

## **Chapter-II**

### **Role of MSME in Indian Economy**

#### **2.1 Introduction:**

Micro, Small and Medium Enterprises (MSME) sector has appeared as a highly promising and dynamic sector of the Indian economy over the last five decades. This sector plays very important role by offering large employment opportunities at relatively lower capital cost than large industries as well as helps in industrialization of rural & backward areas, to reducing regional disparities, promising more equitable distribution of national income and wealth. MSMEs serving to fill out large industries as ancillary units and this sector contributes immensely to the socioeconomic development of the country.

The significance of micro, small and medium enterprises (MSMEs) in the economic and social development of the country is well recognised. The MSME sector is a nursery of entrepreneurship, often motivated by individual creativity and innovation. This sector contributes 37.54 per cent of the country's GDP, 37.33 per cent of the manufactured output and about 44 per cent of its exports. The MSMEs provide employment to about 117.13 million persons through 51.06 million enterprises. The labour to capital ratio in MSMEs as well as the overall growth in the MSME sector is considerably higher than in the large industries. The physical distribution of the MSMEs is also more even. Thus, MSMEs are important for the national objectives of growth with equity and inclusion. (Annual Report 2015-16, Ministry of Micro, Small and Medium Enterprises, Government of India)

MSMEs provide immediate large scale employment; they approach a method of confirming a more equitable distribution of the national income and they facilitate an effective mobilization of resources and skill which might otherwise remain unutilized. Some of the problems that unexpected urbanization tends to create will be avoided by the establishment of small samples of industrial production all over the country (Planning Commission, Second Five-Year Plan, (1956-61) p. 47).

By using comparatively low capital investment, higher employment opportunities and ample official support, the small-scale sector maintained its growth trend in the pre-reform period. Importance of MSMEs has not been undermined in the post-liberalization era and even in the Ninth Five-Year Plan (1997-2002) document, it has been agreed that: The small sector has become matured and is in a position to make a much larger contribution to the national economy as well as can face the challenges of large industry, including multinationals.

N. Rangunathan (1988) opined that the Industrial Policy Resolution of April 1948, rightly found the small scale industries as being “Particularly suitable for the better usage of local resources and for the accomplishment of local self-sufficiency in respect of certain types of necessary consumer goods like food, cloth and agricultural equipment”.

The year 1991 marked the dawn of a new era for the Indian economy. Major structural reforms were initiated with the objective of transforming the centrally planned economy to a market-driven one. The regime of widespread liberalization started in June-July 1991, when the License-Permit Raj of yesteryears started disappearing and deregulation, decontrol and de-licensing regime made headway in the industrial policy. Trade policies focused on liberalization, openness, transparency and globalization of the Indian economy. It further included reduction in tariffs, removal of quantitative restrictions, changes in exchange rate policy, and open policy toward foreign direct investment.

This sector is considered to be an engine of growth, especially in an emerging country like India due to their aid to income generation, employment, GDP and export earnings. Cottage industries, from the other side also called household industries, are controlled by individuals with private means and with the help of family members and are pursued as full-time or part-time occupation. The capital investment requirement is less and the equipment's used are simple. These small businesses usually use locally available resources, raw materials and indigenous skills. The output produced in each industrial unit is generally sold in local market. Such industries can be managed with little resources and in terms of returns provide much better results. Micro, Small and Medium Enterprises (MSMEs) are showing their influence on national and regional economies in all over the world. They have been acknowledged in both developed and developing

countries as a fruitful tool for generating employment opportunities with a small amount of capital investment.

Khadi and Village Industries (KVI) these two are among the national heritages of India. In Indian economy, one of the most important aspects of KVI is that with a very low per capita investment it can create employment in rural India. The KVI Sector not only work for the basic needs of processed goods of the vast rural sector of the country but also arrange for workable employment to rural artisans. KVI today represent an attractive, heritage product, which is 'ethnic' as well as 'ethical'. The Sector has a potentially strong clients among the middle and upper sections of the society.

Coir Industry is an agricultural based traditional industry, which initiated in the state of Kerala and flourished to the other coconut producing states like Andhra Pradesh, Karnataka, Tamil Nadu, Odisha, West Bengal, Maharashtra, Assam, Tripura, etc. It is an export centric industry and has greater possibility to increase exports by adding value through technological interferences and differentiated products like Coir Geotextiles etc. The preference towards Coir products has increased rapidly due to its 'environment friendly' image.

Modern small scale industries produce a wide variety of goods ranging from relatively simple items to sophisticated products such as mixer grinder, television sets and various engineering products particularly as ancillaries to the electronic control system, large industries. The traditional small industries are highly labour intensive, while the modern small scale units uses machinery with modern technology and equipment.

## **2.2 Small Industries and the Five-Year Plans**

### ***First Five Year Plan (1951-56):***

To protect the small-scale sector first plan recommended a "Common Production Programme" to ensure that while large and small units both the sectors are contributing to the total requirement of the nation, the small units would fulfil the targets set for them. An important milestone in the history of the development of small-scale industries in India was the visit of the international perspective team in 1953-54, which was jointly sponsored by the Government of India and the Ford Foundation. The expert team in their report suggested the setting up of a regional additional institute to provide services in technical, marketing and financial areas. In pursuance of the recommendations made by the team, four extension institutes were set up at for

important regions of the country and they are Bombay, Calcutta, Delhi and Madras, to provide technical assistance to small industries.

