

# Improving Ease of Doing Business for Telangana MSME'S: Challenges and Opportunities

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**Abstract-Industrialization is the key method observed for economic growth and development for Telangana as the 29th state of the country. People of the state have very excessive expectations from the Telangana state government concerning the creation of jobs for the adolescents, development of backward regions, maximizing growth opportunities by means of most efficient usage of resources, harnessing the abilities and capabilities of the humans and ushering prosperity in each household. The government of Telangana is decided to create surroundings in which the ease of doing business in the state and even exceeds the best standards globally. Hence this paper shows that, the essential 'EDB' factors regarding MSME sector. This paper seeks to deal with the key aspects relating to the so-known as 'ease of doing business. The Telangana government desires to discover methods to finance the Micro, Small and Medium Enterprises (MSMEs) sector of the state. There exists a problem of lack of credit to the MSME sector because of which a lot of the units come to be turning into unwell. No matter the state having massive potential, there exist numerous gap in making use of the capability because of the lack of suitable help from the banks. The state is that specialize in increasing the industrial output and the MSME sector performs an instrumental function, therefore proper credit and assist from the apex financial institution is should on this regard''.**

**Keywords:** Challenges, Ease of doing business, Industrialization and MSME sector.

## I. INTRODUCTION

The business and capital climate is a key component that determines a state's capability to draw investments. A positive and healthful business enterprise and investment weather is decided by a large number of things which include a legitimate and solid political, economic, prison and regulatory surroundings, supported by means of proper governance, transparency, predictability and financial openness. That is especially important for the development of the Micro, Small and Medium Enterprises (MSMEs). Putting in place and operating a brand new commercial enterprise requires numerous operations A easy, nicely designed and transparent regulatory framework is essential for sporting out business transactions in a quick and effective way. An awesome investment weather is a vital pillar to stimulate economic boom of a rustic, which in turn generates possibilities for more efficient jobs and higher earnings. The important thing to constructing a very good funding weather is to cast off regulatory bottlenecks by using introducing better

laws and obvious processes. In recent years, Telanagna has made terrific strides in its standard enterprise weather and stepped forward it's doing business scores. Ease of doing enterprise is especially essential for MSMEs (Micro, Small and Medium Enterprises) which in turn could spur financial increase and generate employment for tens of millions throughout the country. The MSME sector in India plays a pivotal role inside the usual development and monetary boom of the country. MSMEs contribute round 38% of the countrywide GDP, with manufacturing companies contributing round 7% and service organizations contributing the closing 30%. MSMEs are most important throughout sectors of retail, apparel manufacturing, meals products, and drinks in addition to inns & restaurants. The MSMEs are also well unfolding out with over half of based in rural areas and consequently play a vital role in selling sustainable and inclusive development.

## OBJECTIVES

- Understand the concept of Industrialization
- Significance of Ease of Doing Business
- Growth of MSME's
- Challenges faced by MSME's

## RESEARCH METHODOLOGY

The study is based on the secondary information with the detail of conceptual frame work. The secondary sources are gathered from websites, annual reports, journals and magazines.

## II. UNDERSTANDING INDUSTRIALIZATION

The industrial sector has diversified industrial base with thrust on excessive tech sectors inclusive of Nano-technology, bio-technology and electronic hardware manufacturing. On the center of its policy is production and developing brand Telangana streaming to Make-in – India which contributes round 24% to the state GDP offering employment opportunities to 17.8% of the work force. The industrial boom recorded 9.5% in 2015-16 which hope to reach 10% in the contemporary year and might have exceeded however for the demonetization affecting the maximum of MSMEs. It is vital to notice that

the state has preponderance of the corporate sector 89% of the net value addition is in corporate sector which is the principle to focus on the MSME sector.

