

ROLE OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES) AND ITS ECONOMIC OBSTRUCTIONS IN INDIA

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ABSTRACT

Micro, Small and Medium Enterprises (MSME) sector has emerged as a 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 this sector contributes enormously to the socioeconomic development of the country. This sector has often been termed as the “Engine of Growth” for developing countries. The MSME sector is the second largest employer of human resources. In India, the MSME sector employs nearly 11 crore people and contributes to around 17 percentage of the GDP. MSME sector possesses enough potential and possibilities to give Indian economy a big leap forward. With a little support from the government and financial institutions, these units can be on the way to becoming the pillars of growth. Poor infrastructure and inadequate market linkages, lack of adequate and timely access to finance are among key factors that have constrained the growth of the sector. Taking into account the enormous potential of the small sector, the entrepreneurs and the policy-makers must act collectively to facilitate growth in this sector. Considering the potentiality of MSME sector to strengthen the economy, this paper attempts to examine the importance and contribution of this sector in economic development of the nation. The present study is also attempts to analyse the problems MSME sector.

Keywords: Industrialization, Employment, Engine of Growth, GDP, Potentiality, Hindrance

INTRODUCTION

The Micro, Small or Medium Enterprise sector or the MSME sector as it is called, has been recognized globally as a major contributor to Gross Domestic Product (GDP) and stimulator for economic growth. The MSMEs in India are credited for greater contribution in generating the highest employment opportunities, production for export, manufacturing outputs and other related activities. These sectors also provide to the economy with a continuous supply of ideas,

skills, innovation etc. that are necessary to promote the competition and utilization of scarce resource present in the country. Presently the small-scale industries have been sub- divided into Micro, Small and Medium Enterprise under the Micro, Small and Medium Enterprises Development Act 2006. The categorization of enterprises is made based on their investment in plant and machineries in case of manufacturing sector or in equipments in case of service sector. Based on 4th MSME Census (2006-07) and sixth Economic Census (2013), the Annual Report (2016-17) by Union Ministry of MSME estimates that the number of MSMEs in India stands at 5.13 crore employing 11.1 crore people. The sector also complements large businesses as ancillary units in fulfilling their business requirements and needs, thereby contributing to the socio-economic development and inclusive growth. Nearly 90 percent of the industrial units belong to this sector, employing 40 per cent of India's workforce. The sector produces more than 8000 products ranging from traditional to high-tech precision. About 20 percent of the MSMEs are based out of rural areas, which indicate the deployment of significant rural workforce in the MSME sector and is an exhibit to the importance of these enterprises in promoting sustainable and inclusive development. The Growth of MSME is considered as an index of entrepreneurial orientation of any nation. The lack of access to resources and non-availability of capital and employment opportunities force the vast section of population to the next best opportunity of availing either new business or to carry on the traditional family business. In rural areas, almost every household is engaged in certain entrepreneurial activities apart from their regular income-generating activity.

METHODOLOGY

The present study is analytical and descriptive in nature. The present study is based on secondary data. The secondary data is collected from the website of the Ministry of Small and Medium Enterprises and other published materials. Moreover, various e-journals and books have been used for required analysis. This article attempted at highlighting the significance SMEs in economic development of India.

OBJECTIVES OF THE STUDY

The main objectives of the present study are:

1. To study the meaning of MSMEs in India.
2. To find out the importance and contribution of MSMEs in economic development of the country.
3. To examine the distribution of estimated MSMEs in Top Ten States.

4. To analyse the problems confronting by MSMEs.

1.0 Meaning and Definition of MSMEs:

The definition of small-scale industries (SSI) has undergone changes for many times. The main criterion for definition was mainly the level investment level and number of employees. The following chart shows the changing pattern of SSI definition.

