

Overview and Performance of MSME Sector in India

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ABSTRACT

The Micro, Small and Medium Enterprises (MSMEs) sector is highly vibrant and dynamic sector of the Indian economy. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and contribute enormously to the socio-economic development of the country. This paper describes the present status of MSME sector of India.

Keywords: MSME, Employment, Enterprises, Development, Entrepreneurs, Performance.

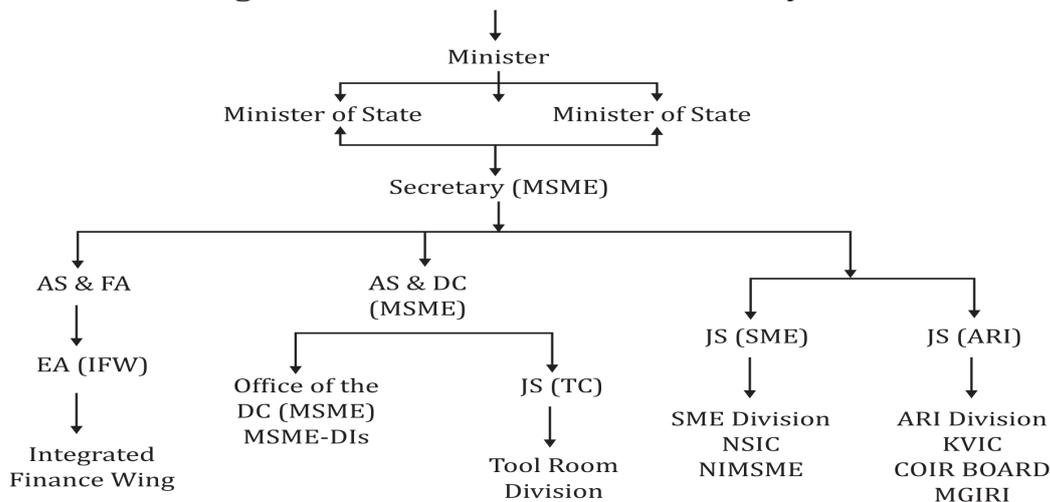
1. INTRODUCTION

The Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating largest employment opportunities at comparatively lower capital cost, next only to agriculture. MSMEs are complementary to large industries as ancillary units and this sector contributes significantly in the inclusive industrial development of the country. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets. An overview of the growth and performance of MSME Sector in the country is provided Ministry of Micro, Small & Medium Enterprises (M/o MSME) envisions a progressive MSME sector by promoting growth and development of the Sector, including Khadi, Village and Coir Industries, in cooperation with concerned Ministries/Departments, State Governments and other Stakeholders, through providing support to existing enterprises, adopting cutting edge technologies and encouraging creation of new enterprises. On 9 May 2007, the erstwhile Ministry of Small Scale Industries and the Ministry of Agro and Rural Industries were merged to form the Ministry of Micro, Small and Medium Enterprises (M/o MSME). The Ministry designs policies, promotes/ facilitates programmes/ projects/schemes and monitors their implementation, with a view to assisting MSMEs and help in them to scale up. The Micro, Small and Medium Enterprises Development (MSMED) Act was notified in 2006 [1] to address different issues affecting MSMEs inter-alia the coverage and investment ceiling of the sector. The MSMED Act seeks to facilitate the development of these enterprises as also enhance their competitiveness.

This sector has the ability of reduction of regional disparity through income generation, creates employment opportunities, reduce poverty and above all induce regional development. Apart from creating employment opportunities at comparatively lower cost compared to large industries, it initiate industrialization in less developed areas, minimize regional imbalance and persuade equitable distribution of growth and development. MSMEs are supplement to large scale industries and considered as ancillary to them. MSMEs have the

opportunity of generation relatively large amount income with lower amount of investment. Thus the prime aim of the government was to develop an equitable economic development through relatively less amount of investment also in those areas scope where large scale input is not possible or available. MSME support entrepreneurs for development of existing enterprises and encourage entrepreneurs for new establishment. Knowledge of present status and scenario of MSME in India is very important as economic as well as research point of view. India has a very ancient history of entrepreneurship; it is as old as our civilization of Indus, Vedic and Harappa. India handicrafts, handloom were well acclimatized to the ancient world. Thus, this paper will describe the present scenario of MSME in India. The primary responsibility of promotion and development of MSMEs is of the State Governments. However, the Government of India, supplements efforts of the State Governments through various initiatives. The role of the Ministry of MSME and its organisations is to assist the States in their efforts to encourage entrepreneurship, employment and livelihood opportunities and enhance the competitiveness of MSMEs in the changed economic scenario.