Telangana is largely a service based economy with the presence of one of the largest IT/ITeS clusters of India in Hyderabad. This is well complimented by the recent addition of Startup clusters in the state including T-Hub, India's largest incubation centre. Together these have contributed well to the state's service driven economy with an estimated growth rate of 9.2% (constant prices), Telangana has grown at a faster pace than the National Average. Service sector contributes about 60% to Telangana's GSDP. However with increased focus on manufacturing, the scenario is changing fast. The manufacturing sector has grown at 9.5% in 2015-16 which is higher than the corresponding growth rates of 5.8% in 2014-15. Among the various sectors that the government has laid developmental thrust on, manufacturing and its allied sectors have formed a significant part. Telangana, known as the Pharma Capital of India, is now also being recognized for other manufacturing based sectors like Biotechnology, Aerospace, Defence, Automobiles, Auto components, Electronics & IT Hardware among others. The Cluster-based development model adopted by the states has been well received by the investor community. The Pharma City, Genome Valley, Electronic Clusters, Defence & Aerospace zones & ESDM Clusters are a successful outcome of this ingenious strategy. Manufacturing sector is the fulcrum to India's economic revival plan. This sector has historically had a significant role in socio-economic development of several economies like Japan, Korea, China, Germany & USA. The "Make in India" is a mega initiative launched for reviving India's manufacturing base. Telangana's efforts to dovetail this initiative by encouraging "Make in Telangana" through the cluster-led developmental model, further complemented by competitive sector policies and innovative initiatives like the TS-iPASS has led to the much needed surge in investments in the state.

### III. EASE OF DOING BUSINESS

The Golden state of Telangana is compared by Haryana and West Bengal at second and third places respectively in the ranking with a score of 60.48%, leads the race while Haryana and West Bengal scored 53.49% and 43.28%. Odisha and Maharashtra with scores of 42.74 share the fourth place. Andhra Pradesh, which shared the first rank with Telangana last year, slipped to 15th with a score of 13.71. Telangana becoming number one in EoDB in the country, even as India jumped 30 places, to the 100th rank, in the global EoDB. "Hyderabad city also stood second in EoDB city rankings. This year's assessment includes 372 reforms, up from 340 last year. The broad areas of assessment included online single window system, online tax payment, contract

enforcement, paper-less courts, land availability and allotment, obtaining electricity and water connection, tax, labour regulation, construction permits, environmental registration as well as commercial dispute resolution and online systems for property registration. It also included registration and grant and renewal of licence under Factories Act, approval of plan and permission to construct or extend or take int. into use any building as factory, registration and renewal of boilers and compliance inspections under various laws. TELANGANA is home to corporate giants like Facebook, Apple, Microsoft, Google, IKEA, Boeing and Uber amongst others. Ecosystem for growth has stabilized in the State with the Ease of Doing Business getting topmost attention of the Government. The State took pride of place in EODB, ranking number one in the country within just one year graduating from the 13<sup>th</sup> rank. The State is not complacent. It is committed to enhancing the facilitation to entrepreneurs, particularly in the rural areas. The State is predominantly rural and also industrially backward and therefore, it is rightly focusing on the core manufacturing sector. Industrial licenses are cleared the fastest 30 days for MSMEs through TSiPASS and 15 days for the large industries.

Table: Top five States Performance

State	Score (%)	2016	2015
Telangana	98.78	1	13
AP	98.78	1	2
Gujarat	98.21	3	1
Chattisgarh	97.32	4	4
Madhya Pradesh	97.1	5	5

Telangana have created a dedicated body/ bureau as a one-stop system for state level regulatory and fiscal incentive approvals. The Telangana State has made an excellent kick-start for rapid industrialization of the state with due importance to manufacturing sector.

T-Hub is India's largest technology Incubator to promote entrepreneurship in the State. Spread over 70,000 square feet, the start-ups within T-hub include seven specializations- Pintech, Healthcare, Agritech, Smart Cities, Transportation and Logistics, Sustainability and Social tech. TASK - Telangana Academy for Skill and Knowledge, a fust-of-its-kind initiative in the country, imparts fresh graduates with Industry-grade skill sets, both technical and non-technical. Two Electronic Manufacturing Clusters (EMCs) - Located close to the international Airport at eCity and Maheshwaram, the EMCa will attract investments, generate maximum

employment, and account for 6% of the electronics production in the country. GAME City (Canning, Animation, Media & Entertainment Park) - Telangana is home to an industrial park dedicated to gaming and animation industry. It's not a wonder; Telangana is the most sought-after investment destination and has rightfully earned the distinction of being No. 1 in Ease of Doing Business.

