

# MSMEs ARE THE BEST STRATEGIC OPTION FOR THE ECONOMIC DEVELOPMENT OF RAYALASEEMA REGION IN ANDHRA PRADESH

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## ABSTRACT:

MSMEs are vital for contribution to GDP, employment, exports balanced development and being nursery of entrepreneurs in Andhra Pradesh. The Government of Andhra Pradesh is striving for the establishment and development of MSMEs in all its 13 districts by providing a variety of incentives, concessions, assistance and subsidies for their development.

In this context, the present paper makes an attempt to present and analyze the structural features of MSMEs in Rayalaseema districts of Andhra Pradesh, which comprises Anantapuram, Chittoor, Kurnool and YSR districts. After the reorganization of the State of Andhra Pradesh according to the A.P. Reorganization Act -2014, Andhra Pradesh was separated with 13 districts, comprising 9 Coastal and 4 Rayalaseema districts. This paper specifically focuses on Rayalaseema region and attempts to prove that MSMEs are one of the best strategic options for the economic development of Rayalaseema districts, as they are comparatively backward and drought-prone districts. Estimating the correlation between the amount of capital required for generating employment both in large and medium industries as well as in MSMEs, this paper corroborates the argument that MSMEs are the engines of employment generation. An attempt is made of analyze the growth and performance of MSMEs in Rayalaseema region in terms of number of units, investments made and employment generated with specific focus on four districts of Rayalaseema region.

A brief mention is made about the constructive intervention of Government of Andhra Pradesh in a variety of ways and aspects related to MSMEs, their establishment and development during the post-reorganization period i.e. 2014-15 to 2017-18. The paper concludes that MSMEs the best suitable industrial activities for the development of Rayalaseema districts, where the irrigation intensity is low, agriculture sector is subject to disguised unemployment; age productivity is low and severely prone to drought.

**Index Terms:** MSMEs, Rayalaseema Region, Investment-Employment Ratio, Irrigation Intensity, Employment Generation, Balanced Development.

## INTRODUCTION:

The provision made in the Andhra Pradesh Reorganization Act-2014. Andhra Pradesh was bifurcated without even finalizing the capital city. This process of discriminant bifurcation was “an epitome” of the manner in which bifurcation was made. A number of critical and fatal issues have cropped up daunting the course of economic development of Andhra Pradesh with 13 districts and most of them were drought prone and backward in terms of right to water, health, income and social development. Huge financial deficits continued to bother the new state of Andhra Pradesh. A major challenge maintaining a balance between development and welfare stood before the Government, which demanded a multi-pronged strategy for economic upliftment of both the government and the people. Though the union government has assured to support the bifurcated state of Andhra Pradesh, the support was rather “tepid” and even the recommendations of 14<sup>th</sup> finance commission were not very encouraging. No speed preference was given to AP despite repeated requests for handling support. However the administrative capacities of the government have been striving to

convert this crisis into an opportunity for the economic development and solid foundations are being laid for “Sunrise Andhra Pradesh”.

One of the basic sectors that accelerate development is Industrial sector, it requires higher capital formation, raises incomes and absorbs surplus workforce. Keeping these advantages in view, Government of Andhra Pradesh has accorded top priority to industrial growth as detailed in Andhra Pradesh Industrial development Policy-2015-20. This policy aims at creating employment opportunities across its subsector which enhances inclusivity. As a complementary strategy, Government of Andhra Pradesh has also identified Micro, Small and Medium Enterprises (MSMEs) as a catalyst for job creation and poverty mitigation and accorded top priority to their development. The Andhra Pradesh MSME Policy 2015-20 aims at “establishing state of the art infrastructure advancing inclusivity, fostering innovation and creating employment opportunities across different skill sets”. No doubt, these objectives strive to provide a conducive ecosystem to encourage MSMEs and attract new investments into the sector. The policy targets at enhancing competitiveness of MSMEs sector to make AP one of the most preferred destinations for MSMEs.

The Government of India also putting efforts for promoting existing and future high growth business with both domestic and foreign companies keeping the national economic aim of “Make in India with Zero Defect and Zero Effect”. Associated with the digital revolution, MSMEs have a great opportunity to participate in the information, communication and telecommunication sector in line with the vision of the Government. It is a known fact that MSMEs not only play a crucial role in providing large employment opportunities at comparatively low capital cost than large industries but also help in industrialization of rural and backward areas and reduces regional imbalances.