Organisational Structure of the Ministry



2. OBJECTIVES AND RESEARCH METHODOLOGY

The present paper focus on the following:

- To analyse the performance and growth of MSMEs.
- To understand the role and performance of MSMEs in Indian economy.
- To find out nature of MSME in terms of output and employment generation.

Only secondary data is taken into consideration for purpose of the study. The relevant secondary data is collected from the publication of Ministry of Micro, Small and Medium Enterprises, journals, Government of India, published by Reserve Bank of India and Handbook of Statistics on Indian Economy.

3. DEFINITIONS OF MICRO, SMALL AND MEDIUM ENTERPRISES

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified as below [2]:

Manufacturing Sector		Service Sector
Enterprise Category	Investment in plant & machinery	Investment in equipment
Micro Enterprises	Upto 25 lakh Rs.	Upto 10 lakh Rs.
Small Enterprises	Above 25 lakh & Upto 5 crore Rs.	Above 10 lakh & Upto 2 crore Rs.
Medium	Above 5 crore & Upto 10 crore Rs.	Above 2 crore & Upto 5 crore Rs.

4. OVERVIEW OF PERFORMANCE OF THE MSME SECTOR IN INDIA

The Micro, Small & Medium Enterprises (MSMEs) have been contributing significantly to the expansion of entrepreneurial endeavours through business innovations. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets. We can describe the growth of msme sector from the following data tables which are taken from the MSME annual report and other official report

Table 1 Contribution of MSMEs in Country's Economy at Current Price

Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (in %)
2011-12	2583263	-	8106946	31.86	8736329	29.57
2012-13	2977623	15.27	9202692	32.36	9944013	29.94
2013-14	3343009	12.27	10363153	32.26	11233522	29.76
2014-15	3658196	9.43	11481794	31.86	12445128	29.39
2015-16	3936788	7.62	12458642	31.60	13682035	28.77

Source: Central Statistics Office (CSO), Ministry of Statistics [3].

The contribution of Manufacturing MSMEs in the country's total Manufacturing GVO (Gross Value of Output) at current prices has also remained consistent at about 33%, i.e. one third during the last five years.

Table 2 Estimated Numbers of MSMEs (Activity Wise)

Activity Category	Estimated Number of Enterprises (in lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	114.14	82.50	196.65	31
Trade	108.71	121.64	230.35	36
Other Services	102.00	104.85	206.85	33
Electricity*	0.03	0.01	0.03	0
All	324.88	309.00	633.88	100

During 2015-16, there were 633.88 lakh unincorporated non-agriculture MSMEs in the country engaged in different economic activities (196.64 lakh in Manufacturing, 230.35 lakh in Trade and 206.84 lakh in Other Services and 0.03 lakh in Non-captive Electricity generation and Transmission.

Table 3 Distribution of Enterprises Category Wise (Numbers in lakhs)

Sector	Micro	Small	Medium	Total	Share (%)
Rural	324.09	0.78	0.01	324.88	51
Urban	306.43	2.53	0.04	309.00	49
All	630.52	3.31	0.05	633.88	100

*MSMEs are growing in urban as well as in rural areas of India.

Table 4 Percentage Distribution of Enterprises in rural and urban areas. (Male/ Female ownership category wise) (in %)

Sector	Male	Female	All
Rural	77.76	22.24	100
Urban	81.58	18.42	100
All	79.63	20.37	100

*Out of 633.88 lakh MSMEs, 608.41 lakh (95.98%) MSMEs were proprietary enterprises [4].

There has been overwhelming predominance of male owners in proprietary MSMEs. As per the ownership Male were 79.63% and female were 20.37%.

Table 5 Percentage distribution of Enterprises by Male/Female Owners (in %)

Category	Male	Female	All
Micro	79.56	20.44	100
Small	94.74	5.26	100
Medium	97.33	2.67	100
All	79.63	20.37	100

*In all categories male dominance over ownership is reflected.

