

# A Study on Micro, Small and Medium Enterprises (MSMEs) in India: Status and its Performance

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**Abstract:** - The Micro, Small & Medium enterprises (MSMEs) is one of the most vital sectors of any economy in general and India in particular in ensuring equitable, inclusive & employment friendly economic growth. This sector also plays very important role in socio-economic development of Indian economy on account of their inherent advantages like low capital requirement, high employment generation, decentralisation of industrial activity, utilization of locally available resources and widening of entrepreneurial base. MSMEs has performed exceedingly well and enabled the country to achieve a wide measure of industrial growth and diversification over five decades.

In this paper an attempt has been made to analyze the performance of the MSME sector and will touch upon, in brief, some of the various measures in recent times undertaken by Government of India and SIDBI to advance this vibrant and booming sector. The paper also discusses the present status of MSME sector and its performance. The study highlights the major challenges faced by MSMEs sector in Indian economy along with its policy implication. Different methodologies have been used to satisfy the various objectives of the study. Secondary data has been analyzed to study the MSMEs sector and its performance in India. A number of literatures have reviewed to understand the major advantages and the challenges of MSMEs sector in Indian economy so far.

Finding and analysis justifies that the MSMEs sector as whole is the engine of growth for India economy. The study reveals that there is an increasing pattern in the number of units, employment, market value of assets. It is significant to note that there exist high degree of relationship between the total factory unit and employment. The study analysis has found that MSMEs has exhibited a good performance in recent years. However at the same time its challenges are also not ignored. The role of MSMEs sector is growing rapidly and they have become a thrust area for future growth for rural and urban development and its economic upliftments have a lot of policy implication.

**Key words:** MSMEs, Small Scale Industries (SSI), industrial sector, Employment and Indian Economy, CAGR

## I. INTRODUCTION

It is internationally recognized that MSMEs are the backbone of the economy. Their contributions range from boosting economy and exports to providing productive employment and addressing the various socio-economic gaps specific to a developing nation. As a legacy of Gandhian philosophy in India, since independence MSME sectors have played an important role in the economic development of the country. Especially since the commencement of planning for

economic growth, adequate emphasis has been given on the development of MSMEs by policy makers, politicians and the intelligentsia alike (Gupta, 2006; Banerjee, 2005). The importance of MSME sector can be seen by the fact that it accounts for 95% of industrial units, 40% of value addition in manufacturing sector and 30% of export. Along with Gujarat, Maharashtra, Haryana and Tamilnadu have been a front runner in the industrial development.

The micro, small and medium enterprises have lent a major hand in catapulting India to the position of one of the fastest growing world economics. 45% of the country's manufacturing output and almost 40 of its export comes from the sector. More important in this age of inclusion centric mantra is the fact that MSMEs generate huge employment – the present figure is around 42 million and can promote balanced regional development along with a more equitable distribution of wealth.

## II. REVIEW OF LITERATURE ON MSMEs

The comprehensive literature demonstrates that MSMEs are necessary for sustained economic growth and development of any economy including India. To justify the need of present study, following literature has been reviewed:

**MSME (2009-10)** the main criteria that predominate to define the MSMEs sector are the number of employees, turnover and the balance sheet total.

**UNIDO (1969)** in a study based on evidence from a number of developing countries indicated that small enterprises with a lower level of investment per worker tend to achieve a higher productivity of capital than do the larger, more capital intensive enterprises.

**Mali (1998)** observed that small and medium enterprises (SMEs) and micro enterprises have to face increasing competition in the present scenario of globalization, they have to specifically improve themselves in the fields of management, marketing, product diversification, infrastructural development, technological up gradation. Moreover, new small and medium enterprises may have to move from slow growth area to the high growth area and they have to form strategic alliance with entrepreneurs of neighboring countries. Data bank on industries to guide the prospective entrepreneurs including investors from abroad is also needed.

**Bala Subrahmanya (2004)** highlighted the impact of globalization and domestic reforms on small-scale industries sector. The study stated that small industry had suffered in terms of growth of units, employment, output and exports. The Researcher highlighted that the policy changes had also thrown open new opportunities and markets for the small-scale industries sector. He suggested that the focus must be turned to technology development and strengthening of financial infrastructure in order to make Indian small industry internationally competitive and contribute to national income and employment.

**Bargal et al. (2009)** examined the causal relationship among the three variables GDP, SSI output and SSI exports and also have compared the performance parameters of SSIs in the pre and post liberalization era. The study found that the annual average growth rate of different parameters of SSIs have declined in the period of nineties vis-à-vis the pre-reform years. There is an absence of any lead-lag causal relationship between exports and production in small-scale sector and GDP of Indian economy.

**Dixit and Pandey (2011)** applied co integration analysis to examine the causal relationship between SMEs output, exports, employment, number of SMEs and their fixed investment and India's GDP, total exports and employment (public and private) for the period 1973-74 to 2006-07. Their study revealed the positive causality between SMEs output and India's GDP.

