventually to sustainable and inclusive growth of the sector. They believed that government should lay emphasis on stronger implementation of such schemes coupled with relaxation of complex and cumbersome procedures so that firms which are in the entry level stage can avail the benefits. Further, respondents also opined that the schemes which are mainly provided to the firms operating in the industrial zones such as SIDCUL should also be extended to industries which are not established in such zones but are part of the sector. Proper intimation regarding new policies and any changes in the rules and regulations should be effectively informed and announced.



13.19.3 Impact of policies on exports

About 63% respondents felt that foreign trade policy and procedures have benefited their businesses while 37% respondents felt that the foreign trade policy does not have huge impact on them. According to the survey almost all the respondents felt that there is a need to initiate measures in order to boost export participation of the state.

Some of the export oriented schemes availed by the respondents are excise policy, relaxation in import and export duties, landing charges, service tax, single window.

However, majority of respondents were of the viewpoint that procedures should be simplified to boost exports from the state and transport infrastructure should also be improved in this regard.

14 Sectoral analysis of the MSME sector in Uttarakhand

The survey based study on “Emerging Contours in the MSME sector in Uttarakhand” has considered some of the key sectors which contribute significantly in the industrial development of Uttarakhand. The key focused sectors considered in the study are agro & food processing, auto components & automotive, drugs & pharmaceuticals, engineering goods, gems & jewellery, handicrafts, IT, leather and textiles.

The survey found that almost all the sectors under the study have performed well in achieving growth over the period and also have the same issues and challenges with regards to the operational problems faced by MSMEs in Uttarakhand.

14.1 Auto components & automotive

Auto components and automotive sector is one of the promising sectors of the state. Majority of the respondents operating in this sector has reported a robust in the gross sales growth and profitability.

A large share of respondents caters not only to the local and domestic markets but also to the foreign markets of Australia, China, Nepal, Taiwan, USA. However, they encounter issues pertaining to transportation, rising financial crisis, administrative bottlenecks etc.



Respondents' viewpoint on various growth factors and operational issues

S.No.	Parameters	Respondents' Viewpoint
1	Procurement of inputs	Majority of respondents procure inputs from domestic markets including UP, Delhi NCR, Haryana, Punjab, Rajasthan, Himachal Pradesh, Gujarat, Maharashtra Large share of them procure inputs from local markets (within Uttarakhand) Small proportion of respondents also source inputs from foreign markets namely China, Germany, Japan, Korea, Singapore, Thailand, Taiwan
1.1	Problems in procuring inputs	Majority of respondents opined that transportation, interstate taxes, law and order, administrative bottlenecks and infrastructural deficits are the major problems faced by them while procuring inputs from local markets (within Uttarakhand) and domestic markets (within India) Major issues in procuring inputs from foreign markets are time constraints, transportation, import finance, cumbersome custom procedures, import duties constraints etc.
2	Growth of sales	Majority of the respondents operating in this sector reported an increase in their gross annual sales growth during the last three years
2.1	Reasons for increase in growth	The major reasons responsible for boosting gross annual sales growth of auto components and automotive sector are rising demands, technological advancements, increasing size of economy and governmental sops to infuse industrial growth in the state
2.2	Reasons for decrease in growth	Large share of respondents opined that increasing competition from local competitors, rising financial crisis and increased competition from foreign competitors are reasons for decrease in gross sales growth of the sector
3	Growth of profitability	Majority of respondents have witnessed a robust growth in its profitability while significant respondents have reported that their profit margin has remained same
4	Growth of exports	Majority of the respondents have reported steady exports growth while a small share of them have reported increase in the growth of exports
4.1	Major sales market (India)	Major sales markets (in India) catered by auto components and automotive sector of the state are Delhi NCR, Haryana, Himachal Pradesh, Rajasthan, Tamil Nadu, UP, West Bengal
4.2	Major exports markets	Large share of respondents reported to cater to the markets of Australia, China, Nepal, Taiwan, USA Marketing and taxation are found to be the main problems encountered by majority of respondents while selling in foreign markets
5	Impact of taxation	Majority of respondents have reported that overall tax burden have increased in the auto sector of the state Large share of respondents felt that implementation of GST in the state will reduce their burden of taxation



6		VAT is most over burdening tax for the sector followed by CST, Service tax, Excise duty, Custom duty, MAT and Corporate Tax
	Impact of Infrastructure	Majority of respondents felt that although infrastructure has been improved in the state over the years, however, there exists scope for large scale infrastructural improvements in the state Significant share of respondents felt that electricity, road and drainage constraints impact their performance
7	Global integratedness	Majority of respondents are operating with advanced and progressing state of technology in the state However, a large share of respondents opined that state has lot of scope for technological advancement As only a small proportion of respondents have foreign tie-ups
8	Capacity utilization and expansion	Most of the respondents have reported of effective capacity utilization
9	Working capital	Almost all the respondents opined that they are exposed to shortage of finance for sourcing of its working capital Majority of respondents heavily rely on bank loans (nationalized banks) to meet their financial requirements However, other sources of finance used by them are accumulated profits, family & friends, advance from supplier, SME banks & hundies
10	Policy environment	
10.1	Impact of central government schemes	Majority of respondents felt that central government schemes have impacted them positively
10.2	Impact of state government schemes	While a large share of respondents reported of positive impact of state government schemes
10.3	Impact of policies on exports	There exists large scope of export promotion in this sector as most of the respondents felt that foreign trade policy has benefited them

Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July-September 2013)

14.2 Agro and food processing

Agro and food processing sector has vast scope in Uttarakhand owing to the large production of fruits and agri products. The majority of respondents procure inputs not only from local markets but also from foreign markets such as Germany, Italy and USA. Majority of the respondents operating in this sector has reported an increase in gross sales growth and profitability over the years. However, some of the issues faced them are increasing competition from local competitors, currency fluctuations, lack of technological advancements, rising prices of the product and infrastructural deficit.



Respondents' viewpoint on various growth factors and operational issues

S.No.	Parameters	Respondents' Viewpoint
1	Procurement of inputs	Majority of respondents procure inputs from local markets (within Uttarakhand). A significant share of respondents procure inputs from domestic markets mainly including UP, Delhi, Haryana, Punjab, Rajasthan, Maharashtra, Himachal Pradesh and Bihar. While a small proportion of respondents also procure inputs from foreign markets namely Germany, Italy, Iraq, Malaysia, Japan, Singapore, USA
1.1	Problems in procuring inputs	The major problems faced by the respondents while procuring inputs from local markets (within Uttarakhand) and domestic markets (within India) are transportation, law and order, interstate taxes, finance and administrative bottlenecks. While major issues encountered by majority of respondents while procuring inputs from foreign markets are transportation, import finance, cumbersome custom procedures, time constraints
2	Growth of sales	Majority of the respondents operating in this sector have reported an increase in their gross annual sales growth during the last three years
2.1	Reasons for increase in growth	The major reasons responsible for boosting gross annual sales growth of respondents operating in agro and food processing sector of the state are rising demands, increasing size of economy, technological advancements and incentives offered by the government
2.2	Reasons for decrease in growth	Majority of respondents opined that increasing competition from local competitors, currency fluctuations, lack of technological advancements, rising prices of the product are reasons for decrease in gross sales growth
3	Growth of profitability	Majority of respondents witnessed a robust growth in its profitability while significant respondents have reported that their profit margin has remained same
4	Growth of exports	Majority of the respondents have reported steady exports growth while few respondents have reported an increase in their growth of exports
4.1	Major sales market (India)	Most of the firms operating in agro and food processing sector of Uttarakhand cater all over India. While some of them cater to the states of Delhi, Uttar Pradesh, Haryana, Punjab, Himachal Pradesh, Maharashtra, Rajasthan, Gujarat. However, a large share of respondents face challenges while selling within Uttarakhand and rest of the country in terms of transportation, taxation, government regulations, tariff barriers, payment related problems
4.2	Major exports markets	Respondents operating in this sector significantly cater to markets of Nepal, USA, Mexico, Italy, Thailand, Turkey. However, taxation, marketing, government regulations and transportation are the main problems faced by them while selling their products in the foreign markets



Emerging Contours in the MSME sector of Uttarakhand

5	Impact of taxation	<p>Majority of respondents reported an increase in the overall tax burden over the years</p> <p>Most of the respondents have favoured the implementation of GST in the state</p> <p>Majority of respondents opined that VAT is most over burdening tax followed by CST, Service tax, Excise duty, Custom duty, MAT and Corporate Tax</p>
6	Impact of Infrastructure	<p>Large share of respondents felt that state should focus on infrastructure developments in order to develop agro and food processing sector in the state</p> <p>However, a small share of respondents operating in the sector opined that there is a need to improve infrastructure in terms of electricity, road connectivity, water supply and drainage constraints</p>
7	Global integratedness	<p>Majority of respondents affirmed that the sector has lot of scope for technological advancements in the state</p> <p>As only a small number of respondents have foreign tie-ups and the sector is using basic state of technology in the sector</p> <p>However, small share of respondents said that they have advanced state of technology in their organisations</p>
8	Capacity utilization and expansion	<p>A large share of respondents have reported to operate with effective capacity utilization in the state</p>
9	Working capital	<p>Large share of respondents felt that they require finance for sourcing the working capital</p> <p>Respondents operating in agro and food processing sector heavily rely on bank loans (nationalized banks) to meet financial requirements followed by private banks and scheduled banks</p> <p>However, other sources of finance used by them are accumulated profits, family & friends, advance from supplier</p>
10	Policy environment	
10.1	Impact of central government schemes	<p>Majority of the respondents operating in this sector opined that central government schemes have benefited them</p>
10.2	Impact of state government schemes	<p>Significant share of respondents have reported positive impact of state government schemes on agro and food processing sector</p>
10.3	Impact of policies on exports	<p>There exists large scope of export promotion in this sector as most of the respondents felt that foreign trade policy has benefited them</p>

Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July-September 2013)



14.3 FMCG (Fast Moving Consumer Goods)

FMCG sector has steadily gained momentum in Uttarakhand over the years. Majority of respondents operating in this sector procure inputs include Delhi, Punjab, Rajasthan and Uttar Pradesh. A large share of respondents also procure inputs from foreign markets of China, Japan, Korea and Singapore. Majority of the respondents operating in FMCG sector has reported an increase in their gross annual sales growth. However, some of the challenges faced by the respondents are transportation, increasing competition from local competitors, recent financial crisis, rising prices of the product and energy shortages.