#### IV. THE MSME SECTOR

Telangana Micro, Small and Medium Enterprises sector plays an important role in the economic and social development of the state and provide direct employment opportunities to 7,82,406 people, with a vast network of around 69,120 units. Its contribution is immense in terms of direct employment, providing inputs/raw material for other sectors, and export earnings. The State has a land bank of 1.50 lakh acres. TSIIC is in full preparedness to respond to the needs of upcoming MSMEs. The State has planned to facilitate exports through establishment of four dry ports with state of art logistics. Industrial Parks like Textiles in Warangal, IKEA Furniture Park, Plastics Park, Food Park at Buggapadu Sattupalli, Aeropark, and NIMZ are all in the making. It is acutely conscious of the baggage of sickness in MSMEs when the State was formed. Banks have reported to the SLBC around 8000 MSE accounts have fallen sick by August 2016 of which banks report conducting viability studies of 90% of them and found no more than 2% as potentially viable but hardly revived half of them in spite of Master Directions of the RBI. Realizing that the banks have genuine constraints of properly diagnosing and handholding the incipient sick and sick enterprises on one side and to actually do fresh lending to micro manufacturing units, State Government has therefore decided to set up Telangana Industrial Health Clinic Ltd, a NBFC as associate of TSIDC, supported by appropriate Revival and Restructuring Policy. The Clinic also helps those few small enterprises anxious to get into the equity markets with certain support systems. The Corpus Fund proposed, has built in risk balancing mechanisms for ensuring healthy growth of the sector. The MSMEs have sufficient access to capital that is why the initial capital needed for MSMEs to start their own business requires to be decreased. Further for the national and global markets the sector also creates 1.3 million employment opportunities every year and produces more than 8,000 products. As per its new industrial policy, it has initiated several steps to assist the MSME sector like cluster-based approach, which linkages with heavy industries, allocation of plots in Industrial parks and special fund focus on incipient sickness, among others.

Table: Profile of TS-iPASS Progress

State	Score (%)	2016	2015
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Note: Figures in parenthesis indicates % share

The above table provides the information about the categories of MSMEs, the maximum number of industries belong to MSEs (84%) followed by large & mega enterprises (10%) and medium enterprises (6%). 4.6% of investment is in MSE Sector, 92.99% of the investment is in large and mega enterprises sector and only 2.4% of the investment is in medium scale sector. Of the total employment of 2, 20,758 to be generated, 73% are in large and mega industries, 21% in MSEs and 6% in medium sector. This indicates that there is a need to focus on medium enterprises which are labour intensive as they would create greater employment opportunities. On the other hand, it is also paradoxical to note that, the share of MSEs is highest in terms of number of units, but, the share of employment is relatively less than large and mega enterprises.

It is aimed to make Hyderabad the national leader in terms of IT exports and employment. Even while encouraging all existing IT/ITES companies to expand, the policy offers various incentives for new companies to establish their units in the state, especially in Tier-2 cities like Warangal, Karimnagar, Nizamabad, etc. Incentives initiated include construction of IT parks, creation of world-class infrastructure, investment approvals as per the provisions of TS-iPASS, special incentives to set up units at Tier-2 cities, etc. Small and Medium Enterprises (SME) in IT are significant players in the IT services. There are about 500 IT companies in the SME category that collectively employ over 70 per cent of the total IT professionals. Additional incentives are being offered to boost the SME sector in the state, such as: (i) construction of IT towers in Gachibowli/ Madhapur/ Nanakramguda exclusively for SMEs, which can be used as front offices for client interactions and brand building, and (ii) creation of Specialised Financial Instruments to meet the credit needs of the SME sector in collaboration with national and international investment banks, financial institutions and

private equity funds. The state government is encouraging all government departments to use technology-driven solutions for improving governance, for improving the internal efficiency, or to contribute to better delivery of citizen services. For this purpose, the IT department of the State Government is liaising with large IT companies, SMEs, start-ups and entrepreneurs.

Strengths of Telangana based Industries		
Industry	Location	Strength
IT & IITES	Hyderabad	Availability of Infrastructure and manpower
Precision Engineering, Aviation & Defence	Hyderabad Ranga Reddy	<ul style="list-style-type: none"> <li>Anchor industries such as BHEL, HAL, DRDO, DRDL, DMRL, BEL</li> <li>Exclusive Aerospace SEZ</li> </ul>
Pharmaceuticals & Allied Chemicals	Hyderabad, Medak	<ul style="list-style-type: none"> <li>Presence of premium research institutions</li> <li>Strong clustering of pharma</li> </ul>
Biotechnology	Hyderabad, Medak	Genome Valley – the first largest organized Life Sciences cluster in India (spanning 600 sq.km)
Renewable Energy – Solar	Mahboobnagar	TSIIC and JICA set up a 5000 acre solar park

Fig.4.1: Strengths of Telangana Industries

## V. CHALLENGES TO THE MSME

Despite of the government encouragement, promotional industrial policies MSMEs in Telangana are facing several issues like insufficient skilled manpower, optimal scale of operation, obsolescence of technology, inefficiencies of supply chain, increasing domestic & competition from Big organizations, working capital shortages, not getting trade receivables from large and multinational companies on time, change in manufacturing strategies and unstable and disorder market scenario. To continue and compare with huge and international enterprises, MSMEs (Micro Small and Medium Enterprises) need to adopt innovative approaches in their operations with such issues.