**Singh et al. (2012)** analyzed the performance of Small scale industry in India and focused on policy changes which have opened new opportunities for this sector. Their study concluded that SSI sector has made good progress in terms of number of SSI units, production & employment levels. The study recommended the emergence of technology development and strengthening of financial infrastructure to boost SSI and to achieve growth target.

**Venkatesh and Muthiah (2012)** found that the role of small & medium enterprises (SMEs) in the industrial sector is growing rapidly and they have become a thrust area for future growth. They emphasized that nurturing SME sector is essential for the economic well-being of the nation.

The above literature highlights the various aspects viz. performance, growth & problems of MSMEs in Indian economy and induces for continuous research in this field.

### III. METHODOLOGY

#### *Objectives of the Study*

Looking various aspects of MSMEs sector in India, a study was required to understand the current scenario i.e. how far and to what extent this sector is contributing in economic development of the country. There are various explicit and implicit factors related to this sector. With this backdrop, the objectives of our study had been stated more precisely as follows:

- I. To study the MSMEs sector in India and its performance in Indian economy.
- II. To bring out major advantages, challenges and various schemes of MSMEs sector in India.
- III. To give suggestions to policy makers to improve the performance of MSMEs.

#### *Data collection process*

The present study is exclusively based on secondary data which has been collected from the various issues of Annual Reports on MSMEs and Handbook of Statistics on the Indian Economy published by Ministry of MSMEs, SIDBI website and Reserve Bank of India (RBI) respectively. The study considers the time period from 2006-07 to 2015-16. To examine the performance of MSMEs in India, the available data have been processed and presented in suitable tables.

### IV. MEANING OF MICRO, SMALL AND MEDIUM ENTERPRISE

Micro enterprises are generally artisan-based, located mostly in rural and semi-urban areas. These enterprises use local skills and resources and sell their product locally. These enterprises involve lower level of investment in machinery and provide largely part time employment. They are spread throughout country and include such activities as handlooms, Khadi, sericulture, coir, bidi-making, embroidery, knitting, wood carving and other handicrafts. Small and medium enterprises use power-driven machines and possess some technological sophistication. The market for these industries is relatively wide and quite often includes export market. These industries are generally located close to or in the urban areas including large industrial centres. Their products include hosiery goods, ready-made garments, motor-parts, electronics, sports goods, rubber goods and engineering goods.

The definition of these enterprises has been changed from fixed investment of INR 5 lakh to INR 10 lakh in September 2000 consequent upon the announcement of a comprehensive policy package for the small scale industries and tiny units on 30<sup>th</sup> August 2000. These enterprises are eligible for benefits as admissible to tiny units. In view of the fact that services sector is having the highest rate of growth and contributes about half of the national income and has also emerged as the major employment provider, the enhancement of investment ceiling is a timely action in right direction. Tiny sector now forms the base of the SSI sector as it accounts for 96 percent of SSI units in the country (Pooja, 2009). RBI defines a small scale industries as an industrial undertaking in which the investment in fixed assets in plant and machinery whether held on ownership terms or on lease or on hire purchase does not exceed INR one crore.

### V. MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT (MSMED) ACT, 2006

Background: Prior to the enactment of this act, small industries in India comprised tiny, cottage, traditional, village

and modern small enterprises. These enterprises were fragmented across various ministries/Department of the government of India for the purposes of development schemes and concessions. Sector like handloom, power loom, handicrafts, khadi, coir suffered greater neglect, Micro, Small and Medium enterprises Development Act was enacted on June 16, 2006. This act provides the first ever legal framework recognizing the concept of enterprise (comprising both manufacturing and service entities), defining medium enterprises and integrating the three tiers of these enterprises, namely Micro, small and medium.

**VI. CLASSIFICATION AND DEFINITION OF MSMES**

There is no globally accepted definition of MSMEs. Different countries use different criterion; most are based on investment ceiling and number of people employed. In India, MSMED Act 2006 defines MSMEs. It introduces the concept of enterprises as opposed to the earlier concept of industry. According to the Act, MSMEs are classified in to (a) Enterprises engaged in the manufacturing or production of goods partnering to any industry specified in the first schedule to the industries and (b) enterprises engaged in providing or rendering services.

**VII. MAIN PROVISIONS OF MSMED ACT, 2006**

This legislation for facilitating promotion and development and enhancing the competitiveness of micro, small and medium enterprises became operational from October 2, 2006.

- ❖ The act defines enterprises instead of industry to give due recognition to the service sector.
- ❖ The act defines medium enterprises to facilitate technology up gradation and graduation.

- ❖ Two stages registration process of SSI substituted with optional filling of memorandum with District industry centre’s (DICs) by all micro and small enterprises.
- ❖ Filling of memorandum by medium enterprises rendering services also optional.
- ❖ Filling of memorandum by manufacturing medium enterprises with district industries centres.
- ❖ The act provides statutory basic to procurement preference polices of central and state governments for goods and services provided by micro and small enterprises.
- ❖ It strengthens the legal provisions to check delayed payments to micro and small enterprises.
- ❖ Representative of enterprises Associations included in the MSE facilitation councils for adjudicating on cases of delayed payment.
- ❖ Provision for ensuring timely and smooth flow of credit to MSMEs.
- ❖ All schemes/programmes of assistance to be notified under the act.
- ❖ The act provides for a statutory National Board for Micro, Small and Medium Enterprises to advise the central government on matters under the Act.