Table 1: Changing Pattern of Small Scale Industries Definition

Year	Investment Limit (Rs.)	Year	Investment Limit (Rs.)
1950	Up to Rs. 0.5 Million in fixed assets	1985	Up to Rs. 3.5 Million in plant & Machinery
1966	Up to Rs. 0.75 Million in plant & Machinery	1991	Up to Rs. 6 Million in plant & Machinery
1975	Up to Rs. 1 Million in plant & Machinery	1997	Up to Rs. 10 Million in plant & Machinery
1980	Up to Rs. 2 Million in plant & Machinery	1999	Up to Rs. 30 Million in plant & Machinery

Source: Ministry of SSI

A major change took place in 2006 with the enactment of MSME Development Act, 2006. Under this Act, the earlier, rather, rather limited, concept of ‘Industries’ has been widened to that of ‘Enterprises’. The Micro, Small and Medium Enterprises, as per Ministry of MSME Development Act, 2006 are defined on manufacturing and services enterprises as per the investment in plant and machinery or investment in equipment. According to the Ministry of MSMEs, recent ceilings on investment for enterprises to be classified as micro, small and medium enterprises are as follows:

Table 2: Definitions of Micro, Small and Medium Enterprises under MSMED Act, 2006

Manufacturing Sector (Enterprises): The enterprises engaged in the manufacture or production of goods or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise is defined in terms of investment in Plant and Machinery.

Enterprise Category	Investment in plant and machinery
Micro Sector	Does not exceed 25 lakh rupees
Small Sector	More than 25 lakh rupees but does not exceed 5 crore rupees
Medium Sector	More than 5 crore but does not exceed 10 crore rupees

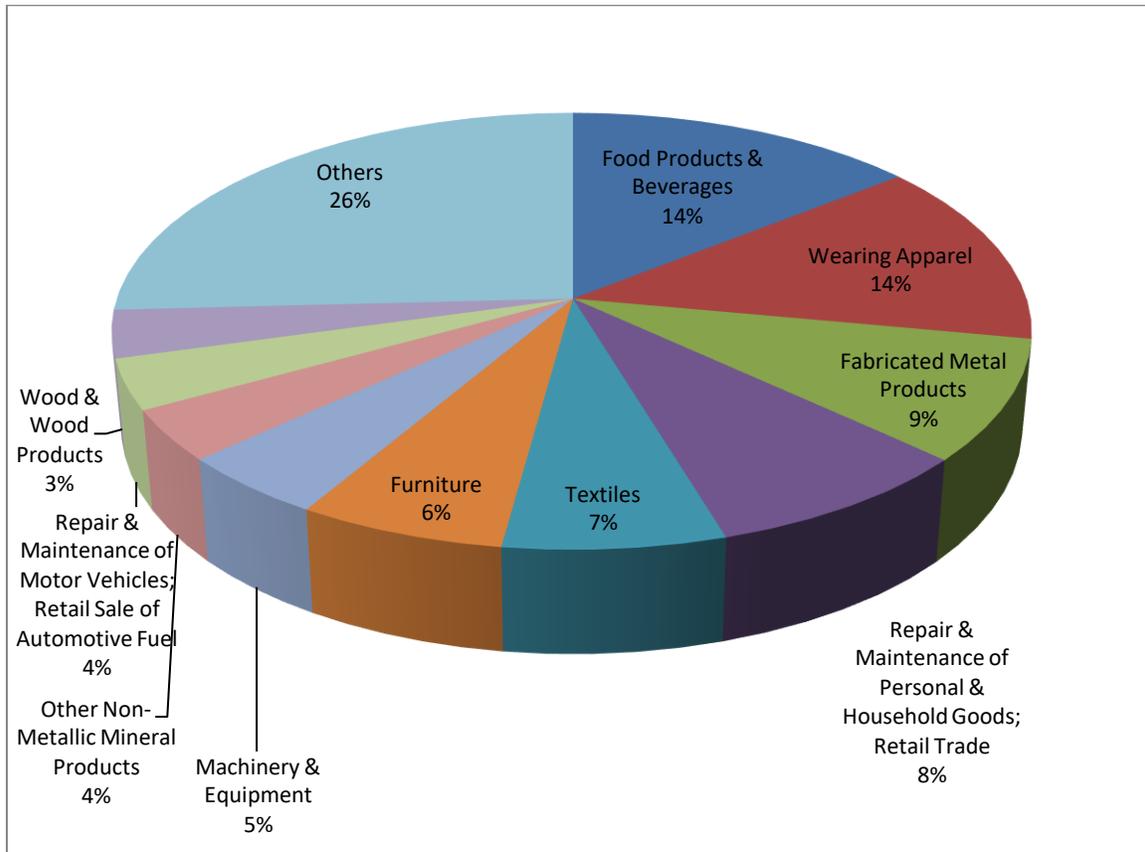
Service Sector (Enterprises): The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

Enterprise Category	Investment in equipment
Micro Sector	Does not exceed 10 lakh rupees
Small Sector	More than 10 lakh rupees but does not exceed 2 crore rupees
Medium Sector	More than 2 crore rupees but does not exceed 5 crore rupees

With the introduction of new MSME Act, 2006, the government has tried to resolve some major issues related to the MSMEs like complicated bureaucratic registration procedures, lack of finance, lack of managerial skill etc. This new MSME Development Act 2006 has made the registration procedure much simple and less time taking.