## VI. MAJOR INITIATIVES TAKEN BY GOVERNMENT

- In the year 2016, Telangana state was ranked first in Ease of Doing Business with a credit score of 98.78
- TSIIC (Telangana State Industrial Infrastructure Corporation) developed the total number of Industrial Parks is 116, and also sanctioned land for 500 industries with an capital of Rs. 1,000.00 crore and employment opportunities direct & indirect to nearly 50,000 people. TSIIC (Telangana State Industrial Infrastructure Corporation) is assisting in moving all polluting industries from in and out of 'Outer Ring Road'.
- Pharma City is being evolved across 8,200 acres and 6,300 acres of land is in possessed by TSIIC and obtain of remaining land is predicted to be completed shortly.
- Expansion of Genome Valley, which is over 200 companies, is being more than 2 Mn Sq. ft. of laboratory or incubation space in partnership

with IKP Knowledge Park and MN Park. Medical Devices Park is being developed approximately 250 acres at Sultanpur.

- In the year 2017-18 the state government has allocated a budget of Rs. 12, 00.00 cr to the Textiles sector, comprising of Rs. 373.00cr for Handlooms and Rs. 827.00 cr for Power looms and Industrial Textiles for geo-tagging, modernization of power looms and other schemes.
- Mineral Department achieved revenue of Rs. 3,169.00 CR, which becomes 103% of the desired target and attained a boom rate of 34%, which is maximum among all states. Sand revenue was about Rs. 419.00cr, displaying a growth of more than 100 folds over Rs. 10.00cr revenue before division of state.
- Ministry of Road Transport and Highways (MRTH) have initiative for development of Multi-Modal Logistics Park (MMLP) as a key routes connected by National Highways to enhance logistics efficiency.
- During the year 2014-15 & 2015-16 the State Government has announced a budget of Rs. 12.00 cr towards Farm Mechanization and the Central-State schemes were launched successfully such as Macro Management Mode in Agriculture, Seed Village programme, National Food Security Mission, Drip Irrigation scheme and Farm Mechanization in sugarcane Other new developments such as Kakatiya Integrated Mega Textiles Park, Sircilla Apparel Park, and four Mega Food Parks at Nizamabad, Gadwal, Khammam, and Sangareddy are coming up.
- Telangana is one of the destinations as major companies are choosing for establishing their Centres of Excellence which are expanding their operations. Several MoUs were signed including with IV2 Alliance, Aerocampus Aquitaine, Airbus, CONCOR & NHAI, DP World, Ashok Leyland, ZF Friedrichshafen, Shaktimaan, Johnson & Johnson. Mahindra Automotive, Rane Brakelinings Ltd., Ace Tyres, HSIL, and Monginis Foods are ready to expand and invest in their various facilities in the state. Pharma attracted total investments of Rs. 2, 15,318 Lakhs during the year.

## VII. CONCLUSION

“Industrialization is the key strategy followed for economic growth and development for Telangana, the 29th state of the country”. The main objectives of the industrial policy are the creation of jobs for the youth, promoting development of backward areas, maximizing

growth opportunities by optimum utilization of the available resources, harnessing the talents and skills of the people and ushering prosperity in every household. It also succeeded in creating a peaceful, secure and developing business regulatory environment. The fact that Telangana State ranked 'number one' in Ease of Doing Business reflects the commitment and dedication of the officials in making Telangana an attractive investment destination. The above provided information helps us to understand the overview of MSME and it plays a vital role to every nation's economy. Even MSME are providing so many benefits (productivity, employment) to the society/economy its facing various challenges from the Corporates, MNCs etc. The Telangana State Government welcomes industrialists, investors and entrepreneurs to this new State and promises to fulfil their expectations both in letter and in spirit as espoused in the new Industrial Policy.

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