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MSMEs in India: Growth and challenges

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Abstract

The Micro, Small, and medium enterprises of India are an important driving factor for the growth of the Indian Economy. These MSMEs not only provide employment opportunities but helps in the process of industrialization in rural areas simultaneously reducing the unequal income distribution among the residents. The MSMEs contribute significantly to the development of the Indian economy through export production, domestic production, low investment requirements, operational flexibility, technology-oriented enterprises, etc. In India, after agriculture, small business is the second largest employer of human resources. MSMEs constitute more than 80 percent of the total number of industrial enterprises and support industrial development, 40 percent of industrial output, 80 percent of employment in the industrial sector, 45 percent of value added by the manufacturing sector, and 40 percent of total exports. In this paper, an attempt is made to know the growth and contribution made by Micro, Small, and Medium Enterprises in India and to understand the role of MSMEs in providing employment opportunities in India. The various problems faced by these MSMEs in executing their operations have also been discussed in this paper.

Keywords: MSMEs, employment, growth, challenges of MSMEs

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 producing a wide range of products and services to meet demands of domestic as well as global markets. On an average this sector has almost 36 million units that provide employment to about 80 million individuals. This sector through the production of 8000 products contributes 8% to GDP of the country. The schemes & various initiatives of Ministry of MSMEs & other organisations seeks to provide the following facilities: Adequate flow of credit from financial institutions/banks, Support for technology up-gradation and modernization, Integrated infrastructural facilities, Modern testing facilities and quality certification, Access to modern management practices, Entrepreneurship development and skill up gradation through appropriate training facilities, Support for product development, design intervention and packaging, Welfare of artisans and workers, Assistance for better access to domestic and export markets, and Cluster-wise measures to promote capacity-building and empowerment of the units and their collectives. The various commissions, institutions, organisations & acts has been setup by the concerned Ministry to promote & develop the various industries at micro, small and medium levels. Some of the important institutional setups are as: Micro, Small and Medium Enterprises Development (MSMED) Act 2006, Khadi & Village Industries Commission (KVIC), Coir Board, National Small Industries Corporation (NSIC) Ltd., Mahatma Gandhi Institute for Rural Industrialisation (MGIRI), National Board for Micro, Small and Medium Enterprises (NB MSME), and National Institute for Micro, Small and Medium Enterprises.

Definition of MSMEs

In accordance with the provision of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 the Micro Small and Medium Enterprises are classified in two classes:

- 1. Manufacturing Enterprises:** Investment in Plant and Machinery
- 2. Service enterprises:** Investment in Equipment.

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Classification	Investment Ceiling for Plant, Machinery or Equipment	
	Manufacturing Enterprises	Service Enterprises
Micro	Up to Rs. 25 lakhs	Up to 10 Rs. Lakhs
Small	Above Rs. 25 lakhs and Up to Rs. 5 Crores	Above 10 Lakhs and Up to 2 Crores
Medium	Above Rs. 5 Crores and Up to Rs.10 Crores	Above Rs. 2 Crores and up to Rs. 5 Crores

Source: Ministry of MSMEs

Literature Review

Ghatak, Shambhu (2010) [13] in his paper titled "Micro, small and medium enterprises (MSMEs) in India: an appraisal highlighted that status of Indian MSMEs is better than its counterpart in Bangladesh & Pakistan. About 36% of Pakistani SMEs have bank accounts whereas about 46% Bangladeshi's SMEs have Bank accounts. In comparison to them about 95% of Indian SMEs have their bank accounts. He further stated that Indian Govt. should accelerate its initiatives to provide further support to these Small scale industries.

Srinivas, K. T. (2013) [12] in his paper entitled Role of micro, small and medium enterprises in inclusive growth concluded that the MSMEs has been termed as the engine for the growth of the Country. In the last few years, there has been tremendous change in the national & State level for consolidating this sector. Poor infrastructure & lack of marketing linkages are the key reasons for the poor growth of the MSMEs in India. The support provided by the state as well as Central Govt. is not adequate for the up liftment of the MSMEs in India. Therefore the entrepreneurs in India & Govt. should take some initiatives for further-development of these MSMEs in India.

Objectives of the study

1. To study the current status and growth of MSMEs in India.
2. To study the impact of MSMEs on employment generation in India.
3. To know the problems faced by MSMEs in India.

Research Methodology

The study is based on secondary data that has been collected from various secondary sources such as magazines, annual reports, department of MSMEs & various other published reports. The data has been presented in the form of table and interpretations have been made in light of the objectives of the study cited above.

Analysis of data

Growth and development of MSMEs Table 1: Number of SMEs (Activity Wise)

The MSMEs in India are playing a crucial role by providing large employment opportunities at comparatively lower capital cost than large industries as well as through of rural & backward areas, inter alia, reducing regional imbalances, assuring more equitable distribution of national income and wealth.

Table 1: Number of SMEs (Activity Wise)

Activity Category	Number of Enterprises (in lakh)			Share (%)
	Rural	Urban	Total	
(1)	(2)	(3)	(4)	(5)
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: Ministry of MSMEs annual report 2018-19

Interpretation

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 (196.65 lakh in Manufacturing, 0.03 lakh in Non-captive Electricity Generation and Transmission, 230.35 lakh in Trade and 206.85 lakh in Other Services).

MSMEs (51.25%) are in rural area and 309 lakh MSMEs (48.75%) are in the urban areas. MSMEs in rural areas are growing faster than in urban areas.

Table 3: Distribution of Enterprises Category Wise (numbers in Lakhs)

Sector	Micro	Small	Medium	Total
Rural	324.09	0.78	0.01	324.88
Urban	306.43	2.53	0.04	309.00
All	630.52	3.31	0.05	633.88

Source: Ministry of MSMEs annual report 2018-19

Table 2: Percentage share of rural and urban MSMEs in the country

Area	Rural (In lakhs)	Urban (In Lakhs)	Total
No. of MSMEs	324.88	309	633.88
% of MSMEs	51.25%	48.75%	100%

Source: Ministry of MSMEs annual report 2018-19 Interpretation

Interpretation

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.

Out of 633.88 estimated no. of MSMEs, 324.88 lakh

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

Sector	Micro	Small	Medium	Total
Rural	324.09	0.78	0.01	324.88
Urban	306.43	2.53	0.04	309.00
All	630.52	3.31	0.05	633.88

Source: Ministry of MSMEs annual report 2018-19

Interpretation

Out of 633.88 lakh MSMEs, 608.41 lakh (95.98%) MSMEs were proprietary enterprises. There has been overwhelming predominance of male owners in proprietary MSMEs. Thus, for proprietary MSMEs as a whole, male owned 79.63% of enterprises as compared to 20.37% owned by female. There was no significant deviation in this pattern in urban and rural areas, although the dominance of male owned enterprises was slightly more pronounced in urban areas as compared to rural areas (81.58% as compared to 77.76%).

Table 5: Percentage distribution of Enterprises by Male/Female Owners

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

Source: Ministry of MSMEs annual report 2018-19

Interpretation

Male dominance in ownership has been more pronounced for Small and Medium enterprises with 95% or more enterprises being owned by them, as compared to Micro enterprises where 80% were owned by males.

Employment in MSME Sector

Table 6: Estimated Employment in MSME Sector (Broad Activity Category Wise)

Broad 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: Ministry of MSMEs annual report 2018-19

Interpretation

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 362.22 lakh in

Table 10: Performance of SSI / MSME Units, Employment, Investments and Gross Output

S. No.	Year	No. of MSMEs working(in Lakhs)	Employment (in lakhs)	Market value of FA (in crores)	Gross output (in crores)
1.	2001-02	105.21	249.33	154349.00	282270.00
2.	2002-03	109.49	260.21	162317.00	314850.00
3.	2003-04	113.95	271.42	170219.00	364547.00
4.	2004-05	118.59	282.57	178699.00	429796.00
5.	2005-06	123.42	294.91	188113.00	497842.00
6.	2006-07	361.76	805.23	868543.79	868,543.79
7.	2007-08	377.36	842.00	868543.79	920,459.84
8.	2008-09	393.70	880.84	920459.84	977,114.72
9.	2009-10	410.80	921.79	977114.72	1,038,546.08
10.	2010-11	428.73	965.15	1038546.08	1,105,934.09

Other Services and 0.07 lakh in Non-captive Electricity Generation and Transmission) in the rural and the urban areas across the country.

Table 7: Sectoral distribution of workers in Male and Female Category (in Lakh)

Sector	Female	Male	Total	Share (%)
Rural	137.50	360.15	497.78	45
Urban	127.42	484.54	612.10	55
Total	264.92	844.68	1109.89	100

Source: Ministry of MSMEs annual report 2018-19

Interpretation

Out of 1109.89 lakh employees in MSME sector, 844.68 (76%) are male employees and remaining 264.92 lakh (24%) are females. Rural female employees are 137.50 lakhs whereas rural male employees are 360.15. In urban area female employment is 127.42 whereas male employees are 484.54.

Table 8: Distribution of Employment in Rural and Urban Areas (Number in lakh)

Sector	Micro	Small	Medium	Total	Share (%)
Rural	489.30	7.88	0.60	497.78	45
Urban	586.88	24.06	1.16	612.10	55
All	1076.19	31.95	1.75	1109.89	100

Source: Ministry of MSMEs annual report 2018-19

Interpretation

Out of 1109.89 lakhs employees in MSMEs sector, 1076.19 are in micro sector, 31.95 from small sector and 1.75 are from medium sector. Percentage of rural Employment is 45% and urban employment is 55%. The rate of employment is higher in urban areas when compared to rural areas.

Table 9: Share of UAM-manufacturing and service MSMEs registered

Sector	Total	Percentage
Manufacturing	1749818	45
Service	2144111	55

Source: Ministry of MSMEs annual report 2018-19

Interpretation

Since September, 2015, in view of promoting ease of business, an online filing system under Udyog Aadhar Memorandum (UAM) based on self-declared information has been put in place. Till end of May, 2019, 68.25 lakh MSME shaveal ready registered on UAM.

11.	2011-12	447.66	1011.80	1105934.09	1,182,757.64
12.	2012-13	467.56	1061.52	1182757.64	1,268,763.67
13.	2013-14	488.29	1114.29	1268763.67	1,363,700.54
14.	2014-15	510.57	1171.32	1363700.54	1,471,912.94
15.	2015-16	553.65	805.24	1363700.32	107721286

Source: Ministry of MSMEs annual report 2018-19

Interpretation

The above table shows number of MSMEs are working, the increase of employment opportunities, market value of fixed assets and gross output from 2001-2002 to 2014-2016. There is an increase in no. of MSMEs 361.76 lakhs, employment 805.23 lakhs, investment in fixed assets (868543.79), gross output (868,543.79) in the year 2006-2007. There is a decrease in employment 805.24 lakhs in the year 2015-2016 from 1171.32 lakhs in the year 2014-2015. At present in the year 2018-2019 it is 1109.89 lakhs.

Challenges of MSMEs in India

- Lack of credit from banks:** The banks are providing on an average 50% total capital employed in fixed assets. The cost of credit is also high. Interest rates on MSME loans are between 8.65% to 16.25%.
- Competition from multinational companies:** In present era of globalization, the MSME'S are facing the great from the international manufacturing companies who are proving quality goods at cheapest price.
- Poor infrastructure:** Though, MSME'S are developing so rapidly but their infrastructure is very poor. With poor infrastructure, their production capacity is very low while production cost is very high.
- Unavailability of raw material and other inputs:** For MSME's required raw material skilled work force and other inputs, which are not available in the market. Due to unavailability of these essentials, it is very difficult to produce the products at affordable prices.
- Lack of advanced technology:** The owners of MSME'S are not aware of advanced technologies of production.
- Lack of distribution of marketing channels:** The MSME'S are not adopting the innovative channels of marketing. The ineffective advertisement and poor marketing channels leads to a very poor selling.
- Lack of training and skill development program:** The owners are not aware of the innovative methods of production. The skill developmental schemes conducted by the government are not sufficient.

Findings

- Growth of MSMEs in rural areas i.e. 51% are more when compared to urban areas i.e., 49%.
- Growth of Medium enterprises i.e., 0.05 lakhs are very low when compared to Micro and Small enterprises i.e., 630.52 lakhs and 3.31 lakhs.
- Male owned MSMEs i.e., 79.63% as compared to female owned MSMEs i.e., 20.37%.
- Male owned enterprises are more in case of small and medium enterprises i.e., 95% and in case of micro enterprises their dominance is 80%.
- Employment generation is more in urban areas i.e., 55% when compared to rural areas i.e., 45%.
- Male employees are 76% and female employees are only 24% in MSMEs sector.
- Out of 1109.89 lakhs no. of MSMEs, the growth of

medium enterprises are only 1.75 lakhs.

- In case of service sector, registration of MSMEs under UAM is 55%, whereas manufacturing sector it is 45%. Till May 2019, 68.25 lakh MSMEs have been registered under UAM.

Suggestions

- MSMEs in urban areas need to be improved to create more employment opportunities for the development of economy.
- Opportunities must be provided to women in terms of employment and business both in urban and rural areas through proper training.
- Government of India must take necessary steps to encourage medium enterprises too.
- Bank credit and interest rates must be flexible according to the requirements of MSMEs.
- Proper training must be provided to the MSMEs both in rural and urban areas in terms of technology and innovation.

Conclusion

The MSME sector in India is growing at good pace & even is providing employment opportunities to masses of the people. The contribution of Manufacturing Sector as well as Service Sector of MSMEs is significant to the total GDP of the Country. The Govt. of India has taken number of initiatives & is in the process of gearing up the growth of Micro, Small & Medium Enterprises in the country. The Govt. of India is also making number of tie-ups & agreements with the NGOs, Governmental agencies as well as with the Universities for making it sure that proper implementation of Governmental policies for setting up of MSMEs is there & entrepreneurs are properly guided for starting their ventures. But still MSMEs are facing many challenges. The problem of unawareness towards technological advancement can be removed after running effective training and skill development programs. There should be low cost credit to the MSME'S. The foreign banks are not taking so much interest in sanctioning loan to the MSME sector. The outstanding bank credit is less than 50% of total fixed assets employed in MSME'S while the owners invest their own fund in working capital. The panel of experts must constitute to assess the status and the needs of the MSME'S. The future of MSME sector in India is bright and it will grow the economy.

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