***The Second Five-Year Plan (1956-61):***

In this plan more importance had been given to heavy and basic industries but not by neglecting the small industries or the small producer. In fact, the basic philosophy of the Plan was not only to encourage small industries, but also effort had been given to establish an economic order with the small producer at the centre. The plan also endorsed the 'Common Production Programme', and the proposal for non-expansion of the capacity of selected large-scale industries, the imposition of an excise duty on the production of some large industries, the development of industrial co-operatives and scheme of special assistance to small industries.

***Third Five Year Plan (1961-66):***

This plan aimed at a greater diversification of product in the small sector and a precise integration between the large and small sectors in specified items. The programmes adopted in the First and Second plans laid down the basic policy of the government towards the small-scale and cottage industries. In the Third Plan only their coverage was extended. The Third Plan kept an outlay of ₹ 264 crores for the development of small-scale and cottage industries. Actual expenditure was, however ₹ 240.76 crores. Another scheme of the plan was to reserve certain items exclusively for development in the small-scale sector.

***The Fourth Five Year Plan (1969-74):***

This plan accepted the policy of decentralized growth of industries. The Fourth Plan kept an outlay of ₹ 293 crores for the development of village and cottage industries. The actual expenditure, however, amounted to ₹ 250 crores. In July 1969, 14 most important commercial banks of the country were nationalized and this helped to accelerate the movement of funds from the banks to the small sector. The main agenda during the plan were credit facilities under state assistance to industries, training and common service facilities, quality marketing, and consolidation of the industrial estates programmed to be administered by the states.

***The Fifth Five Year Plan (1974-79):***

This plan opened a new chapter by emphasizing removal of poverty by making provision of many self-employment arrangements by means of cottage and small scale industries, which received their due share in the plan allocation. Outlay for these industries was kept at ₹ 611 crores in the Fifth Plan. The broad strategy of the programme for the development of the small industries was to;

- Promote and develop entrepreneurship and provide a ‘package of consultancy services’ so as to create the maximum chances for employment, particularly self-employment;
- Smooth the progress of fuller utilization of the skills and equipment of the persons already involved in different small units;
- Progressively improve the production techniques of these industries so as to bring them to a viable level; and
- Promote these industries in selected ‘growth centres’ in semi-urban and rural areas including backward areas.

***In Sixth Five Year Plan (1980-85):***

The Sixth Plan kept an outlay of ₹ 1780.45 crores for the development of village and small industries. The programmes for the village and small industries sector were so designed as to serve the following objectives:

- Improvement in the levels of production earning particularly of the artisans, through measures like up gradation of skills and technologies and products marketing etc.
- Creation of further employment opportunities on a scattered and decentralised basis;
- Significant contribution to growth in the manufacturing sector through inter alia, optimum utilization of existing installed capacities;
- Setting up of a wide external base through appropriate training and package of initiatives;
- Creation of viable structure of village and small industries so as to progressively reduce the role of subsidies; and
- Expand efforts in export promotion.

***The Seventh Five-Year Plan (1985-90):***

This plan period laid emphasis on industrial development strategies based on adequate development of infrastructure by incorporating the growth-centre concept and nucleus-plant approach together with appropriate group of ancillary industries. This approach also aimed at dispersal of industries in the rural areas. To achieve these goals Seventh Plan kept an outlay of ₹ 2752.74 crores for the small scale and cottage industries.

***The Eight five-year plan (1992-97):***

Special features of this plan is, there was a break of two financial years between the end of the Seventh Plan (1985-90) and the beginning of the Eighth Five Year Plan (1992-1997). The overall outlay envisaged in the eighth plan for industrial grand was ₹40,673.43 crore out of which. ₹35,150 crore were for the central sector, and the balance of ₹5,523.43 crore, for the state sector.

The Eighth Five Year Plan was started in the backdrop of an impressive industrial growth during the 1970s and 1980s. Overall industrial growth steadily improved from 2.3 per cent in 1992-93 to 6.0 per cent in 1993-94, 9.4 per cent in 1994-95 and 12.1 per cent in 1995-96. However, in 1996-97 it drooping to 7.1 per cent as a result of which growth rate becomes 7.3 per cent against a target of 7.4 per cent during the Eighth Plan period. In all the three sector of industrial activity the annual growth rates in the Eighth five year plan have been lower in comparison to the Seventh plan although the growth rate in manufacturing sector has been higher than as targeted.

***Ninth Five Year Plan (1997-2001):***

The Ninth Five Year Plan is a continuation of the process of planning. The specific objectives of the Ninth Plan have been as follows:

- Priority to agriculture and rural development with a view to generating sufficient fruitful employment and abolition of poverty;
- Accelerating the growth rate of the economy with stable price
- Make certain food and nutritional security for all, particularly the helpless sections of the society;
- Providing of minimum services like safe drinking water, primary health care facilities, universal primary education, accommodation and better connectivity to all in a time bound manner;

- Containing the growth of the population;
- Ensuring sustainable development process through social deployment and participation of people at all levels;
- Empowerment of women and socially disadvantaged groups such as minorities as agents of socio-economic development and to make social changes.
- To Promote and develop people's participatory institutions like Panchayath Raj Institutions, Co-operatives and Self Help Groups; and
- Reinforcement the efforts to build up self-sufficiency.