Respondents' viewpoint on various growth factors and operational issues

S.No.	Parameters	Respondents' Viewpoint
1	Procurement of inputs	Majority of respondents procure inputs from domestic markets mainly including UP, Delhi, Gujarat, Kerala, Punjab, Rajasthan, Maharashtra, Mumbai, Himachal Pradesh, Tamil Nadu, West Bengal and Bihar While a large share of respondents also procure inputs from local markets (within Uttarakhand) However, a small proportion of respondents source inputs from the foreign markets namely Asian markets, China, Japan, Korea, Singapore
1.1	Problems in procuring inputs	Majority of respondents opined that transportation, law and order, finance and inter state taxes are the major problems faced by them while procuring inputs from local markets (within Uttarakhand) and domestic markets (within India) Major issues faced by the respondents of FMCG sector in procuring inputs from foreign markets are transportation, cumbersome custom procedures, time constraints and import finance
2	Growth of sales	Majority of the respondents operating in FMCG sector has reported an increase in their gross annual sales growth during the last three years
2.1	Reasons for increase in growth	The major reasons responsible for boosting gross annual sales growth of respondents in FMCG sector are rising demands, technological advancements and increasing size of economy
2.2	Reasons for decrease in growth	Majority of respondents opined that increasing competition from local competitors, recent financial crisis and rising prices of the product are reasons for decline in gross annual sales growth
3	Growth of profitability	A large share of respondents witnessed a robust growth in its profitability while a small share of respondents reported that their profit margin has remained same



4	Growth of exports	Majority of the respondents observed a steady exports growth while a small share of respondents have reported an increase in the growth of exports
4.1	Major sales market (India)	Most of the respondents operating in FMCG sector cater to the states of Assam, Delhi, Uttar Pradesh, Haryana, Punjab, Himachal Pradesh, Maharashtra, Rajasthan, Gujarat, Odisha and West Bengal Respondents of FMCG sector operating within Uttarakhand are facing challenges such as transportation, taxation, government regulations, communication related, marketing and tariff related issues
4.2	Major exports markets	A large share of respondents cater to markets of Jordan and middle east However, a small share of respondents opined that transportation, government regulations and lack of marketing are the main issues faced by FMCG sector while selling in foreign markets
5	Impact of taxation	Majority of respondents reported that overall tax burden has increased in the FMCG sector over the years Almost all the respondents opined in favour of implementation of GST in the state However a significant share of them believed that VAT is most over burdening tax followed by CST, Service tax, Excise duty, MAT and Custom duty
6	Impact of Infrastructure	Almost all the respondents operating in the FMCG sector felt that infrastructure has improved in the state over the recent years However, a small share of them felt that energy shortages impacts the performance of FMCG sector in the state
7	Global integratedness	Majority of the respondents in the sector are progressing towards advanced technology However, most of the respondents affirmed that they do not have foreign tie-ups
8	Capacity utilization and expansion	Almost all the respondents operating in the sector opined that they have effective capacity utilization
9	Working capital	Requirement of finance for sourcing the working capital has been observed by majority of the respondents however, a small share of them felt that they don't need finance for sourcing working capital Majority of respondents mentioned that they heavily rely on bank loans (nationalized banks) to meet financial requirements While other sources of finance for them are accumulated profits, family & friends, advance from suppliers



10	Policy environment	
10.1	Impact of central government schemes	Majority of respondents opined that the central government schemes have benefited them
10.2	Impact of state government schemes	Respondents operating in FMCG sector have reported positive impact of state government schemes on their business
10.3	Impact of policies on exports	However, there exists a large scope of export promotion in this sector as most of the respondents felt that foreign trade policy has impacted them positively

Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July-September 2013)

14.4 Drugs and pharmaceuticals

Drugs and pharmaceuticals have emerged as one of the fastest growing sector of Uttarakhand. Majority of respondents observed an increase in the gross annual sales growth and has witnessed a robust growth in the profitability. Further, a large share of them also observed an increase in the exports growth and found to be catering some of the major exports markets of Afghanistan, Cambodia, France, Indonesia, Nigeria, Nepal, Congo, Russia, Saudi Arab and Yemen.

Respondents' viewpoint on various growth factors and operational issues

S.No.	Parameters	Respondents' Viewpoint
1	Procurement of inputs	Majority of respondents of drugs and pharmaceuticals procure inputs from domestic markets including Andhra Pradesh, Bihar, Delhi, Gujarat, Haryana, Kerala, Punjab, Rajasthan, Maharashtra, Madhya Pradesh, Himachal Pradesh, Uttar Pradesh While a large share of respondents also procure inputs from local markets (within Uttarakhand) However, a small proportion of respondents also procure inputs from foreign markets namely China, Germany, France, Saudi Arab, Japan, Korea and USA
1.1	Problems in procuring inputs	Majority of respondents opined that transportation, law and order, inter state taxes and finance are the major problems faced by them while procuring inputs from local markets (within Uttarakhand) and domestic markets (within India) Major issues faced by the respondents procure inputs from foreign markets are transportation, cumbersome custom procedures, time constraints and import finance
2	Growth of sales	Majority of the respondents operating in this sector have reported an increase in their gross annual sales growth during last three years



2.1	Reasons for increase in growth	The major reasons responsible for boosting gross annual sales growth are rising demands, increasing size of economy, technological advancements and incentives offered by the government
2.2	Reasons for decrease in growth	Majority of respondents opined that increasing competition from local competitors, recent financial crisis and rising prices of the product are responsible for decrease in gross sales growth
3	Growth of profitability	Majority of respondents operating in drugs & pharmaceuticals sector witnessed a robust growth in its profitability while significant share of respondents have reported that their profit margin has remained same
4	Growth of exports	Majority of the respondents have reported an increase in their export growth while few have reported stable growth of exports
4.1	Major sales market (India)	Majority of respondents operating in this sector cater to the markets of Delhi, Uttar Pradesh, Haryana, Punjab, Himachal Pradesh, Maharashtra, Rajasthan, Gujarat, Odisha and West Bengal A large share of respondents face challenges such as transportation, government regulations, taxation, communication related, marketing and tariff related problems
4.2	Major exports markets	A large share of respondents cater to the markets of Afghanistan, Cambodia, France, Indonesia, Nigeria, Nepal, Congo, Russia, Saudi Arab, Yemen Transportation, taxation, government regulations are the main problems faced by drugs & pharmaceuticals sector while selling in foreign markets
5	Impact of taxation	Majority of respondents reported that overall tax burden has increased in the drugs & pharmaceuticals sector over the years with VAT as the most over burdening tax followed by CST, Service tax, Excise duty, MAT and Custom duty
6	Impact of Infrastructure	Significant proportion of respondents operating in the drugs & pharmaceuticals sector felt that infrastructure should be improved in the state They opined that condition of roads, energy fluctuations, drainage system needs to be improved in order to develop industrial development in the state
7	Global integratedness	Majority of respondents are progressing towards advanced technology in the state as large share of respondents are operating with advanced technology However, most of the respondents do not have foreign tie-ups
8	Capacity utilization and expansion	Majority of the respondents have affirmed that they are having effective capacity utilization
9	Working capital	Shortage of working capital has been observed by majority of the respondents



10		A major share of respondents rely on bank loans (nationalized banks) to meet financial requirements while other sources of finance are accumulated profits, family & friends, advance from suppliers
	Policy environment	
	10.1 Impact of central government schemes	Almost all the respondents believed that central government schemes have positively impacted them
	10.2 Impact of state government schemes	A large share of respondents operating in drugs & pharmaceuticals sector have reported positive impact of state government schemes
10.3	Impact of policies on exports	A significant share of them found that there exists large scope for export promotion in this sector as most of the respondents felt that foreign trade policy has made a positive impact on them

Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July-September 2013)

14.5 Engineering Goods

It is one of the growing sector of the state. Majority of respondents procure inputs from domestic and local markets. A large share of respondents operating in engineering goods sector in Uttarakhand has witnessed growth in profitability as significant respondents have reported that their profit margin has increased. However, they face problems pertaining to transportation, infrastructure, energy fluctuations etc.