#### **METHODOLOGY:**

It is in this context, the present paper makes an attempt to a critical analysis of explaining the structural features of MSMEs in Rayalaseema region, comprising four districts—Anantapuram, Chittoor, Kurnool and YSR districts, which are recurrently prone to severe drought conditions. In these districts a small no. of large and medium industries- 573 units— have gone into production as on December, 2017 and in Chittoor district the numbers is only 76. Hence, Focus is laid on relative contribution of MSMEs to employment generation during the Post-reorganization period of Andhra Pradesh. The primary objective is to prove the fact that in Rayalaseema region, where agricultural sector is prone to severe drought and the average size of the landholding is very low, which restricts the employment potential of the sector for the agro-dependent labor force; MSMEs are the best strategic development option for employment generation and reducing the severity of poverty.

#### **OBJECTIVES OF THE STUDY:**

- 1) To estimate the Investment-Employment ratio for both Large and Medium Industries and MSMEs and to prove the argument that MSMEs are capable of generating employment with low capital cost in Rayalaseema region.
- 2) To present the regional distribution of MSME units and investments made in these units.
- 3) To estimate the average employment generated per MSME unit and with an average amount of investment employed in MSMEs so as to prove that MSMEs are the best industrial activity for economic development of Rayalaseema region.

#### **SOURCES OF DATA:**

Keeping in view the objectives laid down, an effort is made to collect data on the related variables from the secondary sources for the period of 2014-15 to 2017-18 from the reports of the Government of Andhra Pradesh during the post-reorganization period. Reports of Government of India, All India Census of MSMEs, Ministry of MSMEs, Vision documents and MSME Policy-2015-20 of Government of Andhra Pradesh, Press notes and White Papers released by the Hon’ble Chief Minister of Andhra Pradesh and the Planning Department, Government of Andhra Pradesh, Reports of the KPMG, Chief Planning Officers of the concerned districts and Statistical Abstracts of Andhra Pradesh were also consulted for necessary data-support.

#### **DISCUSSION AND RESULTS:**

According to NSS 73<sup>rd</sup> round, 634 lakh MSME units are operating as on 2015-16 in India and 33.87 lakh units are operating in the State of Andhra Pradesh as shown in Table. 1.

Table.1. Growth of MSME units in India and Andhra Pradesh

	NSS 73 <sup>rd</sup> Round (2015-16)		4 <sup>th</sup> All India Census (2006-07)	
	No. (in Lakh)	Share (%)	No. (in Lakh)	Share (%)
Andhra Pradesh*	33.87	5.3	25.96	7.2
India	633.90	100.0	361.76	100.0

**Note:** \* including Telengana in 4<sup>th</sup> All India Census of MSMEs

**Source:** Government of India (2018) Annual Report-2017-18, Ministry of MSMEs, New Delhi, p.32, www.msme.gov.in

The no. of MSME units in India has increased by 272.14 lakh units in 2015-16 over the year 2006-07. Andhra Pradesh is one of the top ten states in India with 33.87 lakh units, occupies the 7<sup>th</sup> place among top ten states. Though the no. of MSME units in Andhra Pradesh according to 4<sup>th</sup> Census accounted for 7.2 per cent of the total units in India, the proportion represents the united Andhra Pradesh, before bifurcation. It is seen that during the post-bifurcation period, the no. of units in absolute terms has increased to 33.87 lakh units.

#### MSMES IN RAYALASEEMA REGION:

Rayalaseema is a geographic region in the state of Andhra Pradesh comprising four southern districts of the state namely Anantapuram, Chittoor, Kurnool and YSR (Kadapa). After the reorganization in 2014, a separate state -Andhra Pradesh- was formed with 13 districts, comprising 9 Coastal districts, which have rich agricultural lands and are known for paddy fields, cashew nuts, pulses and coconuts. The remaining 4 districts represent Rayalaseema Region, which are prone to recurring droughts, though the region is rich in minerals and forest wealth. All these 4 districts receive deficient rainfall in every year and depend on wells as the main source for irrigating the crops. Consequently, the net area irrigated (2016-17) accounts for only 26.2 per cent of the total net area sown in these districts and among them Anantapuram is mostly prone to severe droughts, and the net area irrigated accounts for only 14.8 per cent of the net area sown.