The ministry of MSMEs development of India is actively performing and promoting these sectors by implementing various programme and schemes from time to time for economic growth and development. Since from the year 1992, a rapid growth has been notice in the field of MSMEs and also their contributions is increasing year after year. During the year 2009-10, there were 298.08 lakh MSMEs in India and at that time the fixed investment on these sector was 6,93,835 crores with an production of 9,82,919 crores. As per the estimates compiled for the year 2009-10, the employment was 695.38 lakh persons in the sector. There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India. It is well known that the MSMEs provide good opportunities for both self-employment and wage employment. The pie-chart of product of MSMEs sector in India is shown below:

Figure 1: Products of MSMEs (More than 6000 products)



Source: Final Report of the 4th All India Census of MSMEs 2006-07: Registered Sector

2.0 Role of MSMEs in Indian Economy

The MSME sector is crucial to India's economy. They 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. Although 95% of Micro, Small and Medium Enterprise units are informal in nature, the contribution of the sector to India's GDP has been growing consistently at 11% per annum. For a capital scarce developing country like India, SMEs are considered as panacea for several economic woes like unemployment, poverty, income inequalities and regional imbalances. The contribution of MSME to other sectors has been immensely instrumental. It is the biggest employer after agriculture sector, despite the fact that agriculture sector's contribution to GDP is less than MSME. It contributes about 45% to manufacturing sector, and perhaps 40% to exports. In this context, it is very important to examine the role of MSMEs for economic growth of India. Let us look at some of the key importance of this sector in the development of India both in terms of economic and social development.

- **Contribution to Country’s Economy:** As per the data available with Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation, the contribution of MSME Sector in country’s Gross Value Added (GVA) and Gross Domestic Product (GDP), at current prices for the last five years is as below:

Table 3: Contribution of MSMEs in Country’s Economy at Current Price

Year	MSME GVA	Growth %	Total GVA	(Figures in Rs. Crores)		
				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

The contribution of MSMEs in the Gross Value Added (GVA) of the country for the year 2013-14, 2014-15 and 2015-16 at current prices are 32.26 per cent, 31.86 per cent and 31.6 per cent respectively and contribution in Gross Domestic Product (GDP) of the country for the same period at current price are 29.76 per cent, 29.39 per cent and 28.77 per cent respectively. MSME have great role in the balanced development of the economy. The contribution of Micro, Small and Medium Enterprises in the economic and social development of the country is well established.