Respondents' viewpoint on various growth factors and operational issues

S.No.	Parameters	Respondents' Viewpoint
1	Procurement of inputs	Majority of respondents procure inputs from domestic markets mainly including Delhi NCR, Gujarat, Haryana, Punjab, Rajasthan, Maharashtra, Madhya Pradesh, Himachal Pradesh, Uttar Pradesh, Odisha Large share of respondents also procure inputs from local markets (within Uttarakhand) Small proportion of respondents also procure inputs from foreign markets namely Belgium, China, Europe, Ireland, Germany, France, Singapore, Switzerland, Saudi Arab, Sri Lanka, Japan, Korea and USA
	1.1 Problems in procuring inputs	Majority of respondents opined that transportation, inter state taxes, law and order and administrative bottlenecks are the major problems faced by them while procuring inputs from local markets (within Uttarakhand) and domestic markets (within India) Major issues in procuring inputs from foreign markets are import duties, time constraints, transportation, cumbersome custom procedures and import finance



2	Growth of sales	Majority of the respondents opined that their gross annual sales growth have remained same, however, significant number of respondent firms operating in this sector has observed an increase in their gross annual sales growth
2.1	Reasons for increase in growth	The major reasons responsible for boosting gross annual sales growth are rising demands, technological advancements, incentives offered by the government and increasing size of economy
2.2	Reasons for decrease in growth	Majority of respondents opined that increasing competition from local competitors, rising prices of the product, recent financial crisis, increased competition from the competitors and currency fluctuations are reasons for decrease in growth of gross annual sales
3	Growth of profitability	A large share of respondents operating in engineering goods sector has witnessed that growth in the profitability have remained same while a significant share of respondents reported that their profit margin has increased
4	Growth of exports	Majority of the respondents have reported of steady exports growth
4.1	Major sales market (India)	Majority of respondents operating in engineering sector cater all over India. While some of them cater to the states of Bihar, Delhi, UP, Haryana, Punjab, Himachal Pradesh, Maharashtra, Rajasthan, Gujarat Transportation, government regulations, taxation, communication related, marketing and tariff related problems are some of the issues faced by a large share of respondents
4.2	Major exports markets	A small proportion of respondents cater to markets of South Africa, Gulf countries. Marketing, transportation, communication and distribution are the main problems faced by them while selling in foreign markets
5	Impact of taxation	Majority of respondents reported that overall tax burden have increased in the engineering sector VAT is most over burdening tax followed by Service tax, CST Excise duty and Custom duty
6	Impact of Infrastructure	A large share of respondents operating in the engineering goods sector felt that infrastructure should be improved in the state Majority of respondents opined that condition of roads, energy fluctuations, drainage system needs to be improved in order to develop industrial development in the state
7	Global integratedness	Large share of respondents reported that sector has progressive technology while a significant number of respondent firms also said they operate with advanced technology in the state



8		However, most of the respondents do not have foreign tie-ups
	Capacity utilization and expansion	A significant share of respondents have affirmed that they have effective capacity utilization
9	Working capital	Majority of respondents opined that they require finance for sourcing the working capital As they rely heavily on bank loans (nationalized banks) to meet financial requirements
10	Policy environment	
10.1	Impact of central government schemes	A significant share of them opined that central government schemes have benefited them, however, a small share of them believed that more can be done by the government for improving industrial development in the state
10.2	Impact of state government schemes	Majority of respondents operating in engineering goods sector reported that state government schemes should be more focused in order to benefit the sector
10.3	Impact of policies on exports	They believed that large scope of export promotion in this sector as most of the respondent firms felt that foreign trade policy has benefited them

Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July-September 2013)

14.6 Electronics and electricals

Electronics and electrical sector has steadily emerged in the state of Uttarakhand. A large of respondents operating in this sector are procuring inputs mainly from Delhi NCR, Gujarat, Haryana, Punjab, Rajasthan, Uttar Pradesh while a significant share of them also procure inputs from local markets (within Uttarakhand). Although majority of respondents reported an increase in their gross annual sales growth and profitability during the recent years, however, they felt that infrastructure should be enhanced to improve industrial development in the state.

Respondents' viewpoint on various growth factors and operational issues

S.No.	Parameters	Respondents' Viewpoint
1	Procurement of inputs	Majority of respondents procure inputs from domestic markets including Delhi NCR, Gujarat, Haryana, Punjab, Rajasthan, Maharashtra, Madhya Pradesh, Himachal Pradesh, Uttar Pradesh Large share of respondents also procure inputs from local markets (within Uttarakhand) Small proportion of respondents also procure inputs from foreign markets namely China, Denmark, Germany, France, Singapore, Spain, Thailand, Taiwan, Italy, Japan



1.1	Problems in procuring inputs	<p>Majority of respondents opined that transportation, law and order, inter state taxes, finance and administrative bottlenecks are the major problems faced by them while procuring inputs from local markets (within Uttarakhand) and domestic markets (within India)</p> <p>Major issues in procuring inputs from foreign markets are transportation, time constraints, import duties, cumbersome custom procedures and import finance</p>
2	Growth of sales	<p>Majority of the respondents opined that their gross annual sales growth have increased significantly during the recent years</p> <p>However, significant share of respondents operating in this sector reported that their gross annual sales growth have remained same</p>
2.1	Reasons for increase in growth	The major reasons responsible for boosting gross annual sales growth are rising demands, technological advancements, increasing size of economy and incentives offered by the government
2.2	Reasons for decrease in growth	Majority of respondents opined that increasing competition from local competitors, lack of quality in products, lack of technological advancements, increased competition from foreign competitors, rising prices of the product, currency fluctuations and lack of innovative products are reasons for decrease in growth of gross annual sales
3	Growth of profitability	<p>A large share of respondents operating in electronics and electricals sector witnessed an increase in the growth in its profitability</p> <p>While significant respondents have reported that their profit margin have remained same</p>
4	Growth of exports	Majority of the respondents have reported steady growth in their export in recent years
4.1	Major sales market (India)	<p>Most of the respondents operating in electronics and electrical sector cater all over India. While some of the firms cater to the states of Assam, Bihar, Delhi, Jharkhand, UP, Haryana, Punjab, Himachal Pradesh, Maharashtra, Rajasthan, Gujarat, West Bengal</p> <p>A significant share of respondents are encountering challenges such as transportation, government regulations, taxation, communication related, marketing and payment related problems</p>
4.2	Major exports markets	<p>A small share of respondents cater to the markets of Africa, China, Japan, Middle East</p> <p>Transportation, marketing, communication and taxation are the main problems faced by electronics and electrical sector while selling in foreign markets</p>



5	Impact of taxation	Majority of respondents reported that overall tax burden have increased in the electronics and electricals sector VAT is most over burdening tax followed by CST, Service tax, Excise duty, Custom duty and MAT
6	Impact of Infrastructure	Almost all the respondents operating in the electronics and electrical sector felt that the state of infrastructure has improved in the state over the recent years and believed that it is in progressive stage However, a small proportion of them opined that condition of roads, energy fluctuations, traffic situations needs to be improved in order to develop industrial development in the state
7	Global integratedness	Large share of respondents reported that sector has advanced technology while a significant number of them opined that the state of technology is in progressive state in their organisations However, most of the respondents do not have foreign tie-ups which may be an area for exploration
8	Capacity utilization and expansion	Majority of respondents have effective capacity utilization
9	Working capital	Majority of respondents are found that they require finance for sourcing the working capital Respondents heavily rely on bank loans (nationalized banks) to meet financial requirements However, other sources of finance used by them are accumulated profits, family & friends, advance from suppliers and local financiers
10	Policy environment	
10.1	Impact of central government schemes	A significant share of respondents opined that central government schemes have benefited them
10.2	Impact of state government schemes	Almost all the respondents opined that state government schemes have positively impacted them
10.3	Impact of policies on exports	However, they believed that there exists large scope of export promotion in this sector as most of the respondent firms felt that foreign trade policy has benefited them

Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July-September 2013)

14.7 Infrastructure

Infrastructure sector has gained extensive relevance in the state of Uttarakhand. Emergence of infrastructure developments has led to the increase in the industrial



investment in the state. Majority of respondents operating in this sector procure inputs from domestic markets of Delhi NCR, Chhattisgarh, Jharkhand, Maharashtra, Uttar Pradesh while large share of them also procure inputs from local markets. Majority of respondents reported significant increase in gross annual sales growth over the recent years. However, they encounter problems pertaining to transportation, inter state taxes, government regulation etc.