It is beyond doubt that industrial sector with its sub-sectors must assume flagship role for the economic development of Rayalaseema Region. The industrial profile of these 4 districts show that large and medium industries account for only 29.0 per cent of the total units in Andhra Pradesh, particularly Chittoor district has only 76 large and medium industries gone into production, accounting for only 13.3 per cent of the total large and medium industries in Rayalaseema Region.

Hence, the industrial profile of Rayalaseema region amply indicates that MSMEs are the only best alternative economic activities for the development of this region. Being supported by the policies of the Government of Andhra Pradesh, there was an impressive growth of MSME units in Rayalaseema Region particularly during the post-reorganization period as shown in Table.2.

Table. 2. Growth of MSMEs in Rayalaseema Region during the Post-reorganization Period

S. No	Rayalaseema Districts	No. of Estimated MSME units			
		2015-16 (up to Sept.2015)	% to Andhra Pradesh	2017-18 (up to Dec.2017)	% to Andhra Pradesh
1	Anantapuram	293	6.0	4621	5.8
2	Chittoor	295	6.1	4234	5.3
3	Kurnool	164	3.4	5113	6.4
4	YSR Kadapa	222	4.6	3004	3.7
	Rayalaseema Region	974	20.1	16972	21.1

**Source:** Government of Andhra Pradesh : Socio-Economic Surveys for the years 2015-16, 2017-18, Planning Department.

As presented in Table.2, there was a phenomenal growth in MSME units during the post-reorganization period, which accounts for an additional establishment of 15998 units in 2017-18 (as on December, 2017) over the year 2015. MSME units in Rayalaseema Region accounting for 21.1 per cent of the total MSME units in Andhra Pradesh as on Dec.2017. A phenomenal increase in no. of units is seen particularly in Kurnool district, compared to the other districts of the region and there was a marginal proportional decline in the remaining districts and in absolute terms there was an impressive growth in no. of units in all the districts.

Kurnool occupies first place, followed by Anantapuram, and Chittoor and YSR Kadapa has the lowest no. of units in this region.

#### EMPLOYMENT POTENTIAL OF THE MSME UNITS:

It is a proved fact that MSME are a source of employment, where the agricultural sector is prone to disguised unemployment and marginal productivity of labour is zero. As they produce a wide range of goods in small workshops, engage in trading and retail activities and provide a variety of services, their employment generating potential is higher, particularly for poor people in both rural and urban areas and also for women. One of the best features of MSMEs is that they play a crucial role in providing large employment opportunities at comparatively lower capital cost than large industries and act as ancillary units to large and medium industries.

Based on these proved arguments in favour of generating employment opportunities, an attempt is made to calculate the average employment generated per unit of investment by large and medium industries and MSMEs in Rayalaseema Region. Table.3 provides these comparative figures to present the employment potential of MSMEs in this region.

**Table. 3: Correlation between Investment and Generation of Employment in Rayalaseema Region in Industrial Sector- A Comparison**

Rayalaseema Districts	Average Investment made for the establishment of a unit ( in Rs. Crore)		Employment Generated during 2016-17			
	Large and Medium Industries	Micro, Small and Medium Industries	Large and Medium Industries ( in No.)		Micro, Small and Medium Industries ( in No.)	
			Per Unit	Per Rs. 1 Crore of Investment	Per Unit	Per Rs. 1 Crore of Investment
1. Anantapuram	24.6	0.49	236.6	9.6	8.8	17.9
2. Chittoor	82.0	0.38	589.2	7.2	12.8	33.7
3. Kurnool	33.4	0.27	218.5	6.5	7.7	28.2
4. YSR Kadapa	16.4	0.29	167.4	10.2	7.3	25.0
Rayalaseema Region	33.0	0.36	255.7	7.7	9.2	25.4
Andhra Pradesh	51.3	0.33	257.1	5.0	10.3	31.1

**Source:** Calculated by the authors based on Tables. A.5.34 and A. 6.2 of Socio-Economic Survey-2017-18, pp.294 and 295, Government of Andhra Pradesh, Planning Department.

It is evident from the data presented in Table. 3 that large and medium industries are investment-intensive and MSMEs could be established at a lower amount of investment. The investment requirements in industrial units proved that on an average Rs.33.0 crore are necessary for establishing a large and medium industrial unit in Rayalaseema region, whereas an establishment of a MSME unit requires only Rs. 0.36 crores. In the State of Andhra Pradesh also on an average Rs. 51.3 crore and Rs. 0.33crore respectively are necessary for their establishment.