- **Estimated Number of MSMEs in the Country:**

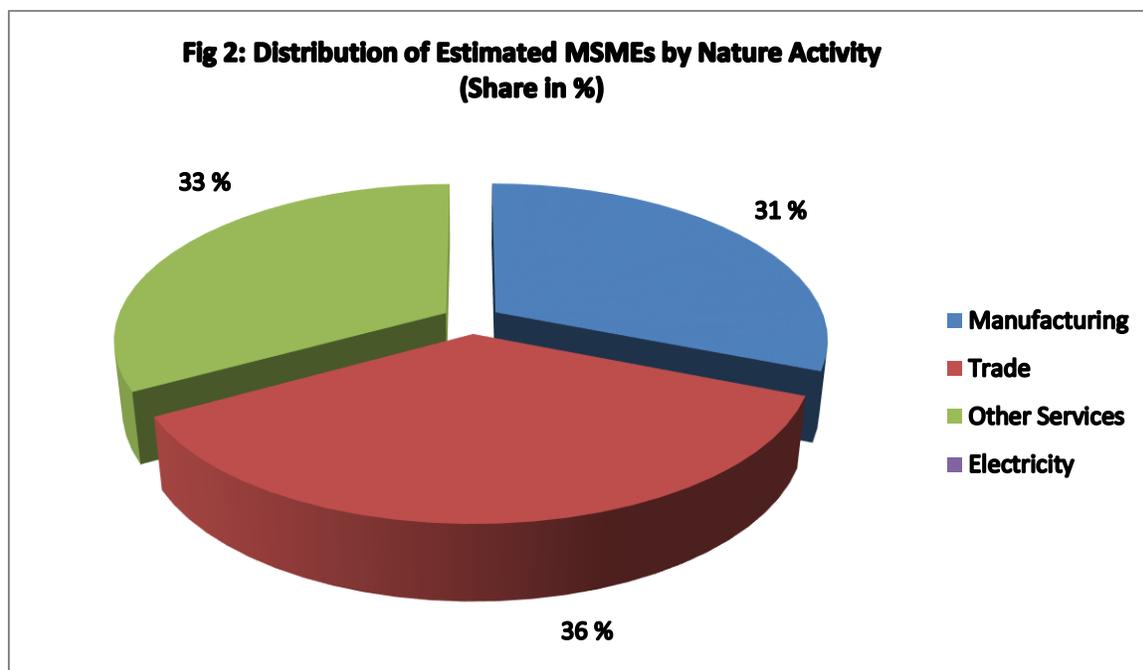
As per the National Sample Survey (NSS) 73rd round, conducted by National Sample Survey Office, Ministry of Statistics & Programme Implementation during the period 2015-16, there were 633.88 lakh unincorporated non-agriculture MSMEs in the country engaged in different economic activities (196.64 lakh 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,) excluding the MSMEs registered under (a) Sections 2m(i) and 2m(ii) of the Factories Act, 1948, (b) Companies Act, 1956 and (c) Construction activities falling under Section F of National Industrial Classification (NIC) 2008. Table 4 and Figure 2 show the distribution of MSMEs activity category wise.

Table 4: Estimated Number of MSMEs (Activity Wise)

Activity Category	Estimated Number of Enterprises (in Lakh)			Share (in %)
	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

Source: Annual Report 2017-18, Ministry of MSME

It is seen that 31% MSMEs were found to be engaged in Manufacturing activities, while 36% were in Trade and 33% in Other Services as is evident from Figure 2.