In India, the enterprises have been classified broadly into manufacturing and those engaged in providing or rendering of services. These categories of enterprises have been further classified into micro, small and medium enterprises based on their investment in plant and machinery for manufacturing enterprises and on equipment for enterprises providing or rendering services (Development Commissioner of MSME, 2009). The limit for investment in plant and machinery for manufacturing / equipment for service enterprises before and after October 2, 2006 are as under:

**Table 1: Classification of firms Old definition (before October 2, 2006)**

Sector	Micro enterprises	Small enterprises	Medium enterprises
Manufacturing	Up to Rs.25 lakhs	Above Rs. 25 lakhs to Rs. 1 cr	Not defined
Service	Up to Rs.10 lakhs	-	Not defined

**New definition (from October 2, 2006)**

Sector	Micro enterprises	Small enterprises	Medium enterprises
Manufacturing	Up to Rs. 25 Lakhs	Above Rs. 25 Lakhs but does not exceed Rs. 5 Cr.	Above Rs.5 Crores but does not exceed Rs.10 Cr.
Service	Up to Rs.10 Lakhs	Above Rs. 10 Lakhs rupees, but does not exceed Rs. 2 Crores	Above Rs. 2 Crores rupees but does not exceed Rs. 5 Crores rupees

Source: Development Commissioner of MSMEs, 2009

The Micro, Small and Medium enterprise sector has recorded a high growth rate since independence in spite of stiff competition from the large sector and not so encouraging support from the government. Presently, there are around 29.81 million MSMEs in India. The size of the registered MSME sector is estimated to be 1563974. Of the total working enterprises, the proportion of micro, small and medium enterprises are 94.94 per cent, 4.89 per cent and 0.17

per cent respectively. This comprises of 67.10 per cent manufacturing enterprises and 32.90 per cent services enterprises. About 45.23 per cent (7.07 lakh) of the units were located in rural areas. MSMEs are producing wide range of products, from simple traditional crafts and consumer goods to highly sophisticated products like micro-processors, mini computers, electronic components, electro-medical devices etc.

MSMEs are labour-oriented and labour intensive with relatively high labour-investment ratio. A given amount of capital invested in this sector of industries is likely to provide more employment, at least in short run, than the same amount invested in a large industry. It has been estimated that a lakh rupees of investment in fixed assets in the small scale sector generates employment for four persons. It will not be wrong to say that small scale sector in India creates largest employment opportunities for the Indian populace, next only to agriculture.

#### VIII. PRESENT PERFORMANCE OF MSME SECTOR IN INDIA

The small sector has played a very important role in the socio-economic development of the country during the past five

decades. It has significant contribution to the overall growth in terms of the gross domestic product (GDP), employment generation and exports. The performance of the small scale sector therefore has a direct impact on the growth of the overall economy. The MSME sector covers both the registered and informal sectors. The classification of micro, small and medium enterprises at present is based on the criterion of investment in plant and machinery by each enterprise. The study has been carried out to measure the performance of MSME in India for the period 2006-07 to 2015-16 based on four important performance variables like total working MSMEs, employment generation, market value of fixed assets and share of MSME sector in total GDP.

**Table 2: Performance of MSME Sector in India**

Year	Total working MSMEs (Lakh No)	Employment (in Lakh person)	Market Value of Fixed Assets (Rs in crore)	Share of MSME Sector in total GDP (%)*
2006-07	361.76	805.23	868543.79	35.13
2007-08	377.36	842	920459.84	35.41
2008-09	393.7	880.84	977114.72	36.12
2009-10	410.8	921.79	1038546.08	36.05
2010-11	428.73	965.15	1105934.09	36.69
2011-12	447.64	1011.69	1182757.64	37.97
2012-13	467.54	1061.4	1268763.67	37.54
2013-14	488.46	1114.29	1363700.54	30.64
2014-15	510.57	1171.32	1471912.94	30.74
2015-16	633.88	1109.89	1543491.66	28.77
<b>CAGR</b>	<b>5.77%</b>	<b>3.26%</b>	<b>5.92%</b>	<b>-1.98%</b>

Source: MSME Annual Report 2015-16, 2016-17, GoI and \*Central Statistical Office, MoSPI

The CAGR in respect of market value of fixed assets is the highest followed by no of units and employment (Table 2). The study reveals that there is an increasing pattern in the numbers of units, employment, market value of fixed assets. It is significant to note that there exists high degree of relationship between the total MSME units and employment and market value of fixed assets. From foregoing analysis it is seen that MSMEs has exhibited a good performance in the recent years.

