Impact of Investment on Employment Generation by MSMEs in Bihar

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Abstract:

The paper discusses MSMEs as a potential growth engine and investment destination, as well as the positive spillover effect on their various performance criteria. For the formation of the outcome, the study makes use of secondary data accessible from the government of Bihar and government of India. The study's findings demonstrate a substantial association between investment in MSMEs and employment generated. According to the study, Bihar can increase the standard of living of the people through prospective investment, which would improve its overall performance.

Keywords: Investment, Employment, MSMEs, Problems

INTRODUCTION

An investment in MSMEs is a fuel as it will ultimately shift Bihar on the path of quick development along with improvement in the standard of living of the people by creating sufficient employment. It will make the state and its citizens self-sufficient in all ways. It is evident from the fact that MSME, after agriculture, not only creates the second-largest number of employment opportunities in India, but also aids in the industrialization of rural and underdeveloped areas, thereby reducing regional inequalities and ensuring a more equitable distribution of national income and wealth (Annual Report 2020-21 – MSME). Hence, Bihar can become self-sufficient in terms of providing employment opportunities and a prospective investment destination, which would improve its overall performance in the MSME sector.

BIHAR INDUSTRIAL AREAS- The Bihar Industrial Area Development Authority (BIADA) was established in compliance with the legal provisions of the Bihar Industrial Area Development Act, 1974, to oversee the planned development of Industrial Areas, the promotion of Industries, and other relevant matters. Nine Cluster Offices monitor 74 Industrial Areas (IA)/ Industrial Estates (IE)/ Large Industrial Estates (LIE)/ Growth Centres (GC)/ Mega Industrial Parks (MIP) spread throughout 31 Districts.
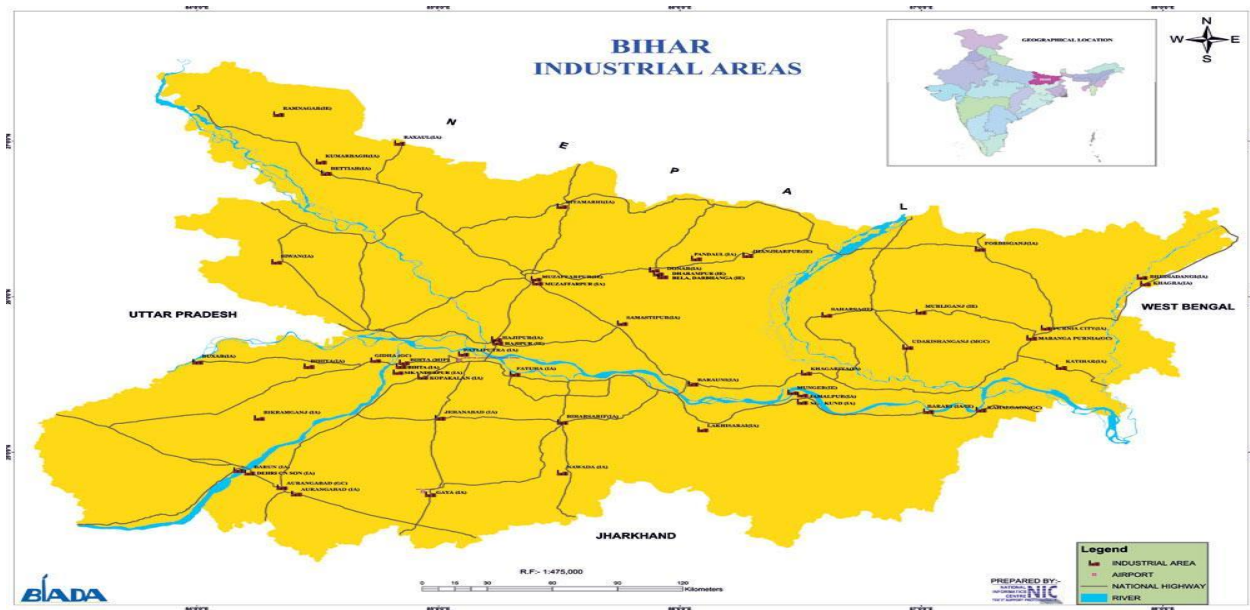
MSME REDEFINED

MSMEs have been redefined based on investment limits and turnover size, as shown in the table below.