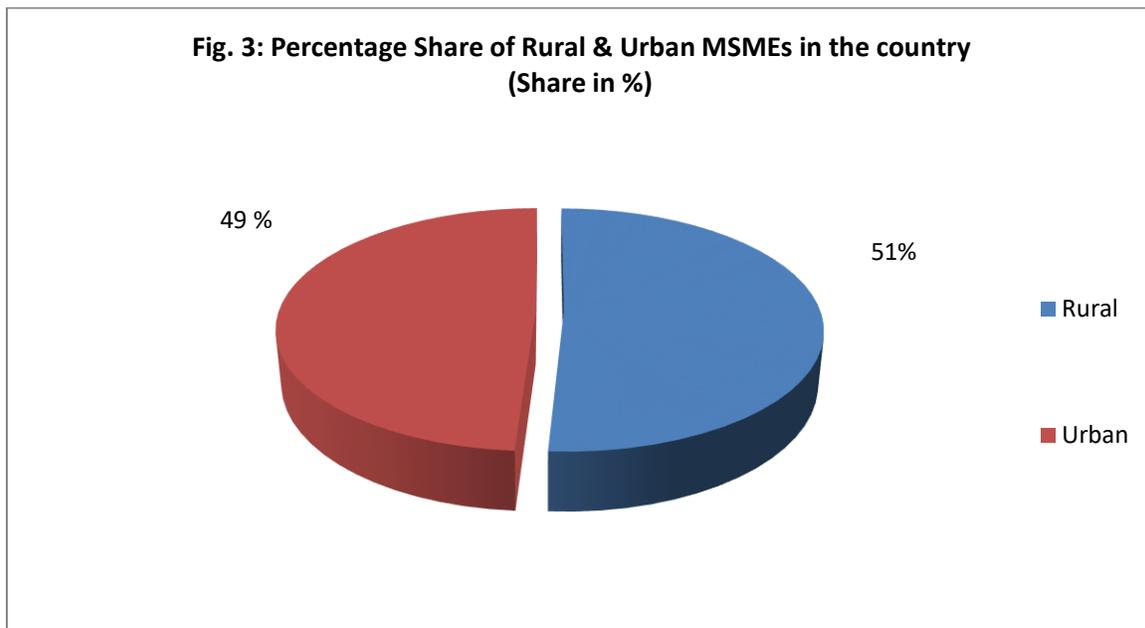


Again out of 633.88 estimated number of MSMEs, 324.88 lakh MSMEs (51.25%) were in rural area and 309 lakh MSMEs (48.75%) were in the urban areas as is evident from figure 3. The Micro sector with 630.52 lakh estimated enterprises accounts for more than 99% of total estimated number of MSMEs. Small sector with 3.31 lakh and Medium sector with 0.05 lakh estimated MSMEs accounts for 0.52% and 0.01% of total estimated MSMEs, respectively. Table 5 depicts the distribution of different categories of enterprises in rural and urban areas.

Table 5: Distribution of Enterprises Category Wise (Number in Lakh)

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

Source: Annual Report, 2017-18, Ministry of MSME



➤ **Employment Generation:**

The basic problem that is confronting the Indian economy is increasing pressure of population on the land and thus requires creating massive employment opportunities. This problem can be solved to larger extent by MSMEs because such enterprises are labour intensive in character. They generate huge number of employment opportunities. Indian MSME sector is the second largest employment generator next to agriculture sector. As per the National Sample Survey (NSS) 73rd round conducted during the period 2015-16, MSME sector has been creating 11.10 crore jobs (360.41 lakh in Manufacturing, 387.18 lakh in Trade and 362.82 lakh in Other Services and 0.07 lakh in Non-captive Electricity Generation and Transmission) in the rural and the urban areas across the country. Table 6 and Figure 4 shows the distribution of employment MSME activity wise.

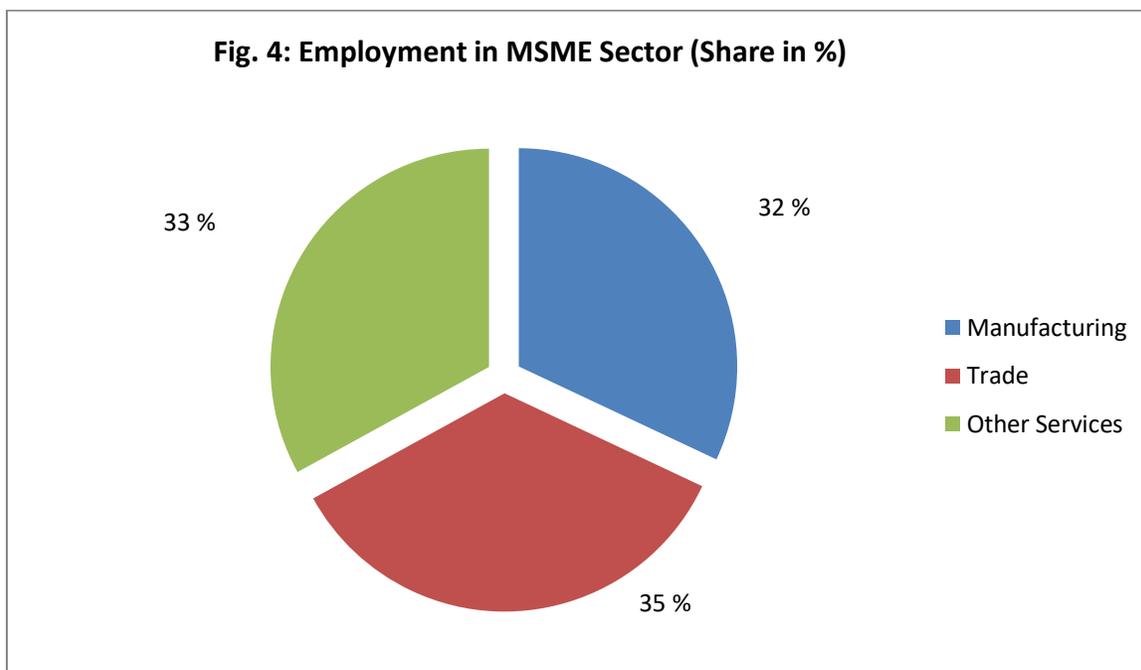
Table 6: Distribution of Employment in the MSME Sector (Nature of Activity Wise)

Activity Category	Employment (in Lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	186.56	173.86	360.41	32
Trade	160.64	226.54	387.18	35
Other Services	150.53	211.69	362.22	33
Electricity	0.06	0.02	0.07	0
All	497.78	612.10	1109.89	100

Source: Annual Report, 2017-18, Ministry of MSME

In India, capital is scarce and labor abundant. MSMEs are thought to have lower capital-output and capital-labour ratios than large-scale industries, and therefore, better serve growth and employment objectives. Not only do MSMEs generate the highest employment per capita investment, they also go a long way in checking rural-urban migration by providing people living in isolated areas with a sustainable source of employment. It seems to be a boon to rural people, as MSMEs do not demand highly skilled employees and semi skilled and even unskilled people can be employed.