The Ninth Plan predicts a Gross Domestic Product (GDP) growth rate of 6.5 per cent per annum. There has been a slow-down in the rate of industrial growth in the recent past. The key reasons for this have been slow pace of investment especially in infrastructural sectors, deficiency in demand, insufficient and poor quality infrastructure, global downturn leading to slow-down in international trade etc. Considering the prevailing environment, and the measures taken to improve it, the target for industrial growth in the Ninth Plan has been set at 8.2 per cent in manufacturing.

***Tenth Five Year Plan (2002-2007):***

Although growth has direct poverty reducing effects, the resistances and rigidities in the Indian economy can make these processes less effective, hence the Tenth Plan had been formulated in a manner that explicitly addresses the need to ensure equity and social justice. The Tenth Plan (2002-2007) was made against a conditions of high expectations arising from some aspects of recent performance. GDP growth in the post-reforms period had enhanced to an average of 6.1 per cent in the Eighth Plans and in the Ninth Plan from an average of about 5.7 per cent in the 1980 is making India one of the ten fastest developing countries. The objectives of the Tenth Plan:

- Traditionally, the volume of per capita income has been considered as a summary indicator of the economic well-being of the country and growth targets have therefore concentrated on growth in the per capita GDP and per capita income. The growth rates of GDP have been such as to double the per capita income over 20 years or so.

- The approach paper proposed that the tenth plan should aim at a suggestive target of 8 per cent GDP growth for 2002-2007.
- Economic growth was not the only objective for national planning. Over the years, development objectives are being defined not just in relations to increases in GDP or per capita income.
- The tenth plan must set suitable targets in significant progress towards improvement in the quality of life of all people.

This policy also included efforts to be made to approach rural communities as more or make them self-contained in consumer needs, employment and basic amenities.

***Eleventh Five Year Plan (2007-12):***

The Eleventh Plan changes its outlook towards the MSE sector and symbols a shift from the welfare approach to that of empowerment. This Plan looks at this sector as an instrument for sustainable and inclusive economic growth and employment. The strategy is two-pronged it focuses on livelihood and social security. This is not just a rights issue but also to make economic common sense among artisans and entrepreneurs can be most productive only when they are physically and mentally fit.

The Working Group on MSMEs for the Eleventh Plan had projected the need for ₹ 296400 crore as the working capital and term loans for MSEs during the Eleventh Plan. At present, there is no subsector target for the MSE sector within the overall stipulated 40% ceiling for the priority sector lending. The specific objectives of the Eleventh Plan have been as follows:

- Quick and inclusive growth.(Poverty reduction)
- Importance on social sector and delivery of services.
- Empowerment through education and skill development.
- Decline in gender inequality.
- Sustainable Environment in all aspects.
- Increase the growth rate in industry and services to 10% and 9% respectively.
- Growth rate of Total Fertility Rate must be within 2.1%.
- Make available clean drinking water for all by 2009.
- For agricultural sector set a target growth rate of 4%.



***Twelfth Five Year Plan (2012-17):***

The Twelfth Five-Year Plan set a target to attain a growth rate of 8.2% but the National Development Council on 27 December 2012 permitted a growth rate of 8% for the Twelfth Five-Year Plan.

MSME Sector has been consistently registering a higher growth rate than the overall growth of the industrial sector. During the first four years of the Eleventh Plan, MSME Sector exhibited a growth rate of 13 percent on an average. Considering the importance of MSME sector, special attentions has been given to this sector in the Twelfth Five Year Plan.

The objectives of the Twelfth Five Year Plan for the MSME Sector are:

- Promoting competitiveness and productivity in the MSME space
- Making the MSME Sector innovative, improving technology and depth
- Authorising environment for promotion and development of MSMEs
- Strong presence in exports
- Improved managerial processes in MSMEs

Even though the small-scale sector has been acknowledged as an important constituent in the industrial economy of our country, no such statutory recognition of this fact has been made yet. There were frequent demands from the small-scale industries union that a more complete legislation should be passed with a view to implementing the development programme. The Administrative Reforms Commission on Small Scale Industries has also witnessed that the non-implementation of the industrial policy resolution of 1956, regarding the development of the large and small scale sectors. Reason for non-implementation of industrial policy is due to the absence of laws to implement the objectives of the industrial policy resolution. Therefore, the Commission recommended the constitution of a committee to investigate on this issue covering all basic aspects of small-scale industrial development. Based on the Commission's recommendation, the Government of India formed a Committee under the headship of A. R. Bhat to detect specific areas where legislation was considered necessary for the promotion of the small industries.

The Committee in its report suggested legislature on the following aspects: policy statement, definition, reservation, collection of statistics, delayed payment, allocation of raw materials and limited partnership. Even though the suggestions made in the report have been mostly accepted by the Government, no legislation has, yet been outlined. It is, considered that a comprehensive regulation on the lines of similar enactments in Japan and the USA would go a long way in placing the small industry development Programme on a sounder basis.

### ***2.3 Definition of Micro, Small and Medium Enterprises in India:***

The policy framer recognise that despite all the promotional measures through policy direction, the SSI must be appropriately defined with a view to determining the types of small business units which needed special support. It was considered necessary to develop an appropriate classificatory definition for SSI units for the first time under the Industrial Development and Regulation Act, 1951. Since then, the definition underwent many revisions during the last 50 years, where cut-off point has shifted from a workforce to an investment criterion (SIDBI, Report on SSI sector, 1999). Latest definition of MSMEs as per MSMED Act 2006, has broaden the scope of small businesses. As per this act service enterprises also covered under this definition. Demarcation between manufacturing and service enterprises has been made on the basis of investment made in plant & machinery and equipment respectively. Details of this definition has been given in section 1.3.1 of chapter-1.