CRITERIA	2006 ACT		2015 BILL		2018 BILL	CABINET (JUNE 2020)	
	Investment		Investment		Turnover	Investment	Turnover
TYPE	Manufacturing	Small	Manufacturing	Small	Both	Both	
MICRO	<Rs 25 lakh	<Rs 10lakh	<Rs 50 lakh	<Rs 20 lakh	<Rs 5 Cr	<Rs 1 Cr	<Rs 5 Cr
SMALL	Rs 25 lakh -Rs 5 Cr	Rs 10 lakh- Rs 2 Cr	Rs 50 lakh- Rs 10 Cr	Rs 20 lakh – Rs 5 Cr	Rs 5 Cr- Rs 75 Cr	Rs 1 Cr – Rs 10 Cr	Rs 5 Cr- Rs 50 Cr
MEDIUM	Rs 5Cr- Rs 10 Cr	Rs 2 Cr- Rs 5 Cr	Rs 10 Cr – Rs 30 Cr	Rs 5 Cr – Rs 15 Cr	Rs 75 Cr- Rs 250 Cr	Rs 10 Cr- Rs 15 Cr	Rs 50 – Rs 250 Cr

LITERATURE REVIEW:

In a study by Mr. Pankaj Kumar, 2014 has quantified and compared MSME performance variables between the pre and post-liberalization periods, as well as to look at how the variables are related to one another and how they work together(Kumar,2014).

The current study deals with the growth and effectiveness of Micro, Small, and Medium Enterprises in the Bihar economy. The CAGR method's findings show that while the number of MSME units in Bihar improved during the study period, the annual percentage growth rate steadily decreased in the years that

followed, while employment experienced negative growth for the same time period (Bishwajeet Prakash, 15th April, 2019).

An attempt has been made to analyse regional trends in the financing and expansion of MSMEs in India. To make some inferences about the current growth trends of the MSME units, secondary data from various government sources is used. The performance metrics of MSMEs are quantified using correlation analysis and chi-square tests (Smita Mohapatra, November, 2020).

To the best of author's knowledge, there exists a literature gap in the studies related to employment generation through investment in MSME sector in Bihar during 2021.
OBJECTIVES:
The research work has been done with the following objective:
1. To study the relationship between employment generated and investment done in MSME sector of Bihar.
2. To see whether the investment in MSMEs is increasing employment in Bihar.
3. To study the problems faced by MSME sector in Bihar.

HYPOTHESES:
H_0: A positive relationship does not exists between employment generated and investment in MSME of Bihar (H_0: $\beta_2 = 0$)

DATA METHODOLOGY
We have randomly collected 60 samples out of the population of 25052 data entries from the district wise report of Udyog Mitra, Government of Bihar, Patna. Employment generated in MSMEs act as Dependent Variables (Y) and independent variable in the study is investment in MSME sector in Bihar. All the data manipulations, data analysis and hypothesis testing has been done through **SPSS Software (IBM SPSS Statistics 28.0.0.0).**

STUDY DESIGN
This research has been done under the following study design. The model has been formulated under the hypothesis:
H0: $\beta_2 = 0$
H1: $\beta_2 \neq 0$
Where, β_2 denotes the estimated effect of investment in the MSME sector on employment generated by the MSME sector.
The model can be specified as under

$$Y_i = \beta_1 + \beta_2 X_i + \Omega + U_i \qquad \qquad \ldots\ldots(i)$$

Y= Employment generated in MSME sector
X= Investment in MSME sector
The estimated regression equation for the above model can be written as: $\widehat{Y}_i = \widehat{\beta_1} + \widehat{\beta_2}X_i$ …(ii)

RELATIONSHIP BETWEEN INVESTEMENT AND EMPLOYMENT GENERATED BY MSME SECTOR

Table 1: Primary Data for Investment and Employment in MSME sector

S.No.	Investment	Employment	S.No.	Investment	Employment	S.No.	Investment	Employment
1.	5	6	21.	55	15	41.	628	75
2.	538.41	9	22.	105	9	42.	5.2	10
3.	1	2	23.	95	9	43.	0.14	2
4.	1150	108	24.	3.04	4	44.	4.5	8
5.	735	28	25.	12	2	45.	1300	22
6.	20	50	26.	26	8	46.	10	4
7.	642	54	27.	3.07	8	47.	12	4
8.	1000	50	28.	11.40	8	48.	20	3
9.	11	3	29.	4	3	49.	46.16	64
10.	250	10	30.	30	10	50.	37	11
11.	576	55	31.	14	7	51.	1000	89
12.	0.20	2	32.	0.50	7	52.	1000	100
13.	220	43	33.	2.15	2	53.	75	10
14.	1362	180	34.	5	3	54.	81	17
15.	50	15	35.	0.5	5	55.	600	30
16.	48	12	36.	5	8	56.	50	20
17.	729	498	37.	0.12	2	57.	511.06	8
18.	220	15	38.	0.9	3	58.	2000	60
19.	5	1	39.	0.12	3	59.	1200	150
20.	700	40	40.	1250	20	60.	552	50

Source: Primary Data

Fig 1: : Relationship between Primary data of Investment and Employment
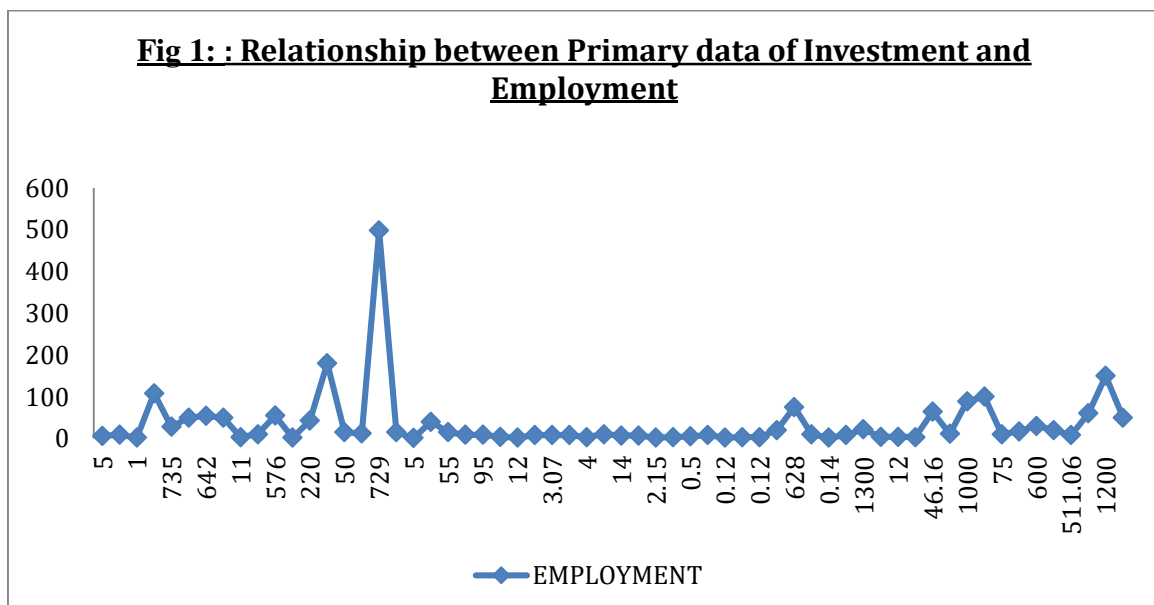
The above table and graph shows that when the level of investment is more, a significant hike in employment is seen. So it can be concluded that there exists a positive relationship between investment and employment in the MSME sector.

HYPOTHESIS TESTING:

The regression analysis has been done to test the significance of the above hypothesis.

Table 2: Correlation between Primary data of investment and employment

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.467[a]	.218	.205	63.36139

a. Predictors: (Constant), INVESTMENT

The above table shows the value of correlation coefficient (R) is 0.467 which is a very strong correlation.

Table 3: Regression analysis between Primary data of investment and employment

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	11.785	9.900		1.190	.239
	INVESTMENT	.071	.018	.467	4.025	.000

a. Dependent Variable: EMPLOYMENT

The regression equation can be formulated by using the above different values:

$$Y=α+βX$$

Where,

Y= Employment of MSMEs

X= Investment in MSME sector

$α$ = constant or intercept term

$β$ = regression coefficient

$$Y= 11.785+0.071X$$

The above equation shows that when X=0, the value of Y will be 11.785 and with one unit increase in investment (X=1), the Employment (Y) will be increased by 0.071 units. The value of t is 4.025 which is much greater than 1.96 showing a significant value and the value of F is 16.202.
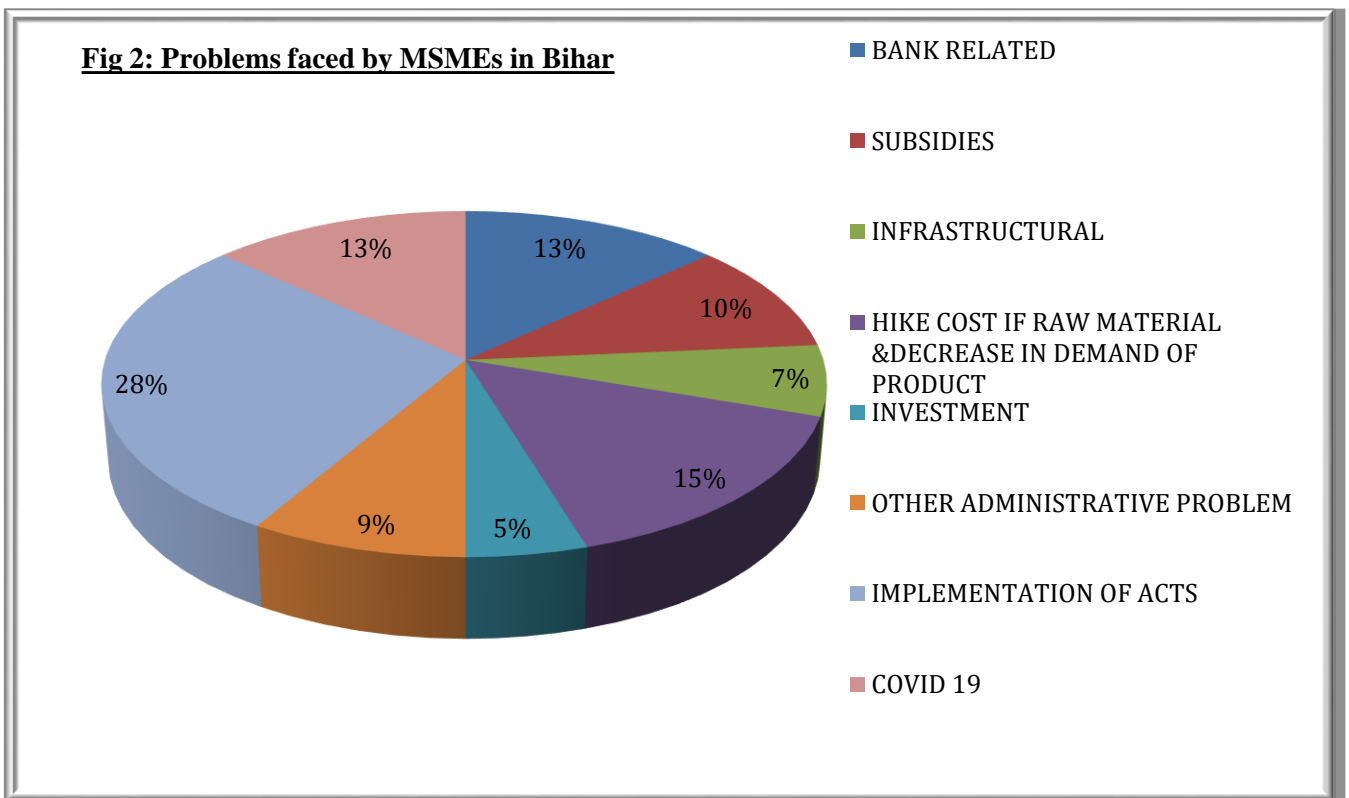
PROBLEMS FACED BY MSME SECTOR

The problems faced my MSMEs is divided into four heads namely infrastructural, financial, marketing and administrative problems.

1. **Infrastructural Problems:** There are frequent electricity fluctuations and high electricity charges in Bihar as compared to states like Jharkhand, Bengal and Gujarat. The transportation cost of these industries is also high due to overshooting price again.

2. **Financial Problems:** Various MSMEs are not getting adequate funds and only those MSMEs are funded easily which have given their assets as collateral. The time lag and irregularities in the

disbursement of loans as well as the subsidies and Tax concessions is also a problem. Various certifications and licensing are required which makes the process cumbersome. The foreign investment is also insufficient. The rate of interest charged on business loan is as high as 12-14% due to higher risk involved in these sectors as the NPAs are very high.

3. **Market problems-**The cost of raw materials has been constantly increasing and is not at all reasonable which increases the cost of production which make the product non-competitive in the market as compared to the product of big industries.

4. **Administrative Problems-**Improper implementation of the Industrial Policy 2016 and Udyog Niti 2011 by Government which hinders the growth of MSMEs. Communication gap on the part of government is another problem. Government gives the contractual work to big corporate rather than MSMEs which discourage entrepreneurs. Corruption is prevalent.

PICTORICAL ANALYSIS:

Fig 2: Problems faced by MSMEs in Bihar

- BANK RELATED
- SUBSIDIES
- INFRASTRUCTURAL
- HIKE COST IF RAW MATERIAL &DECREASE IN DEMAND OF PRODUCT
- INVESTMENT
- OTHER ADMINISTRATIVE PROBLEM
- IMPLEMENTATION OF ACTS
- COVID 19

The above figure depicts that the poor implementation of Government policies is seen as a major obstacle in the path of development of MSME sector. The infrastructural problem is pointed out the least as Bihar Government is already investing a huge amount of funds for the infrastructural development of the state. Timely disbursement of subsidies and rising prices of raw materials are other important issues faced by this sector.

FINDINGS:

Table 1 and fig. 1 shows that the regression equation with investment as independent and employment as dependent variable for primary data is found to be as Y=11.785+0.071X. Value of t is 4.025 and that of F is 16.202 (both are significant).

This shows that as investment increases, employment also increases. Thus, the above findings support our null hypothesis, i.e. significant relationship exists between Investment and Employment generated in MSME sector.
Hence we reject the null hypothesis and accept the alternate hypothesis.

RECOMMENDATIONS

The following recommendations regarding MSME sector for achieving the goal of self-reliant Bihar can be stated as follows:

1. Cheaper and proper availability of power supply
2. Consistent and fair price of fuels for transportation to ease the access to market
3. Timely disbursement of committed subsidies
4. Simple procedure for loan
5. Availability of cheaper raw materials
6. Proper communication between the entrepreneurs and government
7. Proper implementation of new and existing policies
8. Fostering an entrepreneurial culture
9. Building research and development institutes

CONCLUSION

MSMEs play a crucial role for improving productivity and increasing the competitiveness necessary for economic growth. There exists a positive relationship between investment and employment in the MSME sector. Turnover is a determinant of a company's performance. It shows the strength of the MSMEs and its present scenario which examines its competitiveness and sustainability in the state. A higher turnover shows that Bihar has huge potential to move on the path of becoming self-reliant. The MSMEs are facing several problems like lack of adequate access to finance, high interest rate on loans, complex procedures, irregular power supply, high collateral requirement, irregular disbursement of subsidies etc. A holistic and integrated focus on building a statewide entrepreneurial ecosystem can enhance Bihar's socio-economic dimension of growth.

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