Fig. 4: Employment in MSME Sector (Share in %)



Micro sector with 630.52 lakh estimated enterprises provides employment to 1076.19 lakh persons, which accounts for around 97% of total employment in the sector. Small sector with 3.31 lakh and Medium sector with 0.05 lakh estimated MSMEs provides employment to 31.95 lakh (2.88%) and 1.75 lakh (0.16%) persons of total employment in MSME sector, respectively. However, the industry body, Confederation of Indian Industries (CII) estimates those MSMEs have been able to provide employment to around 12 crore people.

➤ **Contribution to Industrial Production and Export**

MSMEs are, at present, operating in wide variety of sectors such as manufacturing, trade and services and thereby constitute a formidable component of country's industrial production. The contribution of MSME sector towards exports has been increasing at a faster rate. The statistics show that the contribution of MSME to GDP is also ever increasing. The sector account for more than 90 percent industrial units in India and it has been increasing impressively for last many years. Non-traditional products account for more than 95% of the MSME exports (dominating in the export of sports goods, readymade garments, plastic products etc.). Since these products are mostly handcrafted and hence eco-friendly, there exists a tremendous potential to expand the quantum of MSME led exports. It helps create a linkage between MSME and big companies even after the implementation of the GST 40% MSME sector also applied GST Registration. Annual report of Ministry of MSME (2010-11) show that, in terms of value, the sector accounts for about 45 per cent of the manufacturing output and 40 per cent of the total exports of the country. There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the Micro, Small and Medium enterprises in India.

➤ **Mobilisation of Capital and Entrepreneurial Skill:**

MSME sector can mobilise a good amount of savings and entrepreneurial skill from rural and semi-urban areas remained untouched from the clutched of large-scale industries. Hence, a large amount of latent resources are being mobilised by MSME sector for the industrial progress of the nation.

➤ **Making Growth Inclusive**

Inclusive growth is on top of the agenda of Ministry for Micro, Small, and Medium sized enterprises for several years. MSMEs are instruments of inclusive growth which touch upon the lives of the most vulnerable and marginalized. For many families, it is the only source of livelihood. Thus, this sector seeks to empower people to break the cycle of poverty and deprivation.

➤ **Regional disparity removal**

People from remote areas have the tendency to migrate to urban areas in search of jobs. This creates excessive pressure on urban areas and initiates social and personal problems. These problems can be addressed by setting up of MSMEs in economically backward rural areas which utilise local resources and bring about dispersion of industries thus promoting balanced regional development. MSME sector can take care of local needs, improve economic condition of the area and most importantly, can bring a qualitative change in the economy of the country.

➤ **Equitable distribution of income**

India is home to a large number of small enterprises. Small entrepreneurs stimulate a redistribution of wealth, income and political power within societies in ways that are economically positive. Thus small and medium enterprises ensure equitable distribution of income and wealth in the Indian society which is largely characterised by more concentration of income and wealth in the organised sector keeping unorganised sector undeveloped. This is mainly because of the ownership of such units which are widespread as compared to large industries and are having large employment potential.

➤ **Better industrial relations**

The MSMEs are less prone to frequent industrial disputes. However, the truth behind the scene is the workers in small sectors are mostly from unorganised sector and cannot raise their voice collectively. Thus, apparently, they share harmonious relations with the firm owners. Better industrial relations between the employer and employees help in increasing the efficiency and productivity of the employees and reducing the frequency of industrial disputes. Thus, the loss of production and man-days are comparatively less in small and medium enterprises.

From above mentioned facts, it is very clear that MSMEs play a very important role in the economy.