It is also evident from the data that on an average, a large and medium industry could generate employment for 256 persons and it is 9.2 per a MSME unit. However, when we see the correlation between amounts of investment made in these units, it could be observed that by an investment of Rs.33.0 crore, large and medium industries are generating employment to 7.7 per sons and it is very high at 25.4 persons in the case of MSMEs. Likewise, in Andhra Pradesh, a large and medium industrial unit requires an investment of Rs.51.3 crore to generate employment for 5.0 persons, whereas with an investment of Rs. 0.33 crore, a MSME unit could generate employment for a higher no. of persons, which was estimated as 31.1 persons. These statistical evidence amply proves that MSMEs are the suitable development option for generating employment in the backward and drought-prone regions with less amount of investment.

Viewed from the individual districts in Rayalaseema Region, MSME units in Chittoor district are providing employment opportunities for 33.7 persons with an investment of Rs. 1 crore, followed by Kurnool and YSR Kadapa districts. It is evident that efforts are necessary to improve the employment generating capacity of MSMEs in Anantapuram district, keeping in view the operational and structural features, where the investment remains underutilized. It is also observed that large and medium industries in Kurnool and

Chittoor districts are providing employment to less no. of persons, compared to other districts in Rayalaseema Region. To sum up, MSMEs in Rayalaseema Region are the most suitable and potential industrial activities with less amount of capital to generate employment for higher no. of persons compared to large and medium industries.

#### VISION OF THE GOVERNMENT AND DEVELOPMENT OF MSMEs IN RAYALASEEMA REGION:

The Government of Andhra Pradesh has identified the development of MSMEs is important for enhancing the competitiveness of industrial sector and the A.P. MSME Policy -2015-20 was announced. This policy aims at *“establishing state-of-the-art infrastructure, advancing inclusivity, fostering innovation and creating employment opportunities across different skill sets”*.

#### The MSME Policy-2015-20 targets at:

- Making Andhra Pradesh one of the most preferred destination for MSMEs
- Attracting new investments worth Rs.15,000 crore in the sector
- Creating additional employment for 3, 50,000 people in the sector by 2020.

The Government of Andhra Pradesh has been providing a no. of incentives for the establishment and development of MSMEs in the State. The following are the important incentives provided and efforts made for the development of MSMEs:

- Reimbursement of 100.0 per cent of stamp duty and transfer duty for purchase/lease of land/shed/buildings/mortgages and hypothecations within 6 months.
- Reimbursement of 100.0 per cent of net VAT/GST/SGST for a period of 5 years.
- Supply of power at fixed cost of Rs.1.00 per unit for 5 years.
- Ensuring 24x7 quality and reliable power
- 15.0 per cent subsidy on fixed capital investment
- Deduction of 10.0 per cent of the machinery cost as seed capital assistance to First Generation Entrepreneurs to set up micro enterprises.
- Development of skilled manpower for improving employability
- Reimbursement of 50.0 per cent of the cost involved in skill upgradation and training the local manpower
- Reimbursement of 15.0 per cent of total area of land for MSMEs in any 2 developed industrial parks in every district.
- Provision of 25.0 per cent rebate in land cost and reimbursement of 25.0 per cent of land conversion charges for industrial units.
- Reservation of 15.0 per cent of plots to SC entrepreneurs, 5.0 per cent for ST entrepreneurs and 20.0 per cent for BC and 5.0 per cent for minority entrepreneurs and 10.0 per cent plots for women entrepreneurs of the land reserved for MSMEs.
- Providing assistance by way of 50.0 per cent grant for water audit and Rs. 2.0 lakh for energy audit.
- Providing support to undertake quality improvement interventions.
- Providing 75.0 per cent subsidy on the expenses incurred for quality certification/patent registration.
- Announcing awards for MSMEs at district/state level based on higher growth in production and profit, quality improvement measures, environment improvement measures, innovation and new product/process/technology development, employment generation and innovation and productivity.
- Constitution of A.P. MSMEs Facilitation Council to prevent sickness of MSMEs on account delayed payments by the Government.
- Conducting regular meetings to understand the issues faced by MSMEs and forwarding the issues identified for necessary Government intervention.
- Providing Rehabilitation Package under A.P. SSI Revival Scheme-2006.
- Constitution of Credit Guarantee Fund Trust for MSMEs to sanction collateral free loans up to Rs. 1.00 crore.
- Relief in energy charges
- Facilitating raising funds through SME exchanges as per SEBI guidelines.
- Providing interest subsidy on the term loans taken for fixed capital investment.
- Creation of a fund with Rs.100 crore to support the revival of MSMEs and to create robust ecosystem, enhance market linkages and speedy revival of MSMEs

- Introduction of “Zero Effect Zero Defect Scheme” (ZED Scheme) to sensitize MSME units on improving manufacturing process.