Respondents' viewpoint on various growth factors and operational issues

S.No.	Parameters	Respondents' Viewpoint
1	Procurement of inputs	Majority of respondents procure inputs from domestic markets mainly including Delhi NCR, Chhattisgarh, Jharkhand, Maharashtra, Uttar Pradesh While a large share of respondents also procure inputs from local markets (within Uttarakhand) However, a small proportion of respondents also procure inputs from foreign markets namely Germany, Singapore, Japan and Nepal
1.1	Problems in procuring inputs	Majority of respondents opined that transportation, law and order, inter state taxes, finance are the major problems faced by them while procuring inputs from local markets (within Uttarakhand) and domestic markets (within India) Major issues in procuring inputs from foreign markets are import finance, transportation, time constraints and cumbersome custom procedures
2	Growth of sales	Majority of the respondents opined that their gross sales growth have increased significantly over the recent years However, significant number of respondents operating in this sector reported that their gross sales growth have remained same
2.1	Reasons for increase in growth	The major reasons responsible for boosting gross sales growth are rising demands and technological advancements
3	Growth of profitability	Majority of respondents have reported steady growth in its profitability While significant respondents have reported that their profit margin have increased in recent years
4.1	Major sales market (India)	Most of the respondents cater to the states of Delhi, UP, Haryana, Punjab, Himachal Pradesh, Madhya Pradesh, Rajasthan A large share of respondents in the infrastructure sector are facing challenges such as transportation, government regulations, taxation, communication related, marketing and payment related problems
5	Impact of taxation	Majority of respondents reported that overall tax burden have remained same in the infrastructure



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6		sector while a small portion of them reported that tax burden have increased in the state VAT is most over burdening tax followed by CST, Service tax, Excise duty, Custom duty
	Impact of Infrastructure	A large share of respondents operating in the infrastructure sector felt that infrastructure has improved in the state over the recent years, however, road conditions in the state should be improved
7	Global integratedness	Large share of respondents reported that sector has advanced technology while a significant number of respondent firms opined that the state of technology is in progressive state in their organisations However, most of the respondents do not have foreign tie-ups which may be an area for exploration
8	Capacity utilization and expansion	Majority of respondents felt that they have effective capacity utilization
9	Working capital	Requirement of finance for sourcing the working capital has been observed by a large proportion of respondents Majority of respondents heavily rely on bank loans (nationalized banks) to meet financial requirements
10	Policy environment	
10.1	Impact of central government schemes	Majority of respondents opined that central government schemes have benefited them
10.2	Impact of state government schemes	A significant share of respondents operating in infrastructure sector reported that state government schemes have positively impacted the sector
10.3	Impact of policies on exports	However, a small proportion of respondents believed that there exists large scope of export promotion in this sector

Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July-September 2013)

14.8 Leather goods

Leather goods form an important component of Uttarakhand's industrial growth and development. The sector procures inputs from domestic as well as local markets. The sector has witnessed increase in gross sales growth and profitability over the recent years. Respondent firms opined that central government schemes and state government schemes have positively impacted the sector.

However, some of the problems faced by the sector are transportation, law and order, increasing competition from local competitors etc.



Respondents' viewpoint on various growth factors and operational issues

S.No.	Parameters	Respondents' Viewpoint
1	Procurement of inputs	Majority of respondents procure inputs from domestic markets of Delhi NCR, Haryana, Punjab, Rajasthan, Maharashtra and Uttar Pradesh Large share of respondents also procure inputs from local markets (within Uttarakhand) While a small share of respondents also procure inputs from foreign markets namely China
1.1	Problems in procuring inputs	Majority of respondents felt that transportation, law and order, inter state taxes are the major problems faced by them while procuring inputs from local markets (within Uttarakhand) and domestic markets (within India)
2	Growth of sales	Majority of the respondents opined that their gross sales growth have increased significantly in the recent years However, significant number of respondents operating in this sector reported that their gross sales growth have remained same
2.1	Reasons for increase in growth	The major reasons responsible for boosting gross sales growth are rising demands, increasing size of economy, technological advancements and incentives offered by the government
2.2	Reasons for decrease in growth	Majority of respondents opined that increasing competition from local competitors, lack of innovative products
3	Growth of profitability	A large share of respondents operating in leather sector has reported stagnant increase in the growth in its profitability While significant share of respondents have reported that their profit margin have increased same
4.1	Major sales market (India)	Majority of respondents operating in sector cater all over India. While a significant share of them cater to the states of Delhi, UP, Haryana, Himachal Pradesh, Maharashtra, Rajasthan, Madhya Pradesh Majority of them are facing challenges such as transportation, government regulations, taxation, communication related, marketing and payment related problems, tariff barrier, distribution
4.2	Major exports markets	Respondents significantly cater to markets of Sri Lanka
5	Impact of taxation	Majority of respondents reported that overall tax burden have remained same in the leather sector VAT is the most over burdening tax followed by CST



6	Impact of Infrastructure	A large share of respondents operating in the leather sector felt that infrastructure should be improved in the state, however, they believed that it is in progressive stage They opined that condition of transportation, electricity conditions need to be improved in order to develop industrial development in the state
7	Global integratedness	Large share of respondents reported that they are using progressing technology while a significant number of respondents opined that the state of technology is in advanced state in their organisations However, most of the respondents do not have foreign tie-ups which may be an area for exploration
8	Capacity utilization and expansion	A significant share of them believed that they have effective capacity utilization
9	Working capital	Majority of respondents are found to require finance for sourcing the working capital A large share of respondents heavily rely on bank loans (nationalized banks) to meet financial requirements Other sources of finance are accumulated profits and family & friends
10	Policy environment	
10.1	Impact of central government schemes	Majority of respondents opined that central government schemes have benefited them
10.2	Impact of state government schemes	A large share of them operating in leather sector reported that state government schemes have positively impacted the sector
10.3	Impact of policies on exports	However, a small share of respondents opined that there exists large scope of export promotion in this sector as they felt that foreign trade policy has impacted them positively

Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July-September 2013)

14.9 Services

Services sector is a prominent sector of Uttarakhand's economy. Majority of respondents have observed high growth over the recent years. Majority of respondents marked an increase in their gross sales growth, profitability and exports. Further, majority of respondents opined that the schemes offered by the central government have benefited them significantly. However, a large share of them faces issues related to transportation, finance, communication related, marketing and taxation.



Respondents' viewpoint on various growth factors and operational issues

S.No.	Parameters	Respondents' Viewpoint
1	Procurement of inputs	Majority of respondents procure inputs from local markets (within Uttarakhand) While a significant share of them procure inputs from domestic markets mainly including Delhi NCR, Goa, Puducherry and Uttar Pradesh However, Small proportion of respondents also procure inputs from foreign markets namely China, Singapore and Taiwan
1.1	Problems in procuring inputs	Majority of respondents opined that transportation and finance are the major problems faced by them while procuring inputs from local markets (within Uttarakhand) and domestic markets (within India) Major issues in procuring inputs from foreign markets are time constraints, transportation, cumbersome custom procedures and import finance
2	Growth of sales	Majority of the respondents opined that their gross annual sales growth have increased, however, significant number of respondents operating in this sector reported that their gross sales growth have remained same
2.1	Reasons for increase in growth	The major reasons responsible for boosting gross annual sales growth are rising demands, technological advancements and incentives offered by the government
2.2	Reasons for decrease in growth	Majority of respondents opined that recent financial crisis are reasons for decrease in gross annual sales growth
3	Growth of profitability	A large share of respondents in services sector have witnessed steady growth in profitability while a significant respondent firms reported that their profit margin has increased
4	Growth of exports	Majority of the respondents have reported that their export growth have increased over the recent years
5	Impact of taxation	Majority of respondents reported that overall tax burden has increased in the services sector VAT is most over burdening tax followed by Service tax, CST Excise duty, Custom duty and MAT
6	Impact of Infrastructure	A large share of respondents operating in the services sector felt that infrastructure has remained same in the state over the recent years However, a small share of respondents opined that infrastructural conditions needs to be improved in order to develop industrial development in the state



7	Global integratedness	Large share of respondents reported that they have advanced technology while a significant number of respondents also said they are operating with progressing technology in the state However, most of the respondents do not have foreign tie-ups
8	Capacity utilization and expansion	Effective capacity utilization has been observed by majority of respondents
9	Working capital	Majority of respondents require finance for sourcing of working capital, however, a small share of them felt that they need finance for sourcing working capital They heavily rely on bank loans (nationalized banks) to meet financial requirements Other sources of finance for large share of respondents are accumulated profits, family & friends
10	Policy environment	
10.1	Impact of central government schemes	Although majority of respondents opined that central government schemes have benefited them, however, significant number of them felt that more can be done by the government for improving industrial development in the state
10.2	Impact of state government schemes	A small proportion of respondents operating in services sector reported that state government schemes should be more focused in order to benefit the sector
10.3	Impact of policies on exports	They believe that state has large scope of export promotion as most of the respondents felt that foreign trade policy has positively impacted them

Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July-September 2013)

14.10 Textile

Textile sector has emerged as one of the thrust areas of Uttarakhand. Majority of respondents have witnessed an increase in their gross sales growth and robust growth in profitability. Although a significant share of respondents reported to have benefited from central and state government schemes however, they face the issues pertaining to transportation, law and order, inter state taxes, increasing competition from local competitors, condition of roads, electricity, and drainage system among others.