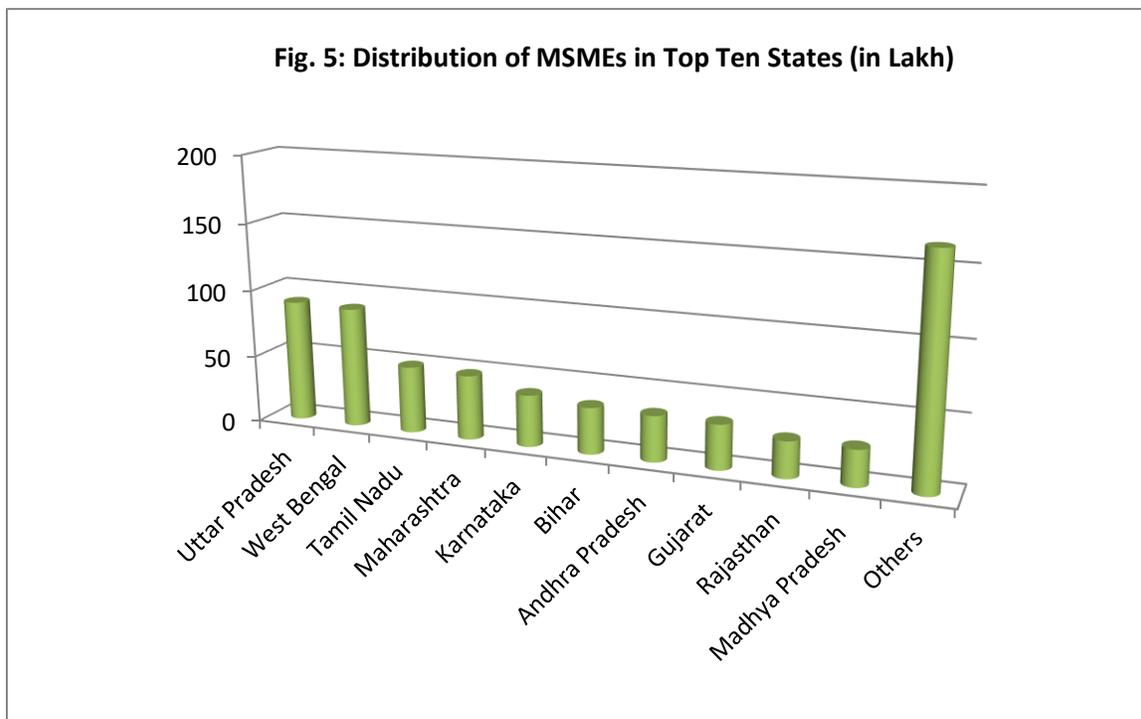
3.0 State-wise Distribution of estimated MSMEs

There has been massive concentration of industries in few large cities of different states of Indian union. State of Uttar Pradesh had the largest number of estimated MSMEs with a share of 14.20% of MSMEs in the country. West Bengal comes as close second with a share of 14% again. The top 10 States together accounted for a share of 74.05% of the total estimated number of MSMEs in the country. Figure 5 and Table 7 show the distribution of estimated enterprises in top ten States.

Table 7: State-wise Distribution of Enterprises

Sl. No	State/UT	Estimate Number of MEMEs	
		Number (in Lakh)	Share (in %)
01	Uttar Pradesh	89.99	14
02	West Bengal	88.67	14
03	Tamil Nadu	49.48	8
04	Maharashtra	47.78	8
05	Karnataka	38.34	6
06	Bihar	34.46	5
07	Andhra Pradesh	33.87	5
08	Gujarat	33.16	5
09	Rajasthan	26.87	4
10	Madhya Pradesh	26.74	4
11	Total of above Ten States	469.36	74
12	Other State/UTs	164.52	26
13	All	633.88	100

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



4.0 Problems of Micro, Small and Medium Enterprises:

Despite of many contributions to the nation's economy, the MSME sector does not get the required support from the concerned Government Departments, Banks, Financial Institutions, which become a handicap for more competitive in the National and International Markets. MSMEs in India could not progress satisfactorily due to various problems that they are confronted with while running enterprises. In spite of having huge potentialities, the major problems, MSMEs face are given below.

- **Lack of adequate infrastructure:** Infrastructure means foundation which can be taken as basic to all activities in the economy, whether related to agriculture or industry or even trade. Infrastructural lacking includes inadequate power supply, transportation, water supply etc. Small firms cannot bear the cost of setting up inadequate power supply unit. They have to depend on irregular power supply from the electricity boards. Inadequate transportation system increases cost of production. Indian economy is characterized by inadequate infrastructure which is a major problem for small units to grow. Thus, absence of adequate infrastructure adversely affects the quality, quantity and production schedule of the enterprises which ultimately results in under-utilization of capacity.
- **Lack of skilled manpower:** Though India has no shortage of human resources, most of them are unskilled workers. The success of a small enterprise revolves around the entrepreneur and its employees, provided the employees are skilled and efficient. Non-availability of adequate skilled manpower in the rural sector poses problem of low managerial capabilities and productivities. The MSMEs have to operate with unskilled or semi-skilled workers.
- **Inadequate Financial and credit assistance:** Financing has always been a major problem for small and medium industries in India. Inadequate and timely supply of credit facilities is an important problem faced by MSMEs. This is partly due to scarcity of capital and partly due to weak creditworthiness of the small units in the country. The creditworthiness of small borrowers is generally weak and therefore they face reluctant creditors who may be induced to lend only at a very high rate of interest.
- **Irregular supply of raw material:** Small units face severe problems in procuring the raw materials whether they use locally available raw materials or imported raw materials. The problems arise due to faulty and irregular supply of raw materials. Non-availability of sufficient quantity of raw materials, sometimes-poor quality of raw materials, increased cost of raw materials, foreign exchange crisis and above all lack of knowledge of entrepreneurs regarding government policy are other few hindrances for MSMEs.
- **Marketing and Distribution Problems:** One major problem of MSME is marketing. These units often do not possess any marketing organization and consequently their products compare unfavourably with the quality of the products of large-scale industries. Therefore,

they suffer from a competitive disadvantage. They also fail to get adequate information about consumer's choice, taste and preferences of the type of product. Moreover, most of the MSMEs do not have adequate monetary resource to develop marketing and publicity section and many are not aware of modern low-cost marketing techniques (blogging, developing website for the company etc.)

- **Lack of machinery and equipment:** MSMEs are striving hard to employ modern machineries and equipment in their process of production in order to compete with large industries. Most of the small units employ outdated and traditional technology and equipment. There exists considerable heterogeneity among the MSMEs in India. A small percentage of firms operate with sophisticated technology base. Lack of appropriate technology and equipment create a major obstacle for the growth of such enterprises.
- **Heavy Competition:** MSMEs find it very difficult to compete with the product of large domestic firms and imported articles which are comparatively very cheap and of better quality than their product.
- **Other problems:** Besides the above problems, small-scale units have been of constrained by a number of other problems also. They include poor project planning, managerial inadequacies, old and orthodox designs, high degree of obsolescence, transportation problems, lack of adequate warehousing, lack of information, unsuitable location and many MSMEs entrepreneurs still expect protection policies and preferential treatment. Due to all these problems, the development of MSMEs could not reach a prestigious stage.

CONCLUSION

The role of SMEs in the industrial sector is growing rapidly and they have become a thrust area for future growth. 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, leather and leather goods, sports goods, plastic products, pharmaceuticals, agro and service sectors. Under the changing economic scenario, the SMEs have both the opportunities and challenges before them. The MSME sectors have been facing a tough fight, not only against its own counterparts (MSMEs), but also from large and organised sector of the country and also from the MNCs. Lack of timely and adequate credit to MSMEs is a major obstacle for the growth of MSMEs. Other challenges encountering the MSMEs include high cost of raw material, limited access to global markets, lack of infrastructural facilities, limited access to modern technology, lack of skilled manpower, stringent labour laws and unavailability of business friendly environment. Indian government has started certain measures to tackle some of the problems afflicting MSME sectors. The government has also set ambitious targets to motivate SMEs to increase their contribution to economic growth. Various initiatives like Public Procurement Policy, Pradhan Mantri MUDRA Yojana, Make in India, Start-up India

and Skill India strive to make available financial support, remove the bureaucratic hurdles, improve ease of business, support to manufacturing units, impart skill training, Scheme of Fund for Regeneration of Traditional Industries (SFURTI), Cluster Development Programme amongst many others. In the GST regime, the MSMEs will be more competitive in the long run and simplify the complex tax system across the country. It can be hoped that these measures, when fully implemented, will bring about a total transformation of the MSME sector in India. Every industrial and business organization has to take up the responsibility to meet the challenges posed by globalization.

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