### **2.4 Performance of MSMEs as per fourth all India census:**

The Office of the DIC (MSME) provides estimates in respect of different performance factors relating to the sector. The time series data in respect of the sector on a number of economic parameters is assimilated in the following **Table-2.1**. Performance of Micro, Small & Medium Enterprises (MSME) sector is measured by conduct of periodic all India Census of the Sector. The latest census conducted was Fourth All India Census of MSME. The survey was carried out with reference year 2006-07, whereas the data was collected till 2009 and results published in 2011-12. Fourth all India census of MSME is the first census conducted after putting into practice of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. Former to implementation of MSMED Act, 2006, the sector was defined, as per the provision of Industries Development and Regulation Act 1951, as Small Scale Industries (SSI)

sector and its constituent tiny and auxiliary units on the basis of ‘periodic revision of criteria’ for defining these small units. Third all India census of SSI was conducted with exposure and ideas as prevailing during 2001-02.

The scope and coverage of the MSME sector was extended significantly under the MSMED Act, 2006, which acknowledged the concept of “enterprise” and to include both manufacturing and services sector. Moreover, as per revised definition of small enterprises the medium enterprises also come under this sector. As a result the entire non-agricultural sector of economy was taken under the coverage of MSME sector. Manufacturing and services sector defined separately as per the amended methods suggested for defining Micro, Small and Medium Enterprises.

From the results of Fourth All India Census of Micro, Small & Medium Enterprises (MSME), it has been observed that this sector contributes significantly to the number of enterprises, employment and output of the country. By considering the data sets of Third and Fourth All India Census of SSI /MSMEs, augmented with data sets of Economic Census, 2005 and growth rate experienced during Fourth (1998) and Fifth (2005) Economic Census, the performance of SSI/MSME Sector is summarised as below.

## 2.5 Importance of the MSME sector in Indian Economy:

Contribution made by micro, small and medium enterprises (MSME) sector to manufacturing output, employment and exports of the country is quite substantial. As per present estimates, in terms of value, the sector accounts for about 37.33 per cent of the manufacturing output and 44 percent of the total exports of India. The MSME sector provide work for near about 117.13 million persons through of 51.06 million MSME units scattered all over the country. There are more than 6000 products, varying from traditional to modern items, which are being manufactured by the Indian MSMEs. Details of MSMEs performance has been shown in the following table2.3.

**TABLE 2.1: Performance of SSI / MSME Units, Employment, Investments and Gross Output**

Year	Total Working Enterprise (In Lakh)	Employment (In Lakh)	Market Value of Fixed Assets (In ₹ Crores)	Gross Output (In ₹ Crores)
I	II	III	IV	V
2001-02	105.21	249.33	154349	282270
2002-03	109.49	260.21	162317	314850
2003-04	113.95	271.42	170219	364547
2004-05	118.59	282.57	178699	429796
2005-06	123.42	294.91	188113	497842
2006-07	361.76	805.23	868543.79	1351383.45
2007-08	377.37	842.23	917437.46	1435179.26
2008-09	393.7	881.14	971407.49	1524234.83
2009-10	410.82	922.19	1029331.46	1619355.53
2010-11	428.77	965.69	1094893.42	1721553.42
2011-12	447.73	1012.59	1176939.36	1834332.05
2012-13	467.54	1,061.40	1,268,763.67	NA
2013-14	488.46	1,114.29	1,363,700.54	NA
2014-15	510.57	1,171.32	1,471,912.94	NA

*Source: Annual Report, 2013-14, 2014-15 & 2015-16. Ministry of Micro, Small and Medium Enterprises, www.msme.gov.in*

### **2.5.1 Meaning of Registered and Unregistered Sector:**

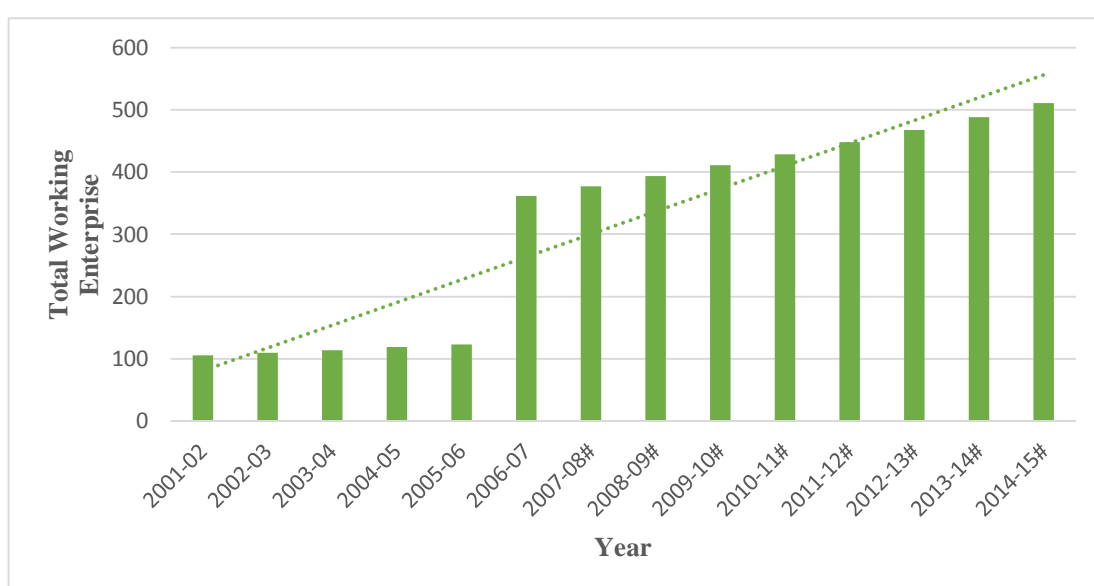
**Registered Sector:** Enterprises those are registered with District Industries Centres in the State or UTs, Khadi and Village Industries Board, Coir Board as on 31.03.2007 (or before) and factories which are under the coverage of section 2m (i) and 2m (ii) of the Factories Act 1948 exercised for Annual Survey of Industry having investment in plant and machinery up to ₹ 10 crores were considered to belong to registered sector.

