

**REVISITING PREVAILED CONDITIONS OF MICRO, SMALL AND MEDIUM ENTERPRISES IN
INDIA: A PERFORMANCE BASED APPROACH**

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Abstract:

Micro, Small and Medium Enterprises (MSMEs) play an important role in any economy through generation of employments, contributing to the growth of GDP, embarking on innovations and stimulating of other economic activities. These enterprises can be rightly called as the backbone of the GDP of India .Their role in economic activity is manifest in both tangible and intangible ways .So, the development of this sector is paramount important for any country irrespective of their level of development. MSMEs are rightly tagged as the engine of the modern Indian economy. The MSME sector in India is growing at an exceptionally fast rate due to which it is proving to be beneficial to the Indian Economy. As per the experts, the small and medium enterprises in India must be encouraged to achieve the stable Gross Domestic Product growth trajectory. However, there are some important points that need to be considered for further development of the MSME sector. So, the objective of this paper is to provide a brief overview of MSME sector in India, and to make suggestion for enhancing the capacities of MSMEs for a sustainable development in India.

Keywords: MSMEs, GDP, Sustainable development, Economic activity, Capacity

INTRODUCTION:

MSME sector has been recognised as engine of growth all over the world. Many countries of the world have established a SME Development Agency as the nodal agency to coordinate and oversee all Government interventions in respect of the development of this sector. In the case of India, also Medium establishment has for the first time been defined in terms of separate Act, governing promotion and development of Micro, Small and Medium Enterprises (MSME) i.e. Micro, Small and Medium Enterprises (MSME) development Act, 2006 (which has come into force from 02nd Oct,

2006). Office of Development Commissioner (SSI) was established in 1954 on the basis of the recommendations of the Ford Foundation.

MSMEs are important to almost all economies in the world, but especially to those in developing countries and, within that broad category, especially to those with major employment and income distribution challenges. It is a fact of life, at any level of a country's development, that some needed activities involve few or no economies of scale while others involve considerable economies of that sort. The size distribution of firms within a country, and the associated combination of technologies--from the very labour intensive to the very capital intensive is of course influenced by these "givens". That distribution can also be influenced by international trade. An important challenge in many countries is to assure that a significant share of output takes place outside the overly capital intensive large scale sector. Achievement of this goal is more difficult if MSME activity in general is discouraged by policy or setting. It can be facilitated when large firms (whose size may be necessary because some parts of the process leading to their final goods have economies of scale) subcontract other parts of that process to smaller more labour intensive firms. It can also be facilitated by the phenomenon referred to as "clusters" in which small firms collaborate together to handle those aspects of the business that are indeed characterized by economies of scale. The ideal setting within which MSMEs can play their positive contribution to the maximum thus includes these structures and their advantages. In developing countries with large informal or micro enterprise sectors, SMEs constitute the middle of the size range, a fact that explains much of their strategic importance. In terms of organizational structure, SMEs are, on average, considerably more complicated than microenterprise, which involve largely the self-employed, sometimes accompanied on the job by a few family workers and hence usually having under 5 workers. On the other hand SMEs are, on average, a good deal less complicated structurally than are corporations and other large firms, with their layers of management, high division of labour, etc. In the past the weight of the non-agricultural SME sector in output and employment has traditionally reached its peak in the upper income tier of developing countries, where agriculture no longer constitutes a large part of the economy.

SMEs may be defined in different ways by different countries. Most countries have adopted the benchmark of employment. Some define them in terms of assets, a few in terms of sales and yet others, in terms of shareholders fund. In a few countries, a hybrid definition is used such as employment as well as assets. In India, the term SSI (Small Scale Industries) is used far more often than SME and is based upon investment in assets. Although definition differ across countries, they have one thing in common; the vast majority of SMEs are relatively small and over 95% of SMEs in Asia employ less than 100 people. Based on this, broad comparison of the nature and role of SMEs is still possible even with different definitions. The Socio-economic policies adopted by India since the Industries (Development and Regulation) Act, 1951, have laid stress on MSMEs as a means to improve the country's economic conditions.

Policy, including tax policy, can make a considerable difference to how well the SME sector fulfils its potential role in contributing to a healthy economy.

REVIEW OF LITERATURE:

This paper reviews the existing microeconomic evidence on whether SMEs boost growth and reduce poverty. A growing body of work suggests that SMEs do not boost the quantity and quality of employment.

1. **Birch (1979)** argued that small firms are particularly important in job creation. He reports that over the 1970s, firms with fewer than 100 employees generated eight out of ten new jobs in America. However, a wide array of evidence rejects the view that small firms are the engines of job formation.
2. **Davis, Haltiwanger and Schuh (1993)** show that while gross rates of job creation and destruction are higher in small firms; there is no systematic relationship between net job creation and firm size.
3. **De, Sankar (2009)** in his article has viewed that SME's in India face many challenges, but perhaps none are as difficult as the challenge of financing, both short term and long term. K,Vasanth,Majumdar M., K. Krishna (2012) in their paper have stated that since several successful models of the sustainable SME are gradually evolving, networks of SMEs would become essential for addressing the systemic problems under lying the industrial ecology, enterprise resilience, and global supply chain sustainability.
4. **Srinivas K T, (2013)** has studied the performance of micro, small and medium enterprises, and their contribution in India's economic growth and concluded that MSMEs play a significant role in inclusive growth of Indian economy.
5. **Sonia and Kansai Rajeev (2009)** studied the effects of globalization on Micro, Small and Medium Enterprises (MSMEs) during pre and post liberalization from 1973-74 to 2008-09. They used four economic parameters namely number of units, production, employment and export and interpreted study results based on Annual Average Growth Rate (AAGR) calculation. AAGR in pre liberalization period (1973-74 to 1989-90) was higher in all selected parameters than that of post liberalization period (1991-92 to 2007-08). They concluded that MSMEs failed to put up an impressive performance in post reform era.

Definitions of MSMEs in India:

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

(a) **Manufacturing Enterprises-** The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development

and regulation) Act, 1951). The Manufacturing Enterprise are defined in terms of investment in Plant & Machinery.

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

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises, as notified, vide S.O. 1642(E) dtd.29-09-2006 are as under:

Table 1 Definition of MSMEs

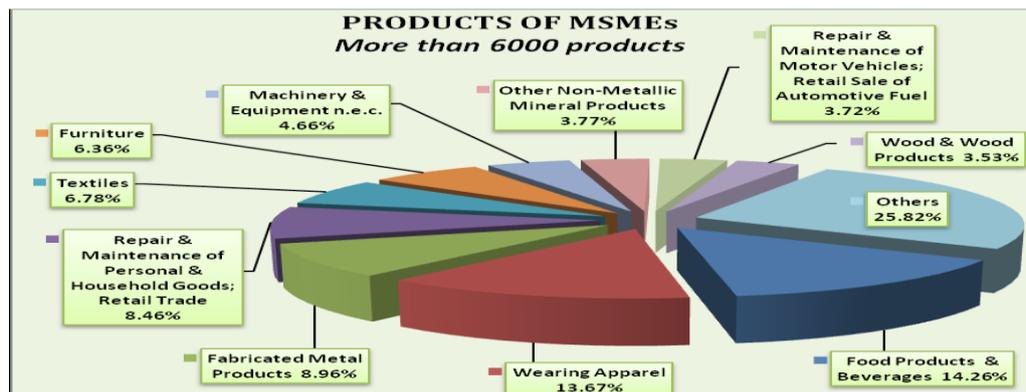
Manufacturing Sector	
Enterprises	Investment in plant & machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
Service Sector	
Enterprises	Investment in equipments
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five core rupees

Source: MSME act 2006

Growth and Performance of MSMEs In India:

The micro, small and medium enterprises (MSMEs) sector contributes significantly to the manufacturing output, employment and exports of the country. It is estimated 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. The sector is estimated to employ about 595 lakh persons in over 261 lakh enterprises throughout the country. Further, this sector has consistently registered a higher growth rate than the rest of the industrial 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.

Figure 1 MSME Products



Source: MSME Annual report

PERFORMANCE OF MSMEs:

The Office of the DC (MSME) provides estimates in respect of various performance parameters relating to the sector. The time series data in respect of the sector on various economic parameters is given in the following.

Table 2 MSMEs Performance: Units, Employment, Investments, Production & Exports.

Sl No	Year	Total Working MSMEs (Lakh numbers)	Employment (Lakh persons)	Fixed Investment (Rs. Crore)	Production (Current Prices) (Rs. Crore)	Exports (Rs. Crore)
1	2003-04	113.95	271.42	170,219		
2	2004-05	118.59	282.57	178,699		
3	2005-06	123.42	294.91	188,113		
4	2006-07	361.76	805.23	868,543.79		
5	2007-08	377.36	842	920,459.84		
6	2008-09*	393.7	880.84	977,114.72		
7	2009-10*	410.8	921.79	1,038,546.08		
8	2010-11*	428.73	965.15	1,105,934.09		
9	2011-12*	447.64	1011.69	1,182,757.64		
10	2012-13*	467.54	1061.40	1,268,763.67		
11	2013-14*	488.46	1114.29	1,363,700.54		
12	2014-15*	510.57	1171.32	1,471,912.94		

*: Projected, N. A.: Not Available. (Source: MSME Annual report 2015-16)

Table 3 CONTRIBUTION OF MSME SECTOR IN GDP AND OUTPUT

Year	Gross Value of Output of MSME Manufacturing Sector (Rs. Crore)	Share of MSME sector in total GDP (%)			Contribution of MSME Sector in GDP and Output
		Manufacturing Sector MSME	Services Sector MSME	Total	
2006-07	1198818	7.73	27.40	35.13	42.02
2007-08	1322777	7.81	27.60	35.41	41.98
2008-09	1375589	7.52	28.60	36.12	40.79
2009-10	1653622	7.45	28.60	36.05	39.63
2010-11	1488352	7.39	29.30	36.69	38.50
2011-12	1653622	7.27	30.70	37.97	37.47
2012-13	1809976	7.04	30.50	37.54	37.33

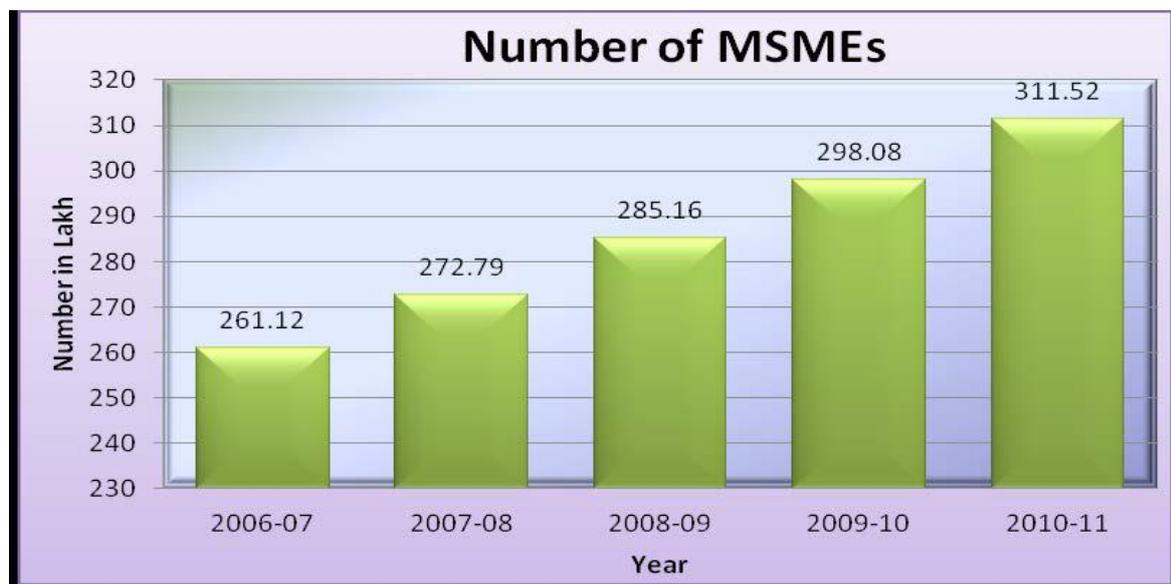
The data for the period upto 2012-13 is for Small Scale Industries (SSI)

Source: 1. Fourth All India Census of MSME 2006-07,

2. National Account Statistics (2014), CSO, MoSPI and

3. Annual Survey of Industries, CSO, MoSPI.

Figure 2 : Number of Enterprises in MSMEs Sector



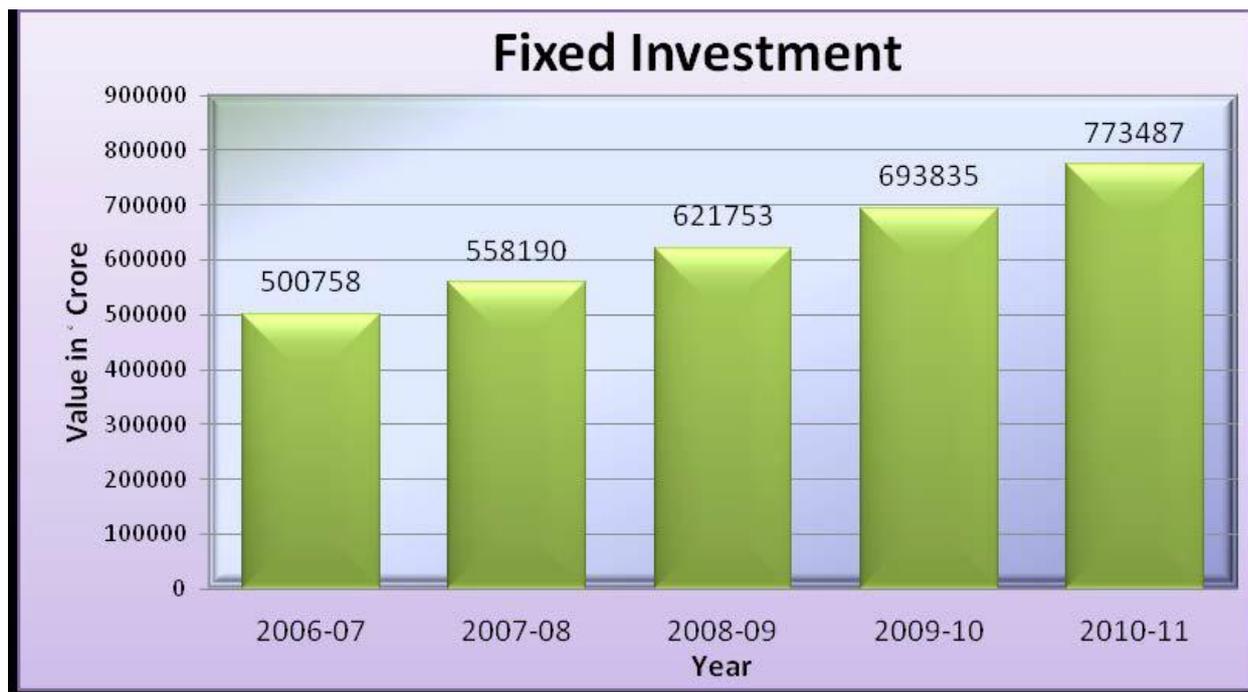
Source: Annual Report of MSME

Figure 3 : Employment in MSMEs Sector



Source: Annual Report of MSME

Figure 4 Fixed Investment in MSMEs Sector



Source: Annual Report of MSME

Size of the registered MSMEs sector:

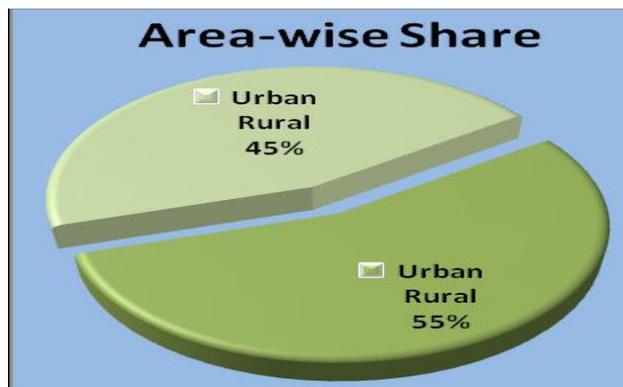
The size of the registered MSMEs sector is estimated to be 15.64 lakh. Of the total working enterprises, the proportion of micro, small and medium enterprises were 94.94%,4.89% and 0.17% respectively. This comprises of 67.10% manufacturing enterprises and 32.90% services enterprises. About 45.23% of the enterprises were located in rural areas.

Figure 5: Sectoral Distribution of MSMEs



Source: Annual Report of MSME

Figure 6: Area wise share



Source: Annual Report of MSME

PROMOTION OF MSMEs:

Having understood the positive impact of MSME development and economic growth, successive governments in India have taken various steps, since independence, towards the development of this vital sector. This is reflected in the proliferation of various policies, provision of institutional support by establishing of a considerable number of supportive institutions and organizing various entrepreneurship development and small business development programs. The aim of the following section is to briefly overview the promotional efforts made by Governments towards the development of MSME sector.

MSME Policy in India:

- 1. Implementation of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006:** The MSME Development Act 2006 came into effect on 2nd October 2006. Subsequently both the Central and State Governments have taken effective steps towards implementation of the Act.

While the Central Government has framed a number of Rules and issued Notifications in respect of the Act; different State Governments have also issued notifications under the Act as detailed below:-

a. Notification of Authority for receiving Memoranda for Micro and Small Enterprises (MSEs): All States & UTs except Mizoram have issued the necessary Notifications nominating the authority for receiving Entrepreneurs Memorandum for MSEs.

b. Notification of Rules of MSE-Facilitation Council (MSEFC): All States & UTs with the exception of Arunachal Pradesh, Assam, Manipur, Mizoram, Nagaland and Chandigarh have issued the Notifications providing for Rules of Micro and Small Enterprises Facilitation Council (MSEFC).

c. Notification of Constitution of Micro and Small Enterprises Facilitation Council (MSEFC): All States & UTs except Manipur, Nagaland and Sikkim have issued the Notifications for constitution of Micro and Small Enterprises Facilitation Council (MSEFC).

2. National Manufacturing Competiveness Programme (NMCP): Providing competitive edge to the units in the MSME Sector in the global environment has been one of the important cornerstones of the policies being pursued by the Government for sustenance of the sector.

3. Prime Minister's Task Force on Micro, Small and Medium Enterprises (PM's Task Force on MSMEs): The Prime Minister had announced setting up of the Task Force in August, 2009 when representatives of prominent MSME associations had met him to highlight their issues and concerns. Accordingly, the Task Force under Shri T.K.A. Nair, then Principal Secretary to Prime Minister was constituted on 2nd September 2009 to reflect on the issues raised by the associations and formulate an agenda for action after discussions with all stakeholders. Its members included Member, Planning Commission, Secretaries of concerned Government Departments, Deputy Governor, RBI, Chairman and Managing Director, SIDBI and representatives of MSME associations.

4. Rajiv Gandhi Udyami Mitra Yojana : The objective of Rajiv Gandhi Udyami Mitra Yojana (RGUMY) is to provide handholding support and assistance to the potential first generation entrepreneurs, who have already successfully completed Entrepreneurship Development Training Programme (EDP) / Skill Development Training Programme (SDP)/ Entrepreneurship-cum-Skill Development Training Programme (ESDP) /Vocational Training Programmes (VT), through the selected lead agencies i.e. 'Udyami Mitras', in the establishment and management of the new enterprise, in dealing with various procedural and legal hurdles and in completion of various formalities required for setting up and running of the enterprise.

INSTITUTIONS SUPPORTING MSME GROWTH:

Over the years, the National Institute for Micro , small and medium enterprise ,

an organization of the Ministry of MSME, Government of India, has gained immense experience and expertise in the areas of entrepreneurship development, technology, management, extension and information services.

NI-MSME has been providing unstinted support to small and medium industries and has evolved to be the best in offering services like research, consultancy, information, training and extension to not only enterprises but also to concerned development agencies. NI-MSME has always been conceiving specialized need-based programs and workshops and seminars in tune with the changing policies and economic situation. NI-MSME has been successfully training entrepreneurs to face challenges, help them cope with competition, and gain the much needed competitive edge in the global scenario. NI-MSME has had profitable interface with several international agencies like Common wealth Fund for Technical Co-operation, UNESCO, United Nations development programme, Ford foundation, GTZ of Germany, United States Agency for international development etc.

Objectives:

- To evolve standardized materials and processes for selection, training, support and sustenance of entrepreneurs.
- To help and affiliate business organizations in carrying out training and other entrepreneurship development related activities.
- To serve as an apex national level resource institute for accelerating the process of development ensuring its impact across the country
- To train trainers, promoters and consultants in various areas
- To provide international and national forums for interaction and exchange of experiences helpful for policy formulation and modification
- To offer consultancy

Activities:

- Evolve effective training strategies and methodology
- Standardizing model syllabi for training various target groups
- Scientific selection procedure formulation
- Develop training aids and manuals
- Facilitate and support central and state and other agencies in organizing entrepreneurship programmes

PROBLEMS ASSOCIATED WITH DEVELOPMENT OF MSME SECTOR IN INDIA:

MSME sector faces a number of problems - absence of adequate and timely banking finance, limited knowledge and non availability of of suitable technology, low production capacity ineffective marketing and identification of new markets, constraints on modernization and expansions, non availability of highly skilled labour at affordable cost, follow up with various agencies in solving regular activities and lack of interaction with government agencies on various matters.

Infrastructure Development:

The quality of the infrastructure affects the growth prospects of SMEs to a great extent, especially in a developing country like India . Here, 77% of the population lives in villages. This has been identified as a key deterrent to the growth of SME clusters in rural areas.

Technology Handicapped:

Technology plays a crucial role in the development of MSMEs. Today most MSMEs in rural areas undertake manufacturing using old methods and outdated technology. But today, the competition is fierce, unlike in the past, when buyers were simply looked forward to purchasing the best products at the lowest prices. There are additional challenges to be met. The influx of low-cost products from china has made it even more difficult for Indian manufacturers to compete solely on the price front. China is considered the world's manufacturing backyard, due to its low manufacturing and labour costs when compared to those in India.

Upcoming Market Trends and Information:

One of the factors limiting the growth of SMEs is the lack of adequate information. Once MSMEs start the business, they may be interested in knowing about the suppliers of specific machinery that suit their needs, technical information and market trends for their products. This information is rarely available at the grass roots level.

New Product Development:

The MSME market requires a strong new product development base. In India, most MSMEs work on the designs given to them by domestic or foreign buyers. There is very little innovation in product design development, and even the technology used by the SMEs in India is Outdated.

Policy Implication:

At present the government of India is giving high priority in promoting MSMEs. It is suggested that to overcome those constraints and problems, India has to have a national policy on MSMEs as an integral part of the overall industrialization policy. In developing such a Policy it is important to recognize the importance of the following areas.

- To conduct a comprehensive industrial survey
- To expand institutional support
- To give incentives, assistances and tax concessions
- To strengthen inter-industrial linkages
- To create entrepreneurial path within the system of general and vocational education

CONCLUSION:

MSMEs play very important role in both developed and developing countries. Their importance is reflected by the sheer number of establishments, generation of employments, contributing to the GDP, embarking on innovations, stimulating of other economic activities etc. Having understood the positive impact of MSMEs development on economic growth, many countries are putting a lot of efforts to develop this vital sector. In India too, successive governments have taken various steps to develop MSMEs since independence. But the contribution of MSMEs to the national economy in India is still low when compared with the other developed and developing countries in the region. Therefore, there is an urgent need to further improve the inherent capacities and capabilities of these industries to be efficient suppliers. In order to bring this sector to that position, the role that the government has to play is very important. First of all it should have a national policy on SMEs .In order to formulate a national policy ,it should recognize the importance of facts such as having a clear definition for MSMEs, expanding institutional support, giving incentives, assistance and tax concessions are imperative. Further, creating an inter-industry linkage and establishing funding institution such as Enterprise Development Bank who provides seed capital to MSMEs at lower interest rate and which has easy access are very important. For the development of rural and farm group, different departments should be formed. Similarly, in the development of industrial ministry for urban Micro and Small and Medium Industries specific efforts should be done. MSMEs always represented the model of socio-economic policies of Government of India which emphasized judicious use of foreign exchange for import of capital goods and inputs; labour intensive mode of production; employment generation; non concentration of diffusion of economic power in the hand so few (as in the case of big houses); discouraging monopolistic practices of production and marketing; and finally effective contribution to foreign exchange earning of the nation with low import-intensive operations. MSMEs are the growth engine of the economy and help sustain other sectors such as services.

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