MSMEs constitute an important and crucial segment of the industrial sector in Indian economy. By contributing to the overall growth of the gross domestic product, employment generation and exports, the sector is emerged as the engine of growth for Indian economy. The performance of MSMEs has a direct impact on the growth of overall economy. In recent past the prime minister task force on MSMEs and twelfth working group on MSMEs have discussed issues related to the MSME sector. The twelfth five year plan policy

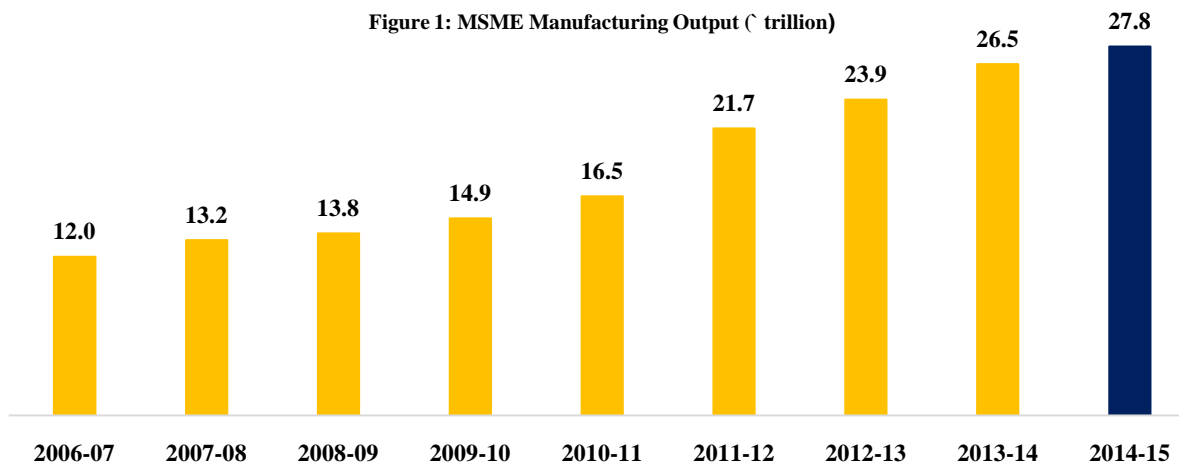
framework is guided by the recommendation of these key committees. The plan covers various aspects of the MSME sector and its key recommendations fall under six board verticals: (i) Finance and Credit (ii) Technology (iii) Infrastructure (iv) Marketing and procurement (v) Skill development and training (vi) Institutional structures. The plan has a separate set of recommendation for Khadi and village industries and coir sector.

#### IX. IMPORTANCE OF MSME SECTOR IN THE COUNTRY

The dynamic MSME sector has its performance interwoven with the development of the country. Their production ranges from small paper pins to tools being used in ISRO's Mangalyan. The scope is that wide and diverse. The sector is the engine for inclusive growth and touches upon the lives of the marginalized- women, SC, ST etc., (Uma Kapila, 2017). Low capital costs and forward and backward linkages with

other sectors make MSMEs critical for the success of Make in India initiative (Economic Survey 2015-16, Volume II). The

manufacturing output of the sector has been increasing continuously (Fig.1).



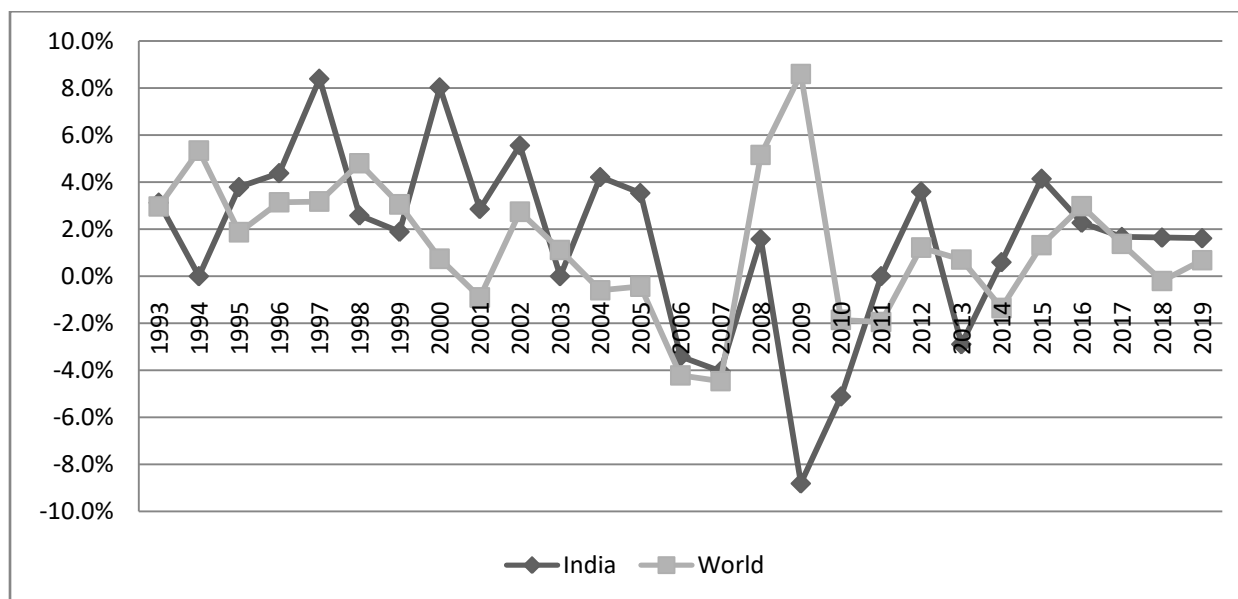
Source: Ministry of MSME Annual Report 2015-16 & 2016-17