**Unregistered Sector:** All enterprises engaged in the activities of manufacturing or in providing or rendering of services, permanently not registered or Entrepreneurs Memorandum (EM) not filed by them with State Directorates of Industries or District Industries Centres on or before 31-3-2007 are called unregistered enterprises. Enterprises that are provisionally registered on or before 31-3-2007 as also the units that are provisionally or permanently registered or filed EM after 31-3-2007 till the date of Sample Survey, conducted as part of Fourth All India Census of MSME, 2006-07 were considered as unregistered enterprises for the purpose of this survey. Enterprises belongs to constituent part of registered sector as defined above were excluded from the coverage of unregistered sector.

## 2.5.2 Number of working MSMEs:

The small-scale industrial sector which plays a crucial role for the Indian economy in terms of employment and growth. MSME has recorded a high rate of growth since independence irrespective of difficult competition from the large sector and not so-encouraging support from the government. This is supported by the number of registered units which went up from 16000 in 1950 to 36000 in 1961 and to 24.01 lakh units in 2006-07.

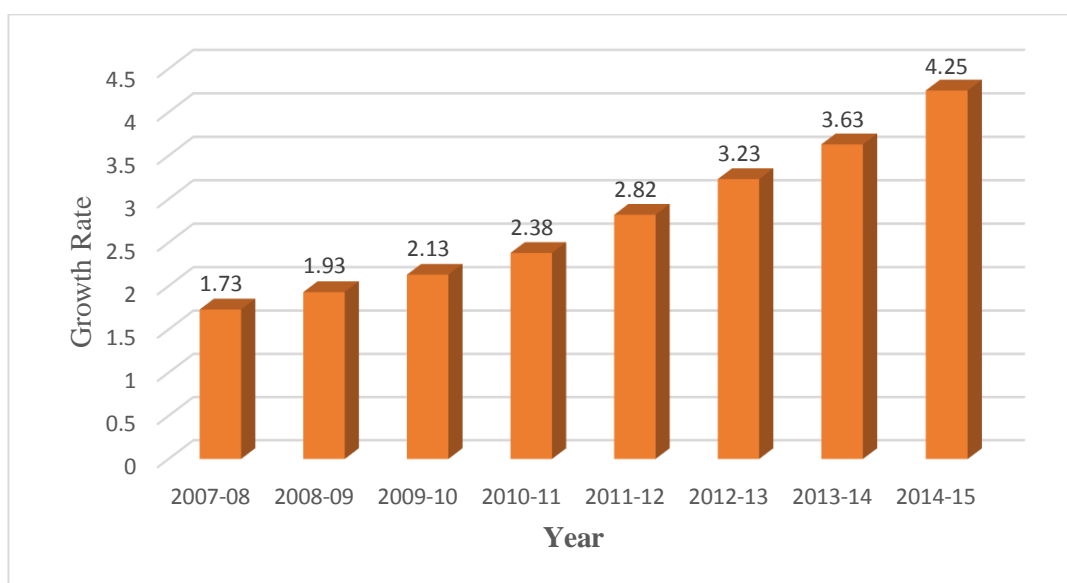
**Figure-2.1: Growth in working MSMEs over the year**



*Source: Annual Report, 2013-14, 2014-15 & 2015-16. Ministry of Micro, Small and Medium Enterprises, [www.msme.gov.in](http://www.msme.gov.in)*

**Interpretation:** It can be deciphered from the above figure-2.1 that the number of MSMEs has increased steadily in India from 105.21 lakhs units in 2001-02 to 510.57 lakhs units in 2014-15. This could be possible due to the conducive policy environment during post liberalization era of 1991. Number of MSMEs increases significantly from the year 2006-07 onwards due to changes in definition of MSMEs as per MSMEs Development Act, 2006, which has widened the scope of definition given earlier. Increase in number of MSMEs leads to increase in investment which leads to capital formation of India. Not only investment, increase in number of MSMEs also pushed up employment of India where unemployment is one of the severe problem.