Table 6 Percentage Distribution of enterprises by social group of owners (in %)

Sector	SC	ST	OBC	Others	Not known	All
Rural	15.37	6.70	51.59	25.62	0.72	100.00
Urban	9.45	1.43	47.80	40.46	0.86	100.00
All	12.45	4.10	49.72	32.95	0.79	100.00

*Micro sector had 66.42% of enterprises owned by socially backward group, whereas small and medium sectors had 36.80% and 24.94% of enterprises owned by socially backward groups respectively.

Table 7 Total Employment provided by MSME sector (Numbers in lakhs) [5]

Year	Employment (in lakhs)	Year	Employment (in lakhs)	Year	Employment (in lakhs)
2006-07	805.23	2009-10	921.79	2012-13	1061.40
2007-08	842	2010-11	965.15	2013-14	1114.29
2008-09	880.84	2011-12	1011.69	2014-15	1171.32

*Employment provided by the msme sector is increasing year by year.

5. GROWTH OF THE MSME SECTOR

Comprehensive information on the MSME Sector can be obtained from both Fourth all India MSME Census was held in 2006-07 and the NSS 73rd Round (2015-16). Being held almost 10 years time gap, a comparison of the two sets of results can capture the growth of the basic parameters of the MSME Sector over a decade.

Table 8 Growth of MSMEs (Figures in lakhs) [6]

Parameter	NSS 73 rd Round, 2015-16	Fourth All India Census of MSMEs, 2006-07	Annual Compound Growth Rate (%)
No. of MSMEs (Total)	633.88	361.76	6.43
Manufacturing	196.65	115.00	6.14
Services	437.23	246.76	6.56
Employment (Total)	1109.89	805.24	3.63
Manufacturing	360.42	320.03	1.33
Services	749.47	485.21	4.95

Service includes Trade, Electricity & Other Services.

6. PROBLEMS OF MSME

The small-scale and cottage industries face a number of problems. As a result, many small-scale units turn sick and a large number have to close down. The following are the main problems that the small-scale units have to face.

6.1. Finance and Credit: The scarcity of finance and credit is the main obstacle in the development of MSMEs. The position of cottage and village industries in this regard is even worse. The capital base of the small industrial units is usually very weak since they generally have partnership or single ownership. The artisans or craftsmen running cottage industries either run their business with whatever little capital they possess or take credit from the mahajans or the traders who supply raw material to them. In many cases, such credit is obtained on a very high rate of interest and is thus exploitative in character.

6.2. Infrastructural constraints: In their survey of 1,063 firms, Keshav Das and Sebastian Morris [7] found that as many as 716 firms (or more than 67 percent) said that they faced significant infrastructural problems. This is very large and confirms the well recognized and popular conceptualization that many productive activities are being constrained by inadequate physical infrastructure. The most severe constraint is power. Captive generation at reasonable cost is out of question for small firms. Therefore they have to depend on State electricity boards for meeting their requirement which do not supply regular and adequate power. Moreover, because of rampant corruption, many small-scale industrialists are forced to make private deals with the electricity officials; otherwise they face a danger of tampering with their meters by the electricians. Transportation and communication infrastructures are also universal constraints. In many SSI units (particularly those relating to beverages, tobacco and related products, printing and publishing, basic chemicals, paints and varnishes, and drugs and medicines), water supply is fast emerging as an important infrastructural constraint.

6.3. Inverted tariff structure and raw material availability: As noted earlier, small-scale industries contribute significantly to the export earnings of the country. Many of these industries use imported raw material and intermediate goods. According to Sebastian Morris, despite import liberalization during 1990s, the tariffs on materials like steel, copper, and many non-ferrous metals, plastics, many chemicals, paper etc.

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6.4. Machines and other equipment: Machinery and other equipment in many small industries have grown obsolescent. On account of this reason while their costs of production are high, the quality is inferior as compared to the large-scale units. Moreover, the small-scale units often do not care about the changing tastes and fashions of the people. Accordingly, modernization and rationalization are urgently required in small-scale industries.

6.5. Problems of marketing: One of the main problems faced by the small-scale units is in the field of marketing. These units often do not possess any marketing organization and consequently their products compare unfavourably with the quality of the products of the large-scale industries. Therefore, they suffer from a competitive disadvantage vis-à-vis large-scale units. Because of the shortage of capital and financial resources, these units do not have adequate „staying capacity“ and are often forced to sell their products at unremunerative prices.

6.6. Adverse effects of economic reforms and globalization: The decade of 1990s was marked by considerable deregulation of industrial economy through delicensing and dereservations, opening up“ the industrial sector to internal and external competition, lowering of tariffs, removal of quantitative restrictions etc. These reforms have had an adverse effect on the small-scale sector. Cheaper and better quality imported goods are posing a serious threat to small scale units operating in various industries like chemicals, silk, auto components, toys, sports goods, footwear etc. The most serious threat is being posed by cheap Chinese imports as the so called “China price“ (which is a rock-bottom price) is forcing many small-scale units to close down.

6.7 Extreme competition: The MSMEs face ruthless competition from the large domestic firms and multinationals armed with improved technology, managerial ability, skilled workers, marketing skills, better product quality, and wide range of products. The small firms find it difficult to maintain their existence as the cases of merger and acquisition are continuously increasing. Poor Technology Base: There exists considerable heterogeneity among the MSMEs in India. A small percentage of firms operate with sophisticated technology base whereas majority of firms use outdated technology. They suffer from low productivity and poor product quality. Due to their small size, they cannot enjoy large-scale production economies.

6.8 Lack of Skilled workers: Though India has no shortage of human resource, most of them are unskilled workers. Large firms pay higher remuneration and employ skilled workers. The MSMEs have to operate with unskilled or semi-skilled workers. Thus, the MSMEs suffer from low managerial capabilities.

6.9 Delayed payments: The small firms find it difficult to recover their dues from the large firms and even from Govt. departments due to complex payment procedure and corruption. Due to lack of funds, they cannot employ credit collection machineries (like factoring services). The large firms force them to offer long credit period and even pay advance to ensure timely supply of materials.

6.10 Gradual withdrawal of Reservation Policy: Reservation Policy, introduced in 1967 emphasized that some products would be earmarked for exclusive production by the small enterprises and Non-MSME units can undertake manufacture of reserved items only if they undertake 50 percent export obligations. Withdrawal of reservation policy allowed MNCs and large domestic firms to produce reserved items without any restrictions and increased the degree of competition for the small firms. However, Several Expert Committees like Abid

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Husain (1995), Shri T.S. Vijayaraghavan (1997), Confederation of Indian Industries (CII) (1997) etc concluded that reservation policy is no longer helpful for MSMEs as MSME units with no reservation facility have performed better than those units with reservation support. Moreover many MSMEs do not produce the reserved items and many MSME Entrepreneurs do not consider it a relevant policy.

7. CONCLUSION

MSME is in the real sense is the engine of economic growth of any country both developed and developing but specially developing countries. The overall performance and contribution of small scale industries to Indian economy is described in terms of its absolute growth in units, employment, production and exports. The MSMEs Development Act of 2006 [1] perhaps is the most crucial of these recent policy changes. The formulation and implementation of policies and programmes/projects/schemes for MSME sector is undertaken by the Ministry with the assistance of its attached and autonomous organizations. The growth of small scale industries can be evaluated on the growth rates of units, Employment, output and exports of Small scale industries in 2013 with that of 1990s. At the same time MSMEs sector faced Key Challenges like as Lack of availability of adequate and timely credit, High cost of credit, Collateral requirements, Limited access to equity capital, Procurement of raw material at a competitive cost, Problems of storage, designing, packaging and product display, Lack of access to global markets, Inadequate infrastructure facilities, including power, water, roads, Low technology levels, Lack of skilled manpower for manufacturing, services, marketing, etc. Despite the various challenges it has been facing, the MSME sector has shown admirable innovation, adaptability and Resilience to survive the recent economic downturn and recession. The small scale sector has grown rapidly over the years. The period of liberalization and the development the MSMEs sector constituted an important segment of our economy. MSMEs are a very important segment in the Indian industrial sector and would continue to play a crucial role in the Indian Economy in the future. A rewarding feature of economic development in India is due to impressive growth of modern MSMEs.

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