Note: Data till 2011-12 is at base price of 2004-05 after which it is at base price of 2011-12

India’s unemployment rate is projected to be constant but higher than the World (Fig.2). MSMEs possess the capability to address this issue of unemployment in the country. The employment intensity of the registered units indicates that an

investment of ₹0.72 lakh is required for creating one employment in MSME sector as against ₹5.56 lakh in the large organized sector. This suggests that MSMEs generate highest employment per capita investment (Uma Kapila, 2017).

Figure 2: Unemployment Growth rate



Source: International Labour Organisation

As per NSS 73<sup>rd</sup> Round, for the period of 2015-16, there are 6.34 crore unincorporated non-agricultural MSMEs in the country, providing employment to 11.1 crore workers

(Economic Survey 2017-18). Calculations based on data collated from various sources indicated that MSMEs account for 22% of employment (Table 3 & 4).

Table 3: Growth of MSME from 2011 to 2016 with respect to Microenterprise type

Type of Micro enterprise	No. of Enterprises in crore		Growth (%)	Employment in crore		Growth (%)
	2011	2016		2011	2016	
Manufacturing	1.72	1.97	14%	3.49	3.60	3%
Trade	2.08	2.30	11%	3.41	3.87	14%
Other Services	1.97	2.07	5%	3.90	3.65	-6%
<b>Total</b>	<b>5.77</b>	<b>6.34</b>	<b>10%</b>	<b>10.80</b>	<b>11.13</b>	<b>3%</b>

Source: NSS-67<sup>th</sup> Round, NSS-73<sup>rd</sup> Round

Table 4: Impact of MSME on Employment Creation from 2011 to 2016

Particulars	Employment (2011)	% to total	Employment (2016)	% to total
Total Employment	45.70	100%	49.48	100%
MSME Employment	10.80	24%	11.13	22%
Agriculture & other Employment areas	34.90	76%*	38.35	78%*

Source: NSS-67<sup>th</sup> Round, NSS-73<sup>rd</sup> Round, International Labour Organisation, World Bank

\* Agriculture accounts for 48% of employment in 2011 and 45% in 2016

X. INTERNATIONAL SCENARIO OF MSMES

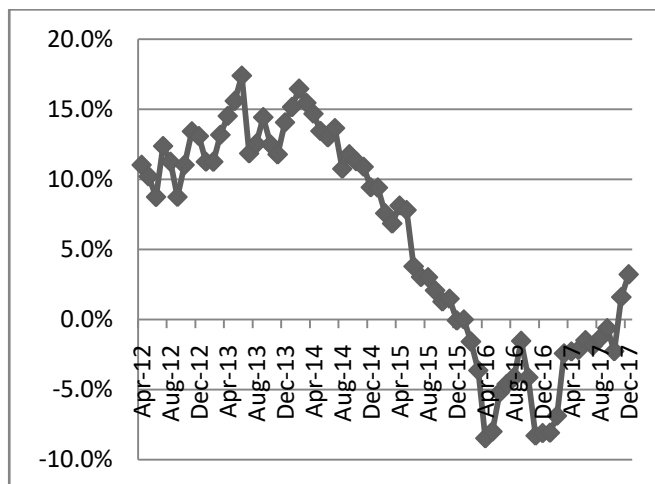
- In Brazil, MSEs contribute 20% to the total GDP and employ 59% of the economically viable population.
- In South Africa, informal and micro enterprises account for 39% of labour force and 24% of GDP, SMEs employ 27% of labour force and contribute 32% to GDP whereas large enterprises employ 34% of people and account for 44% of GDP.
- In Bangladesh, SMEs comprise over 90% of all Industrial units contributing 80%-85% of industrial employment and 23% of total civilian employment generating 75% of the household income in both urban and rural areas.

- In Japan, SMEs employ more than 70% of wage earners, contributing over 55% of value added in the manufacturing sector.
- In China, over 68% of exports come from SMEs. Their numbers increased from about 1 million SMEs in 1990s to 40 million in 2004.
- In India, as stated above, share of MSMEs in employment stood at 22% and in GVA at 32% (Economic Survey, 2017-18).