**Figure-2.2: Growth rate of registered MSMEs over the previous years**



*Source: Annual Report, 2015-16. Ministry of Micro, Small and Medium Enterprises, [www.msme.gov.in](http://www.msme.gov.in)*

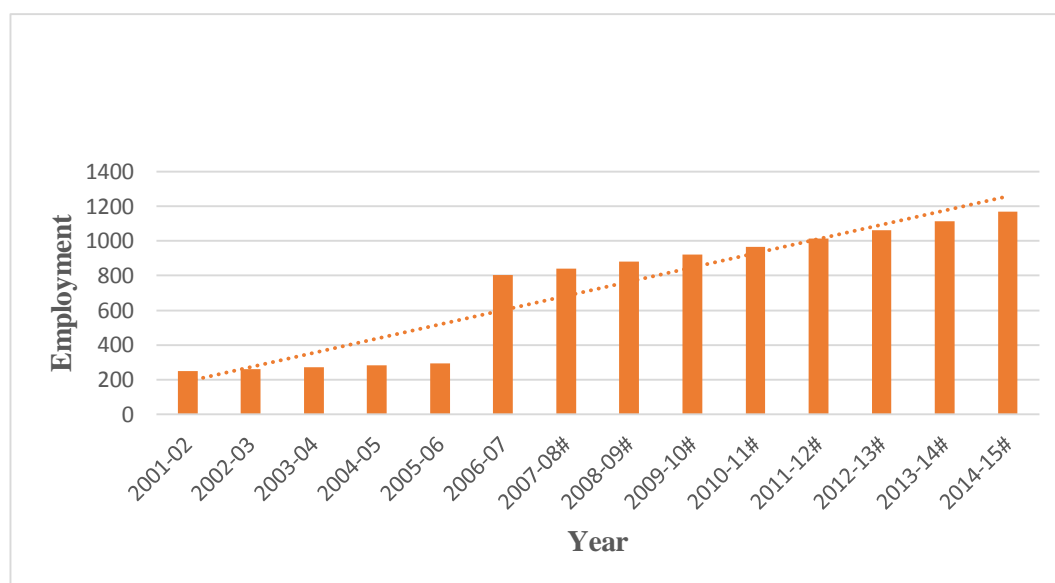
**Interpretation:** MSME has shown consistent growth in terms of number of EM-II (Entrepreneurs Memorandum-II) filed 2007-08 with the District Industries Centres across the country was 1.73 lakh which increased to 1.93, 2.13, 2.38, 2.82, 3.23, 3.63 and 4.25 lakh during 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14 & 2014-15 respectively. Observing this result of registered MSMEs it can be concluded that there is an increasing tendency towards registering their respective units by the owner of MSMEs. This may happen to avail different government subsidy allowed by Government of India and different state Government to the owner of registered MSMEs. On the other side

### **2.5.3 Employment generated by MSMEs:**

Rapid economic growth requires the generation of a large economic surplus in all fields of productive activity. The advantage of large industries is that they are generally capital intensive and accordingly per capita productivity and economic surplus is greater in them. Against this, the small scale industries are generally labour intensive. Accordingly they have a substantially higher employment potential as compared to the large scale industries. P. C. Mahalanobis had this to say on the employment potential

of small scale and cottage industries: “In view of the meagreness of capital resources there is no possibility in the short run, for creating much employment through the factory industries. Now consider the household or cottage industries. They require very little capital. About six or seven hundred rupees would get an artisan family started. With any given investment, employment possibilities would be ten or fifteen or even twenty times greater in comparison with corresponding factory industries”.

**Figure-2.3: Trends in Employment Generated by MSMEs (in lakh) in India**



**Source:** Annual Report, 2013-14, 2014-15 & 2015-16. Ministry of Micro, Small and Medium Enterprises, [www.msme.gov.in](http://www.msme.gov.in)

*Including activities of wholesale/retail trade, legal, education & social services, hotel & restaurants, transport and storage & warehousing (except cold storage) for which data was extracted from Economic Census 2005, Central Statistics Office, MOSPI.*

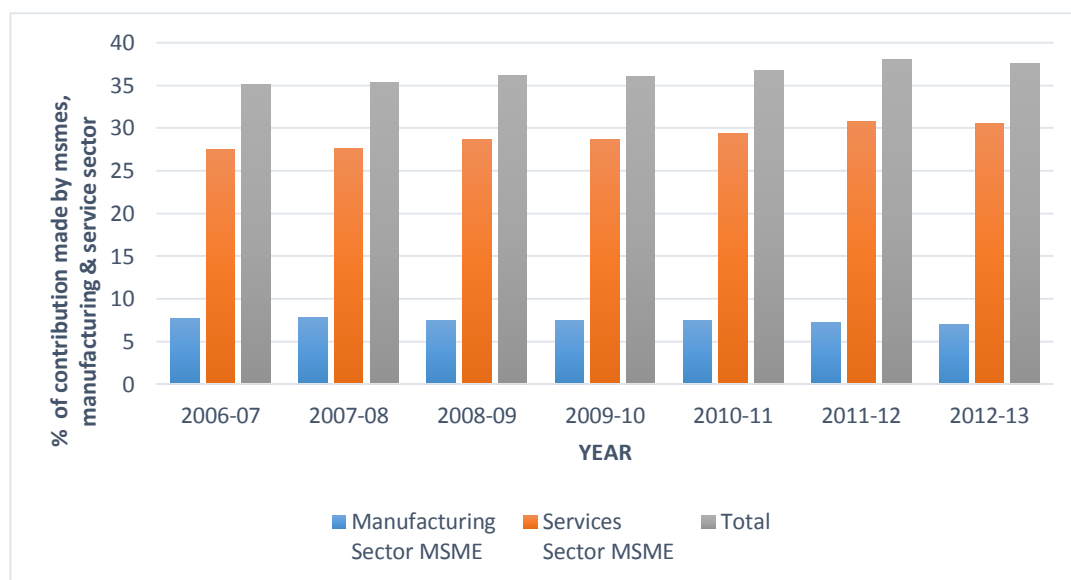
**Interpretation:** It can be observed from the above figure-2.3 that number of persons employed in MSMEs has risen from 249.33 lakhs in 2001-02 to 1,171.32 lakhs in 2014-15. The huge increase in employment has been observed from the year 2006-07 onwards. Trend line also shows a steady increase of employment over the years. This happens due to the changes in MSME definition as per MSMEs Development Act, 2006 which has widened the scope as well as coverage of MSME sector. However, much of the labour absorption has taken place in the unorganized/ informal enterprises.