Being supported by the above mentioned incentives, subsidies, facilities and reservations of the Government of Andhra Pradesh, the MSME units operating in Rayalaseema Region have developed in a significant manner. At present ( as on December, 2017), 16,972 units are functioning with an investment of Rs. 6,144crore and providing employment to 1.56 lakh persons in this region as shown in Table. 4.

**Table. 4. Growth and Performance of MSMEs in Rayalaseema Region.**

Rayalaseema Districts	No. of Units		Investment (Rs., in Crore)		Employment (No.)	
	As on Sept. 2015	As on Dec. 2017	As on Sept. 2015	As on Dec. 2017	As on Sept. 2015	As on Dec. 2017
1) Anantapuram	293	4621	152	2291	4133	40566
2) Chittoor	295	4234	303	1611	6834	54340
3) Kurnool	164	5113	96	1392	1574	39269
4) YSR Kadapa	222	3004	129	870	2692	21779
<b>Rayalaseema Region</b>	<b>974</b>	<b>16972</b>	<b>680</b>	<b>6144</b>	<b>15233</b>	<b>155954</b>
Proportion of Rayalaseema Region in Andhra Pradesh	20.1	21.0	18.8	23.0	18.8	18.9

**Source:** Table.A-6.2 and A-6.2 of Socio-Economic Survey-2015-16 and 2017-18 , Government of Andhra Pradesh, Planning Department, pp. 281 and p.295 respectively.

It is seen from the table.4 that the number of MSME units in Rayalaseema Region has increased from 974 to 16,972 as well as the investments made in these units have increased from Rs. 680 crore in 2015 to Rs.6,144 Crore in 2017 and as a result the employment generation capacity of these units has also improved significantly. As on December 2017, the MSME units in Rayalaseema region are providing employment to 1.56 lakh persons, which were only 15,233 persons in 2015.

Measured by the contribution of MSMEs in Rayalaseema region, MSMEs accounted for 21.0% of the total MSME units in Andhra Pradesh, operating with 23.0% of total investments in Andhra Pradesh. Consequently the Rayalseema districts represent a share of 19.0% of total employment generated by MSMEs in Andhra Pradesh. It is evident that though Kurnool district has highest number of MSMEs, with 5,113 units, the MSMEs in Chittoor District 4,234 are providing employment to higher number of persons, and Anantapuram follows Chittoor District in terms of employment generation. Chittoor District among the districts of Rayalseema region, as is evident from the data presented has the high employment generating potential with less capital investment followed by Kurnool district.

## CONCLUSION

In corroboration with the experiences and observations of the both developed and developing countries, it is true that MSME act as vibrant sector, nurturing entrepreneurship and facilitating inclusive growth particularly for women. It is beyond that MSMEs play a key role in generating employment at lower amount of capital particularly in agro-dominant regions, where the irrigation intensity is low and the contribution of large and medium industries is comparatively low. Rayalaseema region of Andhra Pradesh contain the similar economic conditions and are frequently prone to drought, with deficient rainfall almost for every year. The foregoing structural and operational features of MSMEs in Rayalaseema districts, it could be inferred that MSMEs are the best industrial activities that can play a complementary role in their economics and particularly for generating employment opportunities with low capital cost. The committed efforts of the Government of Andhra Pradesh have been instrumental for according their establishment, operation, getting sufficient credit flow and marketing assistance. The research reveals that that there are a number of significant factors hampering MSMEs to grow. The major obstacles are attributed to lack of access to finance, competition, barriers to trade, management competence, lack of skilled labour, low investment in R&D and new technology. An estimated 67% of enterprises remain unserved by the formal financial sector. In spite of designing and implementing a variety of credit-flow strategies, informal finance dominates this sector as 95.0 per cent of it flows from non-institutional sources and it is observed that institutional channels tend to be expensive. Relevant credit deployment efforts are being initiated by the Government of Andhra Pradesh to address this credit gap immediately by the formal financial institutions. Appreciable interventional activities, programmes and facilities offered by the Government of Andhra Pradesh for the rehabilitation of sick units is also providing sufficient philip for the revival and development of MSMEs in Rayalseema districts.

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