Respondents' viewpoint on various growth factors and operational issues

S.No.	Parameters	Respondents' Viewpoint
1	Procurement of inputs	Majority of respondents procure inputs from domestic markets of Delhi NCR, Punjab, Maharashtra, Uttar Pradesh, Uttarakhand While a large share of respondents also procure inputs from local markets (within Uttarakhand)
1.1	Problems in procuring inputs	Majority of respondents opined that transportation, law and order, inter state taxes are the major problems faced by them while procuring inputs from local markets (within Uttarakhand) and domestic markets (within India)
2	Growth of sales	Majority of the respondents operating in this sector reported an increase in their gross annual sales growth while a significant number of them have reported of steady gross annual sales growth
2.1	Reasons for increase in growth	The major reasons responsible for boosting gross annual sales growth of respondents are rising demands and technological advancements in the state
2.2	Reasons for decrease in growth	Majority of respondents opined that increasing competition from local competitors and currency fluctuations are reasons for decrease in gross annual sales growth
3	Growth of profitability	Majority of respondents witnessed a robust growth in their profitability
4	Growth of exports	While a large share of respondents have reported steady exports growth
4.1	Major sales market (India)	Majority of respondents cater to the markets of Andhra Pradesh, Delhi NCR, UP, Bihar, Haryana, Punjab, Himachal Pradesh, Maharashtra, Rajasthan They encounter the issues pertaining to transportation, government regulations and taxation
5	Impact of taxation	Majority of respondents reported that overall tax burden have increased in the textile sector while a small share of them reported that overall tax burden have remained same VAT is most over burdening tax followed by CST, Service tax Majority of respondents believed that introduction of GST would reduce some tax burden
6	Impact of Infrastructure	Almost all the respondents operating in the textile sector felt that infrastructure has improved in the state while some of them reported that it has remained same However, a small share of respondents opined



7		that condition of roads, electricity, drainage system, logistic hub and better telecom facility with high band width should be improved in order to develop industrial development in the state
	Global integratedness	Majority of respondents are operating with advanced state of technology while a large share of them operate with progressive and basic technology However, most of the respondents do not have foreign tie-ups
8	Capacity utilization and expansion	Most of the respondents have reported to have effective capacity utilization
9	Working capital	Majority of respondents felt that they require finance for sourcing the working capital, however, few respondents felt that they do not need finance for sourcing working capital A significant share of respondents are found to rely on bank loans (nationalized banks) to meet financial requirements
10	Policy environment	
10.1	Impact of central government schemes	Majority of respondents opined that central government schemes have benefited them however, a small share of them believed that there exists large scope for further improvement
10.2	Impact of state government schemes	A large share of respondents operating in textile sector reported that state government schemes have positively impacted them
10.3	Impact of policies on exports	However, majority of respondents felt that foreign trade policy has impacted them

Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July-September 2013)

14.11 Plastic moulding and packaging

Plastic moulding and packaging is one of the emerging sectors of Uttarakhand. Majority of the respondents procure inputs from domestic and local markets. A large share of respondents reported robust increase in gross annual sales growth and profitability in the recent years. Although majority of the respondents have reported positive impact of the central and state government schemes on their business, however, they face major issues pertaining to transportation, increasing competition from local competitors, currency fluctuations, taxation, marketing, government regulations among others.



Respondents' viewpoint on various growth factors and operational issues

S.No.	Parameters	Respondents' Viewpoint
1	Procurement of inputs	<p>Majority of respondents procure inputs from domestic markets mainly including UP, Delhi NCR, Gujarat, Haryana, Punjab, Rajasthan, Maharashtra, Himachal Pradesh and West Bengal</p> <p>While a large share of respondents procure inputs from local markets (within Uttarakhand)</p> <p>And a small proportion of respondents also acquire inputs from foreign markets namely Taiwan, China, Germany, Japan, Singapore, USA</p>
1.1	Problems in procuring inputs	<p>Majority of respondents opined that transportation, law and order, interstate taxes, finance and administrative bottlenecks are the major problems faced by them while procuring inputs from local markets (within Uttarakhand) and domestic markets (within India)</p> <p>Major issues in procuring inputs from foreign markets are transportation, import finance, cumbersome custom procedures, time constraints and import duties</p>
2	Growth of sales	Majority of respondents reported a robust increase in its gross annual sales growth during last three years
2.1	Reasons for increase in growth	According to the respondents, major reasons responsible for boosting gross annual sales growth of this sector are rising demands, technological advancements, incentives offered by the government in the state and increasing size of economy
2.2	Reasons for decrease in growth	A large share of respondents affirmed that increasing competition from local competitors, currency fluctuations, lack of technological advancements, rising prices of the product are reasons for decrease in gross annual sales growth
3	Growth of profitability	Majority of respondents operating in plastic moulding and packaging sector have witnessed a robust growth in profitability
4	Growth of exports	While a large share of respondents have reported steady exports growth while only a small share of respondents have reported increase in the growth of exports
4.1	Major sales market (India)	<p>Majority of respondents operating in this sector cater to the states of Bihar, Delhi, Goa, UP, Haryana, Punjab, Himachal Pradesh, Maharashtra, Rajasthan, Gujarat</p> <p>A large share of respondents operating in this sector are facing issues related to transportation, taxation, government regulations, communication, tariff barriers, payment related problems</p>



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5	Impact of taxation	Majority of respondents felt that overall tax burden have increased while most of them unanimously opined that implementation of GST would reduce their tax burden VAT is most over burdening tax followed by CST, Service tax, Excise duty, Custom duty, MAT
6	Impact of Infrastructure	Majority of respondents believed that infrastructure development has taken place in the state while significant number of firms felt that infrastructure has remained same in the state However, a small share of respondents affirmed that maintenance of road connectivity and hospital facilities are some of the emerging constraints for the sector in the state
7	Global integratedness	Majority of respondents are using advanced state of technology while a large share of them are operating with progressive state of technology However, only a small share of respondents have foreign tie-ups
8	Capacity utilization and expansion	Majority of respondents affirmed that they have effective capacity utilization
9	Working capital	Requirement of finance for sourcing the working capital has been observed by majority of respondents As they are found to be dependent on bank loans (nationalized banks) in order to meet financial requirements followed by private banks and scheduled banks
10	Policy environment	
10.1	Impact of central government schemes	Majority of respondents opined that central government schemes have benefited them significantly
10.2	Impact of state government schemes	Although significant impact have been observed of state government schemes by majority of respondents however, a small share of respondents have reported marginal impact of state government schemes
10.3	Impact of policies on exports	Almost all the respondents opined that there exists large scope of export promotion in the state

Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July-September 2013)



15. Impact of VAT on MSMEs in Uttarakhand: Financial Analysis

The survey observed that the overall tax burden has increased in Uttarakhand in the last three years and most over burdening taxes have been found to be VAT, central sales tax, services tax, excise duties, minimum alternate tax, custom duty, corporate tax and surcharge. Nearly 63% respondents opined that VAT is most over burdening tax in the state. Although VAT reimbursement is offered by Uttarakhand government under Hill Policy 2003 to the manufacturing and production units on the sale of the self produced goods, however, there has been a consensus among almost all the MSMEs from Uttarakhand regarding the **delay in VAT reimbursement/ offset**.

On an average it takes around six months to one year to adjust the reimbursement of VAT paid starting from the procurement of raw materials to production process and finally selling of the product in the consumer market. Due to this time delay, majority of the stakeholders felt that firm's working capital remains blocked, which results in higher interest burden and inefficient use of funds. To expedite the process, they have to incur 10-15% of the net VAT reimbursement value to offset against their total tax liability. However, some MSMEs stakeholders felt that this cost goes up to 20% of the net reimbursement amount.

Financial Analysis

Illustration –I

According to the survey, almost all the respondents unanimously responded that the raw material content in the production of final product is 60%. It has been observed that MSMEs procure around 92% of raw material/inputs from local (Uttarakhand) and domestic markets (within India) while 8% inputs/ raw materials are procured from foreign markets (imports).

In order to manufacture 100 units of XYZ product, 60 units of raw material/ inputs are required by a firm (on an average). Hence, in order to explain the working of VAT and other related reimbursement costs in the state of Uttarakhand let us consider a firm ABC in the state manufacturing 100 units of XYZ product.

The firm ABC procures 92% (92% of 60 which equals to 55.2 units) of raw materials from local and domestic markets (within India) and remaining 8% (8% of 60 which equals to 4.8 units) from foreign markets (imports). Out of this 55.2 units the firm ABC procures 58% (58% of 55.2 units=32 units) within the state of Uttarakhand. While the remaining 42% (42% of 55.2 = 23.2 units) from other states (outside Uttarakhand).



The 32 units procured from the local markets (within Uttarakhand) in terms of raw materials are subject to 13.5% VAT⁵¹. Hence, the VAT burden on firm ABC comes out to be 13.5% of 32 units which is equal to 4.3 units of the product on which VAT is reimbursed/ offset against its total tax liability till the sale of the final product.

A) Impact of reimbursement of VAT and costs

The firm ABC takes around six months starting from the procurement of raw materials/ inputs to the production of final product. According to the survey majority of the respondents has to pay reimbursement cost of around 15% of the net reimbursement value. Hence, firm ABC also incur reimbursement cost of VAT upto 15% of the net reimbursement value which comes out to be 15% of 4.3 which equal to 0.6 units.

Further, the firm ABC faces liquidity shortage as its working capital remains blocked due to time lag in VAT reimbursement/ offset against its total tax liability. The firm ABC has to incur a working capital blockage owing to high interest rate⁵² of about 11% on these 4.3 units which is equal to 0.5 units (11% of 4.3= 0.5). Hence, the total reimbursement cost of VAT of firm ABC comes out to be 1.1 units (sum total of 0.6 + 0.5).

B) Impact of non reimbursement of VAT

In order to manufacture 100 units of XYZ product 60 units of raw material is required by the firm (on an average) while remaining 40 units are the value added by the firm ABC. These 40 units are subject to 13.5% VAT (13.5% of 40= 5.4 units) which are not reimbursed.

Hence, the total VAT burden in the manufacturing of 100 units of XYZ products comes out to be 9.7 units (4.3 + 5.4= 9.7 units). As the tax burden of 4.3 units are reimbursed/ offset against the firm's total tax liability, thus, the firm has to bear an impact of non reimbursement of VAT on 40 units which comes out to be 5.4 units.

C) Cost of CST

The survey observed that respondents has to pay a CST of 2% while procuring raw materials/ inputs from other states (outside Uttarakhand) however, some of the respondents also reported of paying freight cost upto 6% which procuring inputs from outside Uttarakhand.

⁵¹ Although different VAT slabs are applicable in the state of Uttarakhand we have considered highest VAT slab of 13.5% in the illustration

⁵² The interest charged by the banks against loans given to MSMEs being nearly 11%



Further, as the firm ABC procures around 23.2 units of raw materials/ inputs from other states (outside Uttarakhand), it is required to pay CST at 2% and freight cost is estimated to be nearly 6%. Thus, the firm ABC has to spend 8% (2+6= 8%) of 23.2 units which comes to be 1.9 units.

Therefore,

Total impact of VAT & CST = Impact of reimbursement of VAT and costs + Impact of non reimbursement of VAT + Cost of CST

Total impact of VAT & CST = A+B+C = 1.1+ 5.4 + 1.9 = 8.4 units.

Hence, it has been observed in the illustration that firm ABC has to expend 8.4 units due to total impact of VAT & CST.

Further, in case of Uttarakhand majority of MSMEs unanimously felt that though the reimbursement does not have major issues, they have to face scarcity of liquidity as their working capital get stuck up for a longer period.

Table 15.1 Calculation of total impact of VAT & CST

1	Sales	100 units	
2	Procurement of inputs		
2.1	Total inputs used in the form of raw materials	60 units	
2.2	Procurement of inputs from foreign markets	8%	
2.3	Procurement of inputs from domestic markets	92%	
2.4	Inputs imported from foreign markets	8% of 60	4.8 units
2.5	Inputs procured from domestic markets (within India)	92% of 60	55.2 units
2.6	Inputs procured from local markets (within Uttarakhand)	58% of 55.2	32 units
2.7	Inputs procured from other states (outside Uttarakhand)	42% of 55.2	23.2 units
3	Impact of reimbursement of VAT and costs (A)		
3.1	VAT on 32 units (VAT rate in Uttarakhand taken to be 13.5%)	13.5% of 32	4.3 units
3.2	15% of the net reimbursement value	15% of 4.3	0.6 units
3.3	Cost of working capital blockage (interest charged by banks at around 11%)	11% of 4.3	0.5 units
3.4	Impact of reimbursement of VAT and costs (A)	0.6+0.5	1.1 unit
4	Impact of non reimbursement of VAT (B)	13.5% of 40	5.4 units
5	Cost of CST (C)		
5.1	(CST at 2% + freight cost at 6%)	8% of 23.2	1.9 units
6	Total impact of VAT& CST = (A+B+C)	1.1 + 5.4+ 1.9	8.4 units

Source: PHD Research Bureau, compiled on basis of various inputs received from respondents.



During the survey, majority of the respondents felt disappointment on discontinuation of the central government schemes. They felt that they were enjoying the benefits provided by the central government in terms of excise duty exemption, income tax exemption and capital investment subsidy on investments.

However, these schemes have been withdrawn from the state in March 2010 and thereafter, MSMEs of Uttarakhand are facing the burden of increased taxes. Further, the analysis shows that the tax burden from VAT side is significant.

The share of VAT in overall tax burden is high and impacting the MSMEs in the times of high interest rates, increasing cost of raw materials and squeezing profit margins. So, this burden of 8.4 units expended for VAT & CST may be neutralized through some incentive policy by the state government.

Suggestions to neutralize the impact of VAT

In order to neutralize the tax burden of VAT it is suggested that although the exemption of reimbursement cost of VAT on raw materials/ inputs which has been studied under (A) may not be possible since raw materials are purchased from various dealers within the state and outside the state.

So, one has to pay VAT at that stage, however, government can facilitate the sector by exempting the VAT which is to be paid on the final product. This should be provided in addition to the full VAT reimbursement which MSME stakeholders would get on VAT paid during the production process. Hence, this will reduce the tax burden of VAT which is significant and will boost MSMEs growth in the state.

16. Challenges faced by the MSMEs in Uttarakhand

Micro, small and medium enterprises have a very special and vital role in the economy of Uttarakhand. MSMEs nurtures first generation entrepreneurship and also create immense employment opportunities at a lesser investment. However, inspite of the immense contribution made by MSMEs towards the economic development of Uttarakhand, the sector suffers with a number of challenges.

However, the MSME sector of the state faces some of the challenges such as high cost of credit, poor adaptability to changing trends, lack of access to international markets, low access to new technology, lack of skilled manpower, inadequate infrastructure facility and regulatory issues related to taxation, labour laws, etc.



- a) **Infrastructural deficits:** Infrastructure plays an extremely important role in industrial development of a state. On one hand, it increases the productivity of capital and on the other; it reduces the cost of production and marketing. The major components of infrastructure are railways, roadways, airports, electricity and water availability etc. Uttarakhand, being a hilly state, faces constraints in connectivity as hilly districts of the state are not well connected with each other.

Although there is a well established road network but still villages face difficulty in access to transportation however, there are only two airports at Jollygrant and Pant Nagar. The rail network has a spread upto the capital city of Uttarakhand i.e. Dehradun. While, Pauri Garhwal has the only railway station at Kotdwara and thus no major industries are located in hilly regions of the state.

- b) **Access to domestic/international markets:** MSMEs operating in the hilly areas of the state face huge competitive disadvantage in terms of proximity to domestic as well as international markets. This is due to underdeveloped supply chains and inefficiency in transportation and logistics etc. In Uttarakhand, there are only private, transaction-oriented supply chains operating at high costs. Thus, it poses an operational challenge for MSMEs of the state.
- c) **Access to capital:** The easy, concessional and timely availability of capital at reasonable cost is a key factor for promoting growth of an enterprise. However, Uttarakhand has a low penetration of financial services in the state and most of the MSMEs rely on business incomes and accumulated profits as a source of finance.

They use business savings to meet their working capital requirements. Instead of taking loans from government and private banks, debts from friends and family are preferred by majority of MSMEs which indicates the existing financial gap in the MSME sector of Uttarakhand.

- d) **Lack of skilled manpower:** MSMEs in the state of Uttarakhand suffer from constraints due to inadequate human resource development. In addition, sectors such as handloom, automobiles, pharma etc. require skilled workforce capable of meeting the changing demands of the industry due to technological advancements.



- e) **Lack of modern technology:** Another issue faced by MSMEs in the state pertains to access to modern technology. MSMEs find it difficult to acquire niche technology as majority of them are unable to meet the rigorous global quality standards and benchmarks due to outdated technological processes. Thus, the sector is facing immense competition from global players due to high rate of obsolescence.
- f) **Lack of marketing and promotion:** Marketing and promotion of products are challenging issues for MSME sector of the state as it involves travel, advertising, branding and other initiatives which are not a feasible option for MSMEs.

Table 16.1 SWOT analysis of MSMEs in Uttarakhand

Strengths	Weaknesses
<ul style="list-style-type: none"> • Abundance of natural resources • Close proximity to high demand markets • Availability of cheap labour force • Low manufacturing costs • Favourable government policies 	<ul style="list-style-type: none"> • Highly fragmented sector • Low productivity • Technological obsolescence • Lack of awareness of business opportunities • Inadequate exposure to international environment
Opportunities	Threats
<ul style="list-style-type: none"> • Emerging economy & expansion • Initiation of overseas collaborations • Special policies developed for the sector • Achieve economies of scale through diversification 	<ul style="list-style-type: none"> • Stiff competition from global players • Loss of export competitiveness due to currency fluctuations • Product substitutes due to fast changing technology

Source: PHD Research Bureau, compiled on basis of various inputs received from respondents.



17. Conclusions & suggestions

MSMEs are significantly contributing to the economic growth of the state. Uttarakhand has emerged as a fastest growing state since its inception and MSMEs have played an important role in industrial development of the state. Industrial scenario of the state has also improved steadily during the recent years.

The industry share in GSDP of Uttarakhand was around 35% during 2008-09 which increased to about 38% during 2012-13. Industry grew at around 12% (annual average) during the last five years from FY2009 to FY2013. The state boasts a large number of enterprises in drugs and pharmaceutical sectors owing to the availability of medicinal plants, herbs and other resources.

The study pertains to analyse viewpoint of a large share of MSMEs of which 75% are from small enterprises, 16% from medium enterprises and 9% from micro enterprises. Sample survey analyses the viewpoint of 772 MSMEs respondents of which majority of MSMEs (14%) are operating in drugs and pharmaceutical sector followed by chemicals and steel sector (13%), auto components & automotive (11%), plastic moulding (11%), electronics & electrical (10%), engineering (9%), packaging (8%), agro and food processing (8%), FMCG (5%), textiles (3%), leather & leather products & footwear (2%), services (2%), infrastructure (2%), forest based sector (1%) and gems & jewellery (1%).

The survey found that MSMEs in Uttarakhand generate (on an average⁵³) gross annual sales of more than Rs 23 crore in the domestic markets while an average annual gross sales of Rs 3 crore in international markets. The survey observed that MSMEs across various segments have posted robust gross annual sales growth of about 38% during the last three years (annual average). Nearly 46% of the respondents reported that they have marked robust growth in their profits.

Nearly 54% of respondents affirmed that gross annual sales growth has increased during the last three years while about 32% of them said that gross annual sales growth has remained same whereas it has decreased according to 14% of respondents. The major reasons responsible for boosting the gross sales growth of MSMEs in Uttarakhand has been attributed to the rising demand, technological advancements, increasing overall size of the economy and incentives offered by the government.

⁵³ per unit average turnover



However, the key reasons attributed to the decline in gross sales growth of MSMEs in the state includes extensive competition from domestic as well as foreign markets, rising prices of the products, recent financial crisis, lack of innovative products, currency fluctuations, lack of quality in products etc.

Majority of the respondents (48%) across the state opined that they procure inputs mainly from domestic markets (within India) which includes Assam, Bihar, Delhi, Gujarat, Haryana, Himachal Pradesh, Karnataka, Kerala, Maharashtra, Tamil Nadu, Uttar Pradesh and West Bengal. While a large share of respondents (43%) opined that they procure inputs from local markets (within Uttarakhand).

However, MSMEs face difficulties in procuring inputs from domestic and local markets as majority of respondents (almost all the respondents) said that they face plethora of problems while procuring inputs. The problems faced by them include unavailability of appropriate transportation, easy access to finance, inter state taxes, administrative bottlenecks, law and order situation etc.

Majority of the respondents suggested that there should be development of some mechanism where prospective suppliers can track the likely demand arising from various departments. There should be establishment of a nodal agency to receive all the purchase requisitions from various state departments and to encourage procurement from the registered MSME units so that more units can be covered under the net of the registered sector.

According to the survey, MSMEs should be given unconditional reservation (except for quality) in all the state purchases as practiced in other states such as Himachal Pradesh, Rajasthan etc. There should also be one central state agency empowered to do rate contracts with local MSMEs in the state.

As per the survey, almost all the respondents unanimously believed that in order to streamline the tender process of MSMEs, the qualification criteria of manufacturing experience/supplied quantity, operational experience/performance certification should be excluded and free tender facility should be provided to the MSMEs.

Most of the respondents were of the viewpoint that the state resources should be given preferential treatment in the tender process by allotting state quota as practiced in the states of Jharkhand and Bihar etc.



Further, large share of respondents added that road infrastructure in industrial areas, heavy rainfalls, road permit related issues, introduction of trip sheet system by the state government, check post issues in the states, lack of information and communication, poor quality and higher prices of inputs, fluctuating price scenario of raw materials, small number of suppliers and unavailability of raw materials, non availability of credit, problems arising due to local union, lack of proper guidance while setting up a unit and panchayat tax impacts the process of procuring inputs. The respondents also felt that kavar mela which is one of the major attractions of the state cause heavy road blockage which also impact their operations.

Most of the respondents opined that the MSME sector is also integrating with the world markets though slowly. However, only a small proportion of them (8%) acquire inputs from world markets. It has been observed that China has emerged as one of the key supplier of inputs for MSMEs in Uttarakhand. Other key supplier of inputs includes Belgium, Bhutan, Bangladesh, Denmark, Europe, France, Germany, Italy, Ireland, Iraq, Korea, Malaysia, Mexico, Nepal, Spain, Sri Lanka, Saudi Arab, Taiwan, Thailand and USA. It has been also noted in the survey that nearly 1% of the respondents procure inputs across local, domestic and foreign markets.

The survey revealed that most of the raw materials are procured from domestic (within India) and local (within Uttarakhand) markets hence, state should take initiatives to encourage private participation in order to streamline the supply of essential raw materials to MSMEs in the state.

The inputs are sourced from foreign markets on the basis of quality, timely delivery, competitive prices, credit facility by suppliers, easy access of inputs, better technology etc. The difficulties faced by them while procuring inputs from foreign markets are similar as in the domestic markets such as lack of transportation, time constraints, information barriers, lesser familiarity with business practices, socio-cultural differences and language barriers. However, while dealing with foreign markets they also face issues related to import duties, import finance, currency fluctuations and cumbersome custom procedures.

The survey revealed that MSMEs operating in the state supply their final output not only in domestic but in foreign markets too. The major states where MSMEs of Uttarakhand are supplying their products include Andhra Pradesh, Delhi, Haryana, Himachal Pradesh, Punjab, Rajasthan, Tamil Nadu and Uttar Pradesh etc.



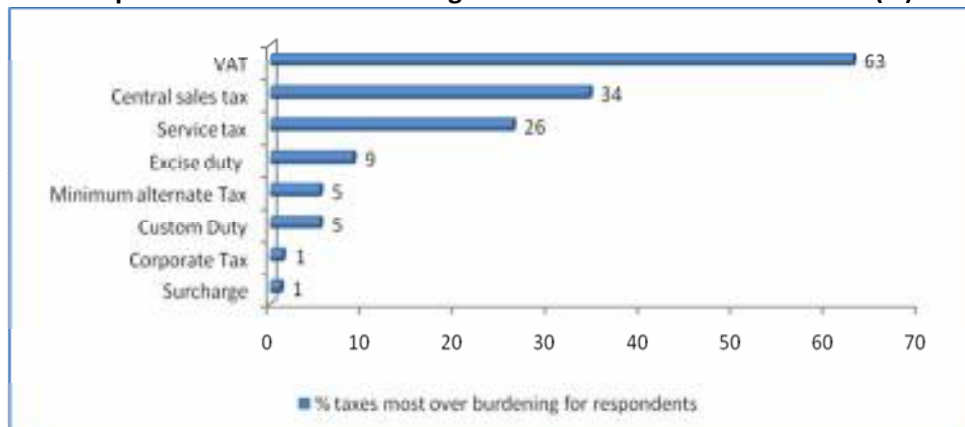
According to the survey, MSMEs cater appreciably to foreign markets which is evident with the fact that 29% of respondents reported increase in their exports growth during the recent years. The countries which are catered by MSMEs of the Uttarakhand for exports are Brazil, Cambodia, Europe, Iraq, Indonesia, Jordan, Kazakhstan, Malaysia, Philippines, Saudi Arabia, Turkey, Thailand and USA.

However, respondents felt that they face difficulties while selling their products in different markets. The major problems encountered while selling products within Uttarakhand and rest of the country are lack of transportation and communication facilities, marketing and distribution, excessive government regulations, labour availability and rigidity, environment and various multiple taxation issues at central and state level, technology obsolescence and extensive competition which creates roadblocks in selling products in the diversified markets.

Hence, the MSME sector of the state should be promoted by providing extensive marketing support in terms of setting up of modern exhibition cum trade cum convention centre in the state. In addition, marketing assistance should be provided by giving subsidies on space rent and shipment for exhibitions in order to enable local firms to participate in national and international fairs.

Majority of the respondents felt that overall tax burden has increased in last three years and most over burdening taxes have been found to be VAT, central sales tax, services tax, excise duties, minimum alternate tax, custom duty, corporate tax and surcharge. However, almost all the MSMEs stakeholders felt that the implementation of GST is expected to reduce the burden of taxation on them in the coming times.

Graph 17.1 Most overburdening taxes for Uttarakhand MSMEs (%)



Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July- September 2013), Note: Respondents have chosen more than one tax



The survey revealed that government should continue the power concessions to boost manufacturing in the state. In addition government should provide subsidy on fuel rates which is a key component of their expenses. Currently, Uttarakhand offers power concessions to all new industrial units engaged in manufacturing and production of goods including the industrial enterprises engaged in the activities in services sector and is entitled for 100% rebate or exemption on electric bills for a period of ten years.

It has been observed in the survey that state government can create a conducive environment for MSMEs in Uttarakhand by providing better transportation facilities, road infrastructure and electricity supply in the state which will have positive impact on their cash flows as their expenses will be reduced significantly.

The survey revealed that despite the fact that infrastructure is one of the grey areas of the state which impacts the activities of the MSMEs, however, almost all the respondents unanimously felt that there has been tremendous improvement in the infrastructure facilities in the state in terms of transportation, abundant water supply, technological advancements during the recent times, however, still there exists huge infrastructural deficit. The respondents were optimistic that infrastructure developments would continue on the improvement trajectory in the near future.

Industrial developments in some of the important cities such as Dehradun and Haridwar have been observed as remarkable development for the growth of MSME sector in the state. However, respondents opined that state authorities should focus on improving the electricity conditions which is a growing concern for them and impact their day-to-day business operations significantly.

According to the survey, transportation and interstate connectivity have emerged as key challenges for the industrial development of the state which can be improved through linking Kumaon and Garhwal regions, improving interstate connectivity through expansion of roads between Rurkee and Muzaffarnagar, extending national highway from Dehradun upto Pontasahab.

Majority of the respondents opined that air connectivity could be further enhanced between Pantnagar and Delhi and Pantnagar and Dehradun and in addition, parking facility must be upgraded in industrial areas by creating parking bays.

The respondents suggested that development of logistic hub, excellent transportation connectivity by increasing the road mileage and effective air connectivity. There is a need to enhance telecom facility with high band width in order to attract huge



industrial investments in the state in the coming times. The MSME sector of the state can be facilitated by providing easy availability of land through a creation of a land bank. Large share of respondents believed that government should continue the power concessions to boost manufacturing in the state.

In addition government should provide subsidy on fuel rates which is a key component of their expenses. The state should prepare a roasting plan of the electricity supply which can be timely intimated to the industrial estates enabling the effective operations of the firms. Further, the state should draft a Solar Policy in order to tap solar energy of the state which can be utilized for meeting up increasing power demand of the state's MSME sector.

The survey observed that majority of respondents (76%) rely heavily on bank loans to meet up their financial requirements and majority of the respondents (84%) reported that they have bank accounts in Nationalized Banks. This depicts that banks have a major role in narrowing the large finance gap exhibited in MSME sector of the state and there exists a tremendous scope to meet the financial requirement of MSME sector of Uttarakhand and public sector banks can play a significant role in this regard.

Almost all the MSMEs of the state unanimously felt that the state should focus in establishing a sound financial infrastructure (credit registries/ bureaus, collateral, and insolvency regimes) as a major priority in the financial development agenda, as it can lower the costs and risks to financial institutions of serving MSMEs.

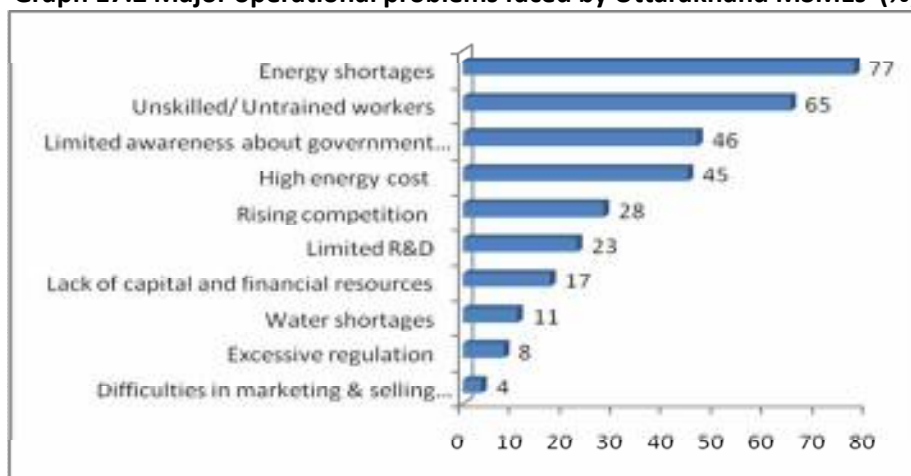
However, MSMEs across all the sectors unanimously opined that they face critical operational issues in terms of unnecessary, burdensome, expensive and at times even counterproductive regulations, alarming gap between the demand and supply of energy, high energy costs, unskilled workers, limited awareness about government schemes, rising competition, scope for limited R&D activity and lack of finance.

Majority of the respondents have observed that effective capacity utilization and expansion have enabled MSMEs in the state of Uttarakhand to achieve better results. Further, the survey has revealed that MSMEs in Uttarakhand has a small share of tie-ups with foreign firms. Only a small share of 5% respondents has technological tie-ups with foreign firms while nearly 95% respondents operate in domestic markets. Hence, Uttarakhand has untapped potential to explore opportunities in the international markets.



MSME sector in Uttarakhand are exposed to various operational challenges. According to the survey, a large share of the respondents (77%) opined that energy shortages is one the key operational challenges, followed by lack of skilled and trained workers (65%), limited awareness about government schemes (46%), high energy cost (45%), rising intense competition (28%), limited R&D (23%), lack of capital and financial resources (17%), water shortages (11%), excessive regulations (8%) and difficulties in marketing and selling (4%).

Graph 17.2 Major operational problems faced by Uttarakhand MSMEs (%)



Source: Emerging Contours in the MSME sector of Uttarakhand survey conducted by PHD Research Bureau, PHDCCI (July- September 2013), Note: Respondents have chosen more than one problem

It is worrying to note that the state encounters the issue of non-availability of skilled manpower. Almost all the respondents opined that they face scarcity of manpower in terms of the right skill sets for major areas like, manufacturing, service, marketing, etc. The survey revealed that there is an extensive need to encourage industrial development in the state through technical assistance for setting up of technology incubation centres which will enable MSMEs to source at competitive rates.

Hence, respondents suggested that skill development and capacity building programmes should be organized in order to boost employment opportunities and entrepreneurship in the state.

Going ahead, the state government should promote and facilitate MSMEs with the help of supportive industrial policy. The capital investment policy should be increased to boost capital investment in Uttarakhand.

The state government should focus on their different departments such as labor, ESI, PF, taxation and others to support the industries in a fair manner. There should be a



provision for some interest subsidy in the industrial policy for existing units also along with tax benefits. GST should be introduced at the earliest as it will offer conducive milieu for MSMEs and would curtail the issues of multiple taxation. In addition, single window registration should be enhanced in the state.

Further, the state has a potential for food and processing industry as large variety of fruits are grown and industry can be invited in public private partnership mode to establish chips unit, juices etc. The state should encourage setting up of some Mega Food Parks to boost food and processing industry. The agro and food processing industry can be complemented by developing cold storage chains throughout the state of Uttarakhand.

The respondents felt that the state government should be proactive in spreading awareness about the government schemes with a view to facilitate increase in quality and quantity of credit to MSMEs, to bring larger number of MSMEs under the net and leading eventually to sustainable and inclusive growth of the sector. Proper intimation regarding new policies and any changes in the rules and regulations should be effectively informed and announced. Almost all the respondents opined that industry chambers can play a major role in spreading awareness about the government schemes which will benefit the business operations at large in the state.



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Summary of economic indicators of Northern & Central states of India

Macro-Economic components	Bihar	Chattisgarh	Delhi	Haryana	HP	J&K
Real GSDP (Rs. bn) ¹	1650.2	919.3	2209.7	1908.8	445.5	430.9
Geographical Area (Sq Km)	94163	136034	1483	44212	55673	222236
Population Size(mn) ²	103.8	25.5	16.8	25.4	6.9	12.5
Economic Growth ¹	14.5	8.6	9.0	7.1	6.2	6.1
State GSDP as % of India's real GSDP ³	2.9	1.7	4.0	3.5	0.8	0.8
Per-capita Income (Rs) ¹	14994	28666	120414	65500	51586	30421
Growth of Agriculture Sector ¹	6.3	5.5	-0.4	2.1	9.0	3.1
Growth of Industry Sector ¹	17.1	6.7	7.3	5.5	5.0	0.8
Growth of Services Sector ¹	16.9	12.1	9.4	9.5	6.3	9.9
Value Added by Agriculture Sector ¹	21.3	18.7	0.6	15.9	17.2	22.2
Value Added by Industry Sector ¹	21.5	40.9	13.6	27.9	40.7	22.6
Value Added by Services Sector ¹	57.2	40.3	85.8	56.1	42.0	55.2
Literacy Rates (%) ²	63.8	71	86.3	76.6	83.7	68.7
RR/ GSDP ⁴	25.8	19.1	7.7	10.1	24.3	42.7
GFD/ GSDP ⁴	2.9	2.8	0.7	2.1	2.9	2.9
Debt/ GSDP ⁴	28.4	13.4	7.6	16.8	44.4	53.7

Macro-Economic components	Jharkhand	MP	Punjab	Rajasthan	UP	Uttarakhand
Real GSDP (Rs. bn) ¹	1034.3	2214.6	1645.2	2278.2	4451.7	631.6
Geographical Area (Sq Km)	79714	308000	50362	342239	240928	53484
Population Size(mn) ²	31.2	72.6	27.7	68.6	199.5	10.1
Economic Growth ¹	7.8	10.0	5.2	6.1	5.5	7.9
State GSDP as % of India's real GSDP ³	1.9	4.0	3.1	4.5	8.4	1.2
Per-capita Income (Rs) ¹	27397	26514	48409	28851	18891	53548
Growth of Agriculture Sector ¹	5.4	13.4	-0.3	0.5	3.5	3.4
Growth of Industry Sector ¹	4.8	4.5	3.5	6.5	2.4	9.2
Growth of Services Sector ¹	11.6	11.8	8.9	8.5	7.8	7.9
Value Added by Agriculture Sector ¹	13.3	24.2	21.8	21.4	22.1	10.6
Value Added by Industry Sector ¹	41.7	27.9	29.5	31.1	23.2	37.2
Value Added by Services Sector ¹	45.0	47.9	48.7	47.5	54.6	52.1
Literacy Rates (%) ²	67.6	70.6	76.7	67.1	69.7	79.6
RR/ GSDP ⁴	23.2	20.8	13.1	15.6	21.8	16.4
GFD/ GSDP ⁴	2.1	3.0	3.1	2.1	3.0	3.4
Debt/ GSDP ⁴	27.5	26.9	32	28.7	37.2	29

Source: PHD Research Bureau, compiled from various sources

RR: Revenue Receipts, GFD: Gross Fiscal Deficit

Note: 1: Data Pertains to FY13 (For Rajasthan, data pertains to FY12)

2: Data pertains to growth over FY13 to FY12

3: Data Pertains to Census 2011

4: Data Pertains to FY 13



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