XI. MSME CREDIT FLOW AND NPA POSITION

Credit flow to MSMEs is witnessing an upswing in the recent months (Fig. 3) whereas the ratio of the outstanding (O/s) of MSMEs to that of O/s to Industries has declined from 31% in 2007 to 18% in 2017 (Fig. 4).

Fig. 3: MSME outstanding Growth



Source: RBI

Fig.4: MSME O/s ratio to Industry O/s

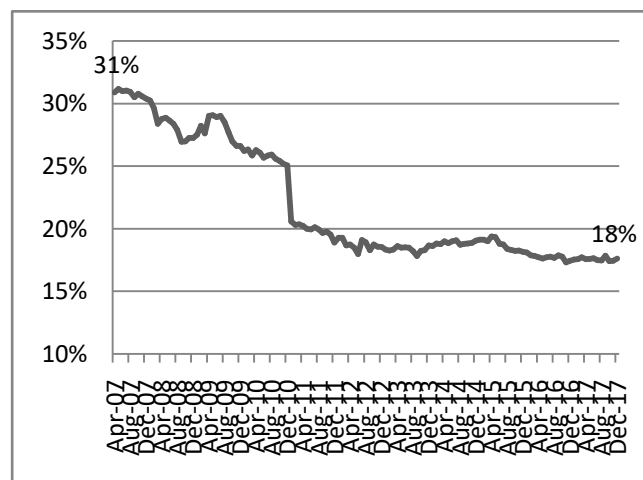
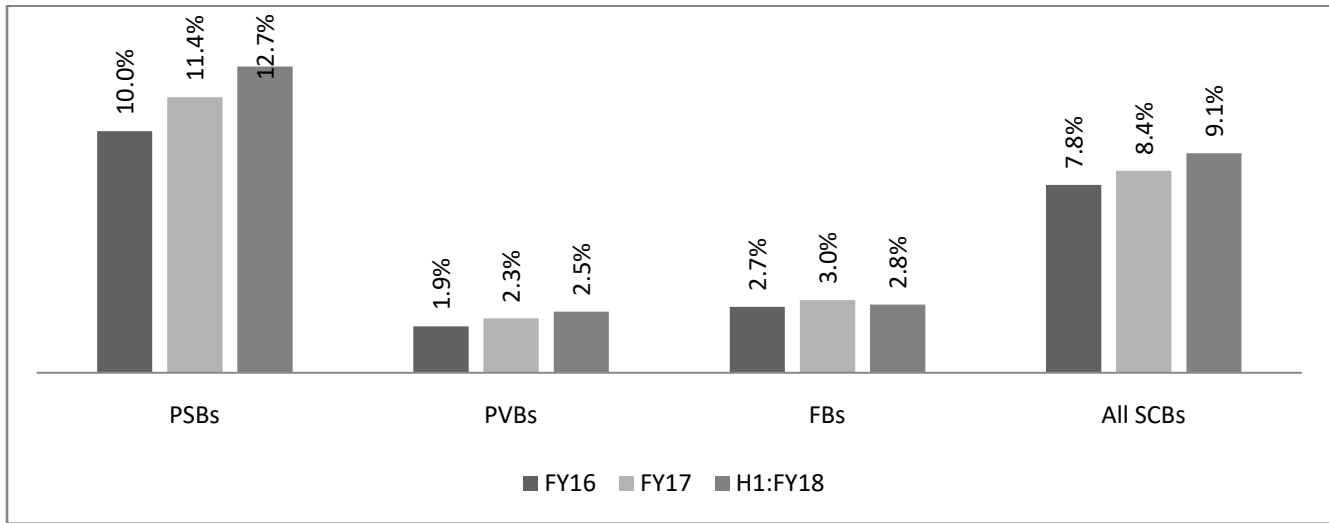


Fig 5: NPA position in the MSE Segment



Source: Ministry of MSMEs, Annual Report, 2017-18, GOI

There has been an increase in the MSE NPA O/s ratio from 7.8% in FY16 to 9.1% in September, 2017. The same may be partly attributed to the increased recognition of bad loans by Banks at large (Fig.5).

There has been a push towards providing finance to MSMEs. With various players coming into picture and increasing their hold viz., differentiated Banks (Small Finance Banks), Fintechs, NBFCs, etc., we may witness an increase in credit to this sector. However, it is crucial that the correct environment for flourishing of MSMEs be created so that the financial assistance to these units give encouraging results and act as a demonstration effect for increasing the credit flow to the sector. Few steps undertaken by GoI and SIDBI, for facilitating the above, is discussed in the next section.

## XII. MEASURES TO BOOST PERFORMANCE AND FINANCE MSME SECTOR

In the Niti Aayog publication of 'Ease of Doing Business- An Enterprise Survey of Indian States' it is mentioned that *"It is the energy of these firms (SMEs) India must unleash to create good jobs for the masses. If the business environment for these firms can be made more competitive and conducive, the vast number of low productivity micro enterprises, which employ a disproportionately large part of India's non-agricultural workforce, will be encouraged to graduate to small and medium enterprise category."*

Various measures have been undertaken by Government of India and development finance institutions, i.e SIDBI to make MSMEs an attractive destination of foreign investment, finance and provide a conducive environment for it to prosper. Some of these are listed below:

- **Make in India-** GoI launched the Make in India initiative in 2014 giving push to manufacturing

activity in the country. With MSMEs contributing to around 45% of the manufacturing output, the Make in India campaign was set to provide a boost to the sector.

- **Recapitalisation of Banks-** The recapitalization package of 2.11 trillion (~1.2% of GDP) for Banks will aid in improving the credit flow to the MSME sector.
- **Revamped Udyamimitra-** It enables MSMEs to get credit and handholding support, promptly, through a digital platform. The reform agenda for Banks 'EASE- Enhanced Access and Service Excellence', focusing on six themes, has PSBs as Udyami Mitraas one of the six themes. Thus, focus has increased to this sector.
- **Increased target of MUDRA-** Budget 2018-19 has increased the target for loans under Mudra scheme to INR 3 lakh crore.
- **Compulsory Registration on TReDS-** In the Budget 2018-19, it was proposed to onboard PSBs and corporates on TReDS platform and link this with Goods and Service Tax Network (GSTN). This will enable financing / factoring of trade receivables of MSME Sellers against Corporate Buyers, Govt. Departments and PSUs.
- **Formalisation through GST-** Formalization in economy has been kicked started with demonetization of Specified Bank Notes and GST. As per the latest Economic Survey, classification based on turnovers suggest that MSMEs account for about 40% of the tax liability and about 31% of the transactions. The formalisation drive will gain more momentum from the Budget 2018-19 announcement of Unique ID for all enterprises, big or small.

- **Change in definition of MSMEs based on Annual Turnover-** With Government planning to change the definition of MSMEs from that based on investment in plant and machinery to that based on annual turnover, we can expect an improvement in Ease of Doing Business for MSMEs.
- **CriSidEx-** An MSE Sentiment Index (current reading of 107), jointly launched by SIDBI and Crisil, will help gauge the perception of the MSEs in the country across several parameters viz., outlook, production, employment, capacity utilization, etc., thus aiding in policy formulation of various stakeholders.

### XIII. ADVANTAGES OF MSMEs SECTOR IN INDIAN ECONOMY

MSMEs have been recognized as engine of economic growth worldwide. In India, MSMEs manufacturing products ranging from handloom sarees, carpets, soaps, pickles, papeds to machine parts for large industries. Not only do MSMEs generate the highest employment per capita investment, they also go a long way in checking rural urban migration by providing villagers and people living in isolated areas with sustainable sources of employment. Among the MSMEs in India, the dispersed food products sector generates maximum employment. MSMEs often act as ancillary industries for the large scale industries providing them with raw materials, vital components and backward linkages.

Ever since the announcement of the industrial policy Resolution of 1948, Small scale Industries have occupied a prominent place in the overall strategy of industrial development in India. Successive five year plan have allocated increasing resources for the development of small industries. In view of the abundance of labour, scarcity of capital and rural nature of the economy, the preference for small industries is natural. The main arguments in favour of small industries are the followings:

**High Employment potentials:** As development in a country takes place, the share of agriculture in providing employment and in GDP decrease. Small scale industries provide maximum employment next only to the agricultural sector. Small industries are generally labour intensive and therefore promise wider employment possibilities for the ever increasing population in India. They are also suitable as a supplementary source of employment for the Indian farmers who remain out of work during lean period of agriculture season. Small industries offer promising opportunities to educated unemployment in the urban areas to become self employment gainfully.

The largest sources of employment after agriculture, MSMEs sector in India enables lakhs of men, women and children living in urban slums, upcoming towns, remote villagers and isolated hamlets to use indigenous knowledge, cultural wisdoms and entrepreneurial skills for the sustain of

their lives and livelihoods. Apart from contributing to national income, MSMEs are instruments of inclusive growth, touching the lives of most vulnerable, the most marginalized women, muslims, schedule caste and schedule tribes. For many families, it is the only source of livelihood. For others, it supplements family income. Thus instead of talking welfare approach, this sector seeks to empower people to break the cycle of poverty and deprivation. It focus on peoples skill and agency.

Different segments of the MSMEs sector are dominated by different social groups. Women are mostly found in the unregistered sector-food processing enterprises, manufacturing enterprises and weaving and often work part time in family enterprises. Women and small children roll bidis, make agarbattis, do zari and sequin work for meager wages. Muslims in large number are found in the unorganised weaving sector and in power looms. STs produce handcrafted articles and are involved in sericulture.

**Widely dispersed entrepreneurial Base:** on the eve of independence, industries in India were located at certain selected places and were managed by a few communities like parsis, marwaris and chatters. The directive principles of Indian constitution prohibit the concentration of economic power in few hands. Small Industries ensures widest possible participation by different regions and different classes in the industrial growth of the country. These industries can be set up easily in any part of the country with modest skills and resources.