#### 2.5.4 Contribution to GDP:

As per the revised method recommended by the Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation (MoSPI), on the basis of the data on Gross Domestic Product (GDP) published by CSO, MoSPI and final results of the up-to-date Census (Fourth Census), accompanied (with base reference year 2006-07), in which the data was collected till 2009 and results put out in 2011-12, the projected contribution of MSME sector (including service segment) to GDP during 2010-11, 2011-12 & 2012-13 are 36.69 per cent, 37.97 & 37.54 per cent respectively.

**Figure-2.4: Share of MSME sector in total GDP (%) considering both Manufacturing & Service sector at 2004-2005 prices**



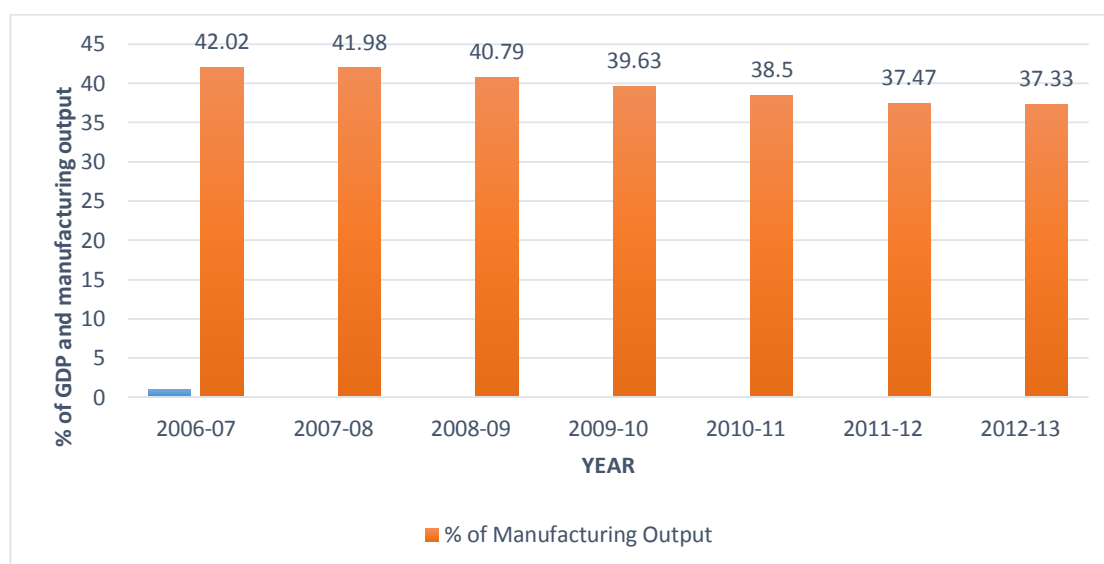
**Source:** Annual Report, 2013-14, 2014-15 & 2015-16. Ministry of Micro, Small and Medium Enterprises, [www.msme.gov.in](http://www.msme.gov.in)

**Interpretation:** It can be witnessed from the *figure 2.4* that the contribution of manufacturing sector of MSME to Gross Domestic Product (GDP) has declined marginally from 7.73% in 2006-2007 to 7.04% in 2012-13. The contribution of the MSME service sector to the Gross Domestic Product (GDP) has increased from 27.42% in 2006-2007 to 30.5% in 2012-13. Total contribution made by MSME sector has increased from 35.13% in 2006-2007 to 37.54% in 2012-2013. This happen due to the better performance made by service sector of MSMEs in the context of Indian economy.

### 2.5.5 Share in manufacturing output:

The data reveals that the total number of SSI units has increased from 79.6 lakhs in 1994-95 to 133.68 lakhs in 2007-08, indicating annual growth rate of 4.1 percent, but their production (at 1993-94 prices) increased from ₹1,09,116 crores in 1994-95 to ₹ 532979 crores in 2007-08 i. e an annual average growth of 13 percent.

**Figure-2.5: Share of MSME manufacturing output in total manufacturing output (%) at 2004-2005**



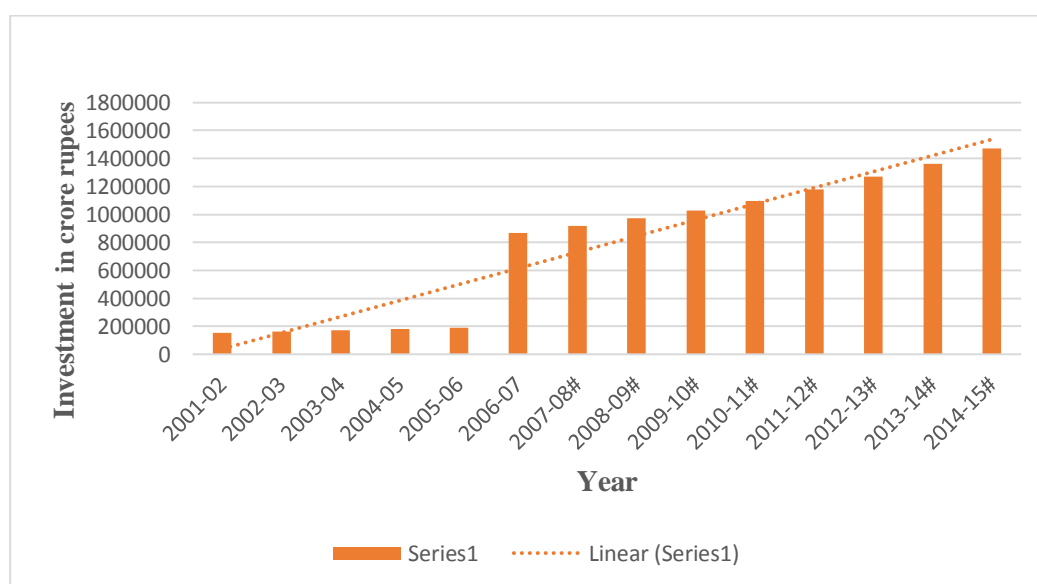
**Source:** Annual Report, 2013-14, 2014-15 & 2015-16. Ministry of Micro, Small and Medium Enterprises, [www.msme.gov.in](http://www.msme.gov.in)

**Interpretation:** It can be observed from the figure 2.5 that the contribution of the MSME sector to overall industrial production has declined marginally from 42.02% in 2006-2007 to 37.33% in 2012-13. Decline in share of manufacturing output over the years by the MSME sector may be due to either better performance made by the other segment of industrial production or performance of the MSME sector during the consideration period was not good enough to maintain its status quo.

## 2.5.6 Investment in fixed assets by MSMEs:

The MSMED Act, 2006 gives us tools for classification of enterprises based on their investment size and the nature of the activity undertaken by that enterprise. Enterprises are classified into two categories as per MSMED Act, these are manufacturing enterprises and service enterprises. For each of these categories, a definition is given to describe what comprises a micro enterprise or a small enterprise or a medium enterprise. Enterprises not coming under the above three categories would be treated as a large scale enterprise in India.

**Figure-2.6: Trends of Fixed Investment in MSMEs over the years (in crore rupees)**



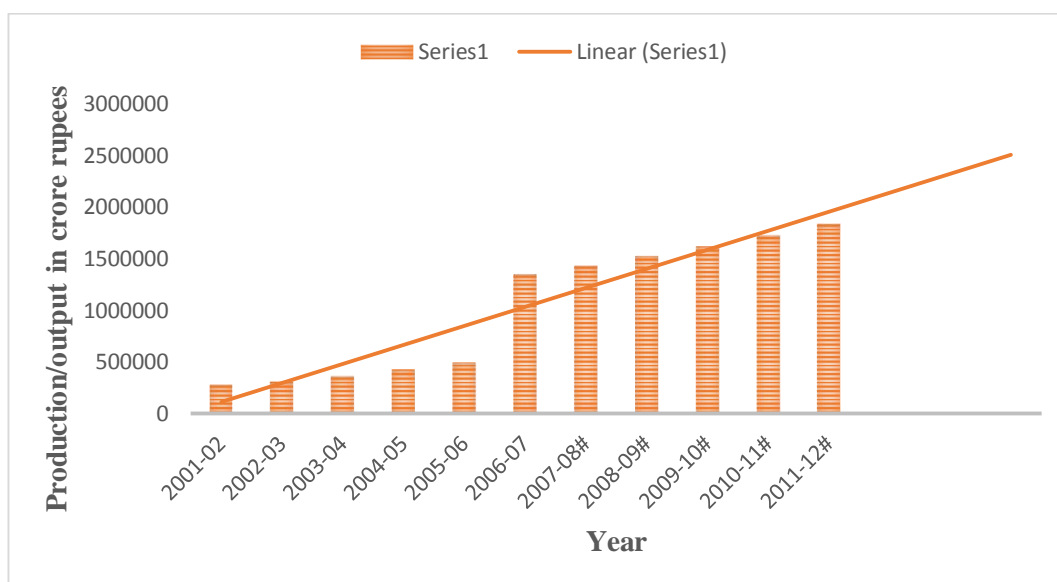
**Source:** Annual Report, 2013-14, 2014-15 & 2015-16. Ministry of Micro, Small and Medium Enterprises, [www.msme.gov.in](http://www.msme.gov.in)

**Interpretation:** It can be interpreted from the **figure 2.6** that the investment made by the MSMEs has increased steadily from ₹ 154349 crores in 2001-02 to ₹ 1471912.94 crores in 2014-15. The huge increase in fixed investment in MSME sector has been observed from the year 2006-07. This happens due to the changes in MