

Role of Telangana in development of MSMEs and The Repercussions of Demonetization & GST on MSMEs

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Abstract

Micro, Small and Medium Enterprises (MSMEs) are playing a vital role in taking our country towards complete globalization. MSMEs are the back bone of our economy and are also acting as energy boosters for growth and development of our nation.

Despite of the fact stated above, the MSMEs are facing tough competition from Large Scale Industries (LSIs), Multi National Companies (MNCs), other businesses producing cheap products as substitutes. Not only this, the two major issues took place in our country has thrown some repercussions on the growth of MSMEs, ie., (1) Demonetization in 2016 and (2) Introduction of Goods and Service Tax (GST) in 2017.

The State of Telangana is home for several major manufacturing industries in bulk drugs, pharmaceuticals, agro-processing, cement & mineral-based industries, high precision engineering, textiles, leather, apparels, automobiles and auto components industry, spices, horticulture, poultry farming, biotechnology, defence equipment etc. The Industrial Sector is contributing around 25% to 30% to the Gross State Domestic Product with a direction of positive growth in the State. From the above facts observed, it has become inevitable to analyse the issues relevant to MSMEs in the context of their growth and the repercussions they are facing. Hence, this research paper focuses role of Telangana in the development of MSMEs since its formation and the repercussions of Demonetization policy and the implementation of GST on the growth of MSMEs.

Key Words: Repercussions, Demonetization, Goods and Service Tax, Large Scale Industries and Multi National Companies.

1.0 Introduction

India has a vast culture, tradition and civilization since time immemorial. Since age old, many of our citizens were purely dependent on agriculture. As the civilization has grown, there was a shift from agriculture to industries. Right from the very implementation of first five year plan, the emphasis was more on developing industries in our country. Micro and Small and Medium scale Industries have become a strong foundation for many Large-scale Industries. The present study is emphasising on the importance of such MSMEs in our

country and a special focus is given to the MSMEs of 29th State in India i.e., the Telangana State. This paper not only studies the Role of Telangana in the development MSMEs, but also, the repercussions of implementation of Demonetization Policy and introduction of GST in the place of VAT.

1.1 Need for the Study

Business has become a career option among 5 individuals out of 10. The Liberalization-Globalization-Privatization (LPG) has enhanced the scope of the entrepreneurs in our country to carry business with less initial formalities and the banking industry and money market has been acting as facilitators of financial assistance. Today, business has grown from regional level to international level. Small businesses are also reaching the global heights with their minimal scope and operations. Hence, there is a need to study about their growth of MSMEs in Telangana, where it has taken birth just in 2014, and at the age of two years it has to face to challenges, one is Demonetization and the other one is GST.

1.2 Objectives of the study

From the above stated facts, it has been found that the following objectives are imperative:

1. To study the Role of Telangana in the development of MSMEs.
2. To focus on the repercussions of two major reforms on the growth of MSMEs.

1.3 Methodology

1. **Sources of Data: (a) Secondary Data:** The present study is based on the information derived from secondary sources such as MSME Telangana State Annual Reports (2015-16), Ministry of MSME, Government of India – Reports, Journals, Articles, research papers, website, etc.,

1.4 Scope of the study

The study is confined to the role played by Telangana in the development of MEMEs and the impact of Demonetization and GST on the growth of MSMEs.

The present study has been focussed on growth of MSMEs in Telangana Region since its formation and the repercussions of Demonetization and GST on MSMEs growth. The emphasis about MSMEs in India is discussed in general and Telangana State in particular.

1.5 MSMEs in India

Since our country attained independence, the MSMEs are emerged as highly vibrant and dynamic sector of our country. The most significant advantage associated with MSMEs is, lower capital cost, reducing regional imbalances, less requirement of infrastructure, not dependent on banks for heavy loans, acting as an ancillary to many large scale industries and enormously contributing to the socio-economic development of our country.

As per the reports of Ministry of MSME, Government of India, 2015-16, this sector consists of 36 million units, providing employment over 80 million people, producing more than 6,000 products and contributing 8% to GDP besides 45% to the total manufacturing output and 40% to the exports from the country.

1.6 About Telangana State

Telangana State is in the southern region of India. It has been emerged as the 29th State in the Indian Union as per the Andhra Pradesh Reorganization Act, 2014 (No.6 of 2014) of Parliament, which received its assent on 1st March, 2014 from President of India and came into existence w.e.f 2nd June, 2014.

It has an area of 1,12,077 sqkms and it is the 12th largest State in terms of both area and the area and the size of the population in the country.

1.7 Industries in Telangana - w.r.t. MSMEs in Telangana State

The State of Telangana is home for several industries both major and small scale like Agro-Processing, Textiles, Leather, Automobiles, Apparels, Engineering, Horticulture, Poultry, Farming, Bio-Technology, Defence Equipment, etc.,

Despite of its growth over 10% since last five years, MSME sector is facing challenges and problems from large scale industries, multi-national companies and other units producing substitutes. The performance of MSMEs is compared with the large scale units and the preference is given to the products and services produced by the large scale industries when compared to small scale sector.

Though the Telangana State has taken birth just three years back i.e., in the year 2014, it has laid down a new industrial policy which helps the State economy to improve on par with the States which are well established. The following are some of the Industrial Policies of Telangana Government. Some of the schemes implemented by Telangana Government as discussed as under:

1. **T-SWIFT**: The act envisages creation of “ Telangana State Wide Investment Facilitation (T-SWIFT) Board under the Chairmanship of the Chief Secretary to Government and the Secretary Industries as the member conveners and the Commissioner of Industries as the Nodal Officer. Telangana Government approval to all SMEs including SC/ST Entrepreneurs under IIPP (2010-15) policy to avail reimbursement of Sales Tax, Pavala Vaddi Runalu, reimbursement of power cost for the remaining period under the old policy and one additional year under the T-IDEA Policy 2014.
2. **TRIGP**: Telangana Rural Inclusive Growth Project is an initiative by our Telangana Government, which covers 150 Mandals in the first phase and will be extended to other Mandals in the next phase. This is a World Bank funded rural inclusive project which focuses on the development of villages and rural areas of our State. The funds promised by the World Bank is Rs.450 Crores. The project would be on the lines of Society for Elimination of Rural Poverty (SERP) and its best practices would be

absorbed to give a new shape to the schemes and make them more effective. The independent directors will be responsible for designing the schemes and the idea behind picking them up from various parts of the country is to bring in new thoughts and new framework for execution.

3. **Women owned Enterprises:** Like SC/ST entrepreneurs, the number of existing women-owned industrial enterprises is very meagre. The Telangana State Government is encouraging women entrepreneurs in a big way. Each of the 9 districts of the state (excluding Hyderabad) have one or more industrial parks exclusively for women. Organizations working for women entrepreneurs like COWE, ALEAP and FICCI-FLO invited to partner with the government to identify and train women entrepreneurs, get their project proposals developed, link them to financial institutions and handhold and monitor the progress of their projects. Among women, the government would facilitate more number of entrepreneurs to emerge from socially deprived categories like SCs, STs, BCs and Minorities.

The following tabular data has been collected from secondary sources on Telangana Industries:

Table 1.0
Strengths of Telangana based Industries

| Industry | Location | Strength |
|------------------------------------|----------------------------------|---|
| IT & IETS | Hyderabad | Infrastructure & Manpower |
| Engineering, Aviation & Defence | Hyderabad & Ranga Reddy District | Anchor industries such as DRDO, DRDL, BEL, BHEL, HAL Exclusive Aerospace SEZ |
| Pharmaceuticals & Allied Chemicals | Hyderabad & Medak | Presence of premier research industries Strong clusters of pharma |
| Bio-technology | Hyderabad & Medak | Genome Valley – the first largest organised life sciences cluster in India |
| Renewable Energy - solar | Mahaboob Nagar | TSIICA & JICA set up a 5000 acre solar park |

Source: Secondary Data

Table 2.0
Development Plans for Industries in Telangana

Phase – I

| Industry | Districts | Rationale for Industry Selection |
|---------------------------------|------------------------|--|
| IT & IETS | Warangal | Presence of NIT an IT SEZ |
| Seed Industry & Agro processing | Karimnagar & Nizamabad | Karimnagar and Nizamabad have crops of Maize, Paddy and Turmeric |
| Nalgonda | Pharma | Existing pharma units, State has proposed pharmacy |

Source: Secondary Data

Phase – II

| Industry | Districts | Rationale for Industry Selection |
|---------------------------------------|----------------|---|
| Solar | Mehaboob Nagar | Solar park on the Anvil |
| Solar, Wooden, Furniture | Adilabad | Largest forest reserves, receives heavy rainfall and sunlight |
| Granite, Steel and Wooden based units | Khammam | GOI has proposed a steel plant as a part of the Act. Largest forest reserves for wood based units. |

Source: Secondary Data

In spite of various measures taken and policies adopted by the Telangana State Government, the problems associated with the MSMEs has not reduced to a much extent. MSMEs contribute towards employment generation and form a substantial part of revenue generation in the national income of our country.

The major problems faced by our State MSMEs are as follows:

1. Financial Assistance from Banks to the new entrepreneurs
2. Lack of awareness on feasible areas of business
3. Insufficient funds to carry out further activities in the business
4. Inefficient managerial skills and lack of technical knowledge by our young businessmen.
5. Not able to balance the factors of production to earn the expected profit or at least reach break-even.

Not only these set-back facing by the MSMEs in Telangana Region, two major reforms of our country has shaken the State in the very infant stage of its formation, they are

1. Demonetization of Currency on 8th November, 2016
2. Introduction of GST in the place of VAT on 1st July, 2017.

2.0 Demonetization

Demonetization was a judicious, well thought and well-executed reform to eradicate all the black money existing in our country. Indian Government has taken a bold decision on 'note ban' on 8th November, 2016. Demonetization is the act of replacing the existing currency in another form by abolishing the old notes of a specific denomination and introducing another denomination of the currency.

2.1 Review of Literature

The following review of literature has been considered to know the views of policy makers in our country, on demonetization.

1. **Arun Jaitley, Finance Minister, Government of India, (2016)**, opined that demonetization is good step for our economy, as many Indian banks are facing NPA problem, now banks will have more money to lend for many sectors of the country.
2. **Amartya Sen (Leading Economist)** quoted in his speech, that, many Indians are deprived of corruption, money laundering, other illegal activities involving huge currency. Now innocent people will get back their rewards.
3. **Dr.Manmohan Singh (Rajya Sabha Member)**, expressed his views on demonetization, stating that, its an organized embezzlement. The way the scheme implemented will effect our primary sector-agriculture, small scale industries and other micro business of our country.
4. **Kaushik Basu (Sr.Vice-President and Chief Economist of World Bank)** viewed that this policy has created a new black market, in which large amount of illicit cash broken into small parts and deposited by many people in a legal way, the same illegal activity.
5. **Surjit Bhalla (Former Professor of Business School of Economics)** stated that demonetization is a courageous step taken by Sri Narendra Modi, Prime Minister of India. This policy may not bring immediate benefits but will create huge money to the forth coming economy.

2.2 Repercussions of Demonetization on MSMEs

Although demonetization has brought certain benefits to the economy by eliminating black money to some extent, acting as a cleaning exercise, it has shown an adverse impact on the growth of MSMEs all over the

country. MSMEs are mostly cash based sectors. They work with low capital, limited resources and infrastructure. Most of the times many micro businesses run in their house only.

MSMEs mobilize their capital from friends, relatives and money lenders of unorganized money markets. Many times MSMEs pay heavy interest to these money lenders, wherein half of their profits are gone in this way. Demonetization has shown an adverse effect on MSMEs, where, the money lenders exploited the opportunity by charging double the interest rates for the lending money to the businessmen. Three to four months there was no mobility of currency, which led to stoppage of production and the produced goods are not sold in the market.

Because of great reliance on cash, many MSMEs suffered losses and some of the businesses were shut down permanently. Many small businesses could not withdraw money from bank for about 3-4 months wherein they could not meet their daily payments such as daily wages to labourers, expenditure on purchase of raw material including transport charges and other miscellaneous expenditures.

Major impact was on agricultural products, automobile tools and spare parts, labour intensive firms such as leather, mining, textiles, construction work, construction materials and other ancillary businesses.

The workforce deployed by the MSMEs is of mobile nature. Sometimes they find work in the same city, sometimes they shift to other city in search of their daily work. Due to demonetization many workers could not get work and suffered for their daily nearly six months from the date of demonetization.

3.0 GOODS AND SERVICE TAX

GST stands for Goods and Service Tax. GST is nothing new, but a well designed VAT that covers both Goods and Services. GST is a comprehensive tax system that is levied on supply of goods or services or both which includes manufacturing, sale and consumption of both goods and services throughout India. GST is destination based tax system. GST was introduced on 1st July, 2017 all over India.

In an Indian economy MSMEs (Micro, Small and Medium Enterprises) are the most various agencies which play a crucial function in the boom and development. Most importantly, around 36 million SMEs contribute toward 45% of the industrial output, employs 42 million people, generates a 100 million employment opportunities every year and contribute to 40% of exports with the aid of production around 8000 - 10000 form of products to meet the growing demand of Indian as well as international marketplace. The government facts shows that urban area accommodates 8,57,000 enterprises accounting for 54.77% of the total running enterprises in registered MSME sector while the agricultural regions having around 7,07,000 enterprises bills for 45.23% of the running enterprises.

The Government of India is taking all measures for the development of MSME sector. These measures include global loose trade agreements, launching new regulations like adopting cluster based technique to

beautify the productivity and put together for stiff foreign competition and reservation of 20 specific items for manufacturing through MSMEs most effective.

The government has moreover set up an India Opportunities Venture Fund properly well worth 50 billion rupees in collaboration with SIDBI (Small Industries Development Bank of India) for offering fairness to the arena. In fact, that MSME loan marketplace will grow through \$3,020 billion over the subsequent decade.

MSMEs are the predominant contributor in promoting balanced economic improvement. It negates the outcomes of large enterprises and provides all spherical development for the country. They have helped in industrializing the rural and backward areas via providing employment and different opportunities to lessen local imbalance that has assured a same distribution of income.

3.1 Repercussions of GST on MSMEs

The small and medium scale sector's accounting system is not stronger to that large scale industries. GST law demands high compliance. GST system makes it mandatory to file the returns on monthly basis. Accounting needs to be timely updated and the same needs to be maintained State wise to reconcile the GST taxation with accounts at State level. Unorganised MSMEs have grown faster than organised peers because of lower cost structures stemming from tax avoidance, and not having to pay social security benefits to employees and excise duty (if turnover is less than Rs 1.5 crore). GST provides a boost to this segment because of lower tax incidence. MSMEs were expected to record a top line growth of 14 to 16%. The impact of demonetisation has been severe in the second half and they would have closed the year with an increase of just 6 to 8%. As the effects of demonetisation fade, growth will pick up in the current fiscal and "Make in India" is promising in leading this sector. Though growth is expected to be strong this fiscal, cheaper imports, especially from China, remain a challenge.

The GST Bill certainly offer raise to the MSME region by imparting them reprieve from diverse degree of taxes for starting enterprise and transfer of goods in more than one states. With GST in region, MSMEs can enjoy the benefits such as ease in business growth, single point tax, removal of cascading tax machine, no extra tax on interstate goods transfer, lower logistics overheads and will create a unified marketplace space for its products.

In future, the MSMEs ought to not simplest focus to levy the related benefits. as a substitute, they should incorporate these modifications into their enterprise strategies to paintings toward the sustainable improvement of the society. The big companies have to also put in extra efforts to contain sustainability and inclusiveness inside the supply chain as the MSMEs are providers to bigger organizations. The subculture of giving returned to the society have to be inbuilt in all of the agencies whether massive or small, thereby permitting a surroundings conducive for sustainable development of the nation. With over

51 million MSMEs in India, it contributes 50% of the economic output and constitutes India's 42% export earnings. As a consequence MSME, the main employment producing sector other than IT, holds the important thing inside the post-GST era and know-how of its effect.

Government aim at the back of GST is to enlarge the taxpayer's base and no longer to decorate tax burden on business / individual tax payers. A good deal aligned to this goal, GST regulation launched by means of the Ministry of Finance seeks to deliver all of us with a combination turnover of above INR 10 lakhs within the umbrella of GST. The restrict has been stored even lower at INR 5 lakhs for north eastern states. This should create a stage gambling area for prepared and unorganized area with the aid of curtailing scope of diverse tax evasion practices along with creation of multiple entities to enjoy high exemption thresholds. However on the flip facet it could vitiate the prevailing protectionism supplied with the aid of the government to Micro, Small and Medium Enterprises ('MSMEs') which necessitates them to get out in their comfort sector as a long way as indirect tax expenses and benefits are worried.

4.0 Findings & Conclusions

From the above discussed issues relating to role of Telangana in development of MSMEs and the repercussions of Demonetization and GST, the following findings and conclusions are made.

1. MSMEs play a pivotal role in the economic development of a country. The advantages in establishing MSMEs are forming the basis for many large scale industries.
2. As per the reports of Ministry of MSME, Government of India, 2015-16, this sector consists of 36 million units, providing employment over 80 million people, producing more than 6,000 products and contributing 8% to GDP besides 45% to the total manufacturing output and 40% to the exports from the country.
3. In a span of two years of its formation, Telangana Government lay down industrial policy and many schemes to develop MSMEs.
4. It is a challenging period for a State like Telangana wherein, just at the age of two years of its formation, it has to face two major reforms (1) Demonetization and (2) Introduction of GST.
5. Many MSMEs suffered losses with the implementation of 'ban on currency' since 8th November, 2016, at least for a period of six months. The ultimate sufferers are micro, small industries and daily wage workers.
6. GST wants to stream line the MSMEs by implementation of automation of accounts, monthly filing of returns.

7. With GST in region, MSMEs can enjoy the benefits such as ease in business growth, single point tax, removal of cascading tax machine, no extra tax on interstate goods transfer, lower logistics overheads and will create a unified marketplace space for its products.
8. GST provides a boost to this segment because of lower tax incidence. MSMEs were expected to record a top line growth of 14 to 16%.
9. MSME, the main employment producing sector other than IT, holds the important thing inside the post-GST era and know-how of its effect.
10. GST is aiming at providing relief to MSMEs in threshold limit and desires to bring more opportunities to MSME – start-ups and other ancillary industries.

5.0 Suggestions

Based on the above findings and conclusions and also keeping in view the present state of MSMEs in the country, the following suggestions are made:

1. The Indian Government should support the small business by giving them relief from burden of heavy interest rates. Financial assistance should be provided for the start-ups which may plunge into well established business in the long run.
2. The impact of demonetization can be overcome by protecting the small firms firm financial obstacles in running the business successfully. The Government and Banks should take some policy measures to overcome such difficulties.
3. The policies of the Government should be not only for the financial assistance, but also to educate the entrepreneurs on many issues relevant to the business transactions.
4. The implications of GST can be implemented by the large business houses, but for the small businesses it takes time till near future.
5. The policies of the Government should be implemented on a continuous basis till attaining some reasonable growth in the MSME sector of the country in general and a State in particular.

6.0 Scope for further research:

The research can be further extended on the area of topic chosen, considering not only the issues like 'Demonetization' and 'GST', but also, on the policies going to implement in the banking sector and its impact on the growth and development of MSMEs in our country and how far the these issues contribute to the growth of our economy.

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