**Relatively low capital investment:** As is well known, India is a capital scarce country. One chief criticism of the pattern of industrial development of the last five decades is the undue emphasis on capital intensive large scale industries. It is probably due to this wrong policy that the industrial sector has not been able to generate sufficient employment for the massive work force. Small industries require low capital investment and that too in indigenously produced machines, tools and implements.

**Regional Balance Development:** Balanced development of all the regions of the country is an accepted objective of India's five year plans. Many districts of the country, particularly in tribals and hilly areas have remained industrial undeveloped/underdeveloped as compared to certain other regions of the country. It may not be feasible to set up modern large-scale industries in backward areas. Therefore, these areas can be developed through a network of cottage and small industries.

**Export Potentials:** MSMEs dominate in exports of sports goods, readymade, garments, woollen garments and knitwear, plastic products, processed food and leather products. It is interesting to note that handicrafts have emerged as leading revenue earning items in India's export. There is tremendous potential to expand the quantum of exports from traditional MSMEs because they are handcrafted and hence eco-friendly and exclusive. Further, while MSMEs are unable to take



advantage of economic of scale, they are ideal for meeting small order quantities, a bonous in industries like readymade garments, home furnishing etc.

#### XIV. TECHNOLOGICAL UP GRADATION IN MSME SECTOR

The opening up the economy has exposed the MSE sector to global and domestic competition. With a view to enhancing the competitiveness of this sector, the government has taken various measures which are as follows

- (a) Assistance to Industry associations/voluntary agencies to set up testing centers.
- (b) Field testing stations provide testing services and services for quality up gradation.
- (c) Under the integrated technology up gradation and management programme 59 clusters have been taken up which include National Programme for the Development of Toy industry, Stone industry, lock industries, Machine tool industry and hand tool industry taken up in collaboration with UNIDO.
- (d) Under the scheme of promoting ISO 9000/14001 Certification, SSI units are given financial support by way of reimbursing 75 percent of their expenditure to obtain certification subject to a maximum of INR 75,000.
- (e) Under the credit linked capital subsidy scheme for Technology up gradation (launch in 2000), 15 percent capital subsidy is admissible on the loans upto INR One Crore, advanced by Schedule Commercial Banks/SFCs/NSIC to SSIs for technology up gradation.
- (f) Setting up of Biotech Cell in SIDO.

#### XV. MAJOR CHALLENGES FACED BY MSMES SECTOR IN INDIA ECONOMY

The small and medium scale enterprises are suffered with many severe problems, which are mainly depending on the level of economic and social development of the country. India as a developing country is not an exceptional one to the above condition. Though, there are unlimited problems connected with MSMEs, some of them are given below. They are:

- ❖ Difficulties in obtaining credit, competing with imported products, identifying appropriate technology & technical assistance, investment promotion and maladjusted project preparation and evaluation.
- ❖ Inability to offer liberal credit terms in the sale of their products, obscene of management expertise, under capitalization and bureaucratic redtapism and regulations.
- ❖ Lack of industrial training & skill formation, quality control & testing facilities, proper market promotion both domestic & export, scientific & industrial

research, lack of management & reorganization of small & medium scale enterprises through various schemes and productivity increase through modernization.

- ❖ According to a survey of Ministry of MSME, nearly two thirds of small business consider the lack of market information to be a very severe constraint.

#### XVI. SUGGESTION AND CONCLUSION

MSME sector is a critical economic factor in India. They make up a majority of the domestic business transactions and at the same time play an important role in international trade. They have emerged as a vibrant and dynamic component of the economy by virtue of their significant contribution to GDP, industrial production and exports. Considering its potential and its ability few suggestions has recommended below. They are as follows

- ❖ MSMEs have great potential to drive economic growth, so governments should remove constraints and create an enabling environment to earn foreign exchange.
- ❖ Since the global economy becomes increasingly reliant on information communication technologies (ICTs) in order to receive, process, and send out information, MSMEs in India are expected to go for ICTs.
- ❖ As MSME face competition from global giants due to which they ask for protection, technological and financial support from the State. So India should integrate into the global supply chain, bid for outsourcing businesses, and increase their own productivity.

In India MSMEs has achieved steady growth over the last couple of years. The role of MSMEs sector is growing rapidly and they have become a thrust area for future growth. India should promote the growth of SMEs in order to avoid monopolistic and oligopolistic markets with the right kind of policies and regulatory framework. The Indian market is growing and the Indian industry is making rapid progress in various Industries like manufacturing, food processing, textile and garments, retail, precision engineering, information technology, pharmaceuticals, agro and service sectors. Under the changing economic scenario the SMEs have both the opportunities and challenges before them. The support given by the national and the state governments to the SMEs is not adequate enough to solve their problems. However for the sector to fully utilize its potential, it is essential that the entrepreneurs along with the government support take necessary steps for further development. It is quite evident that, nurturing this sector is essential for the economic well-being of the nation. It is essential to take care of the sector to enable it to take care of the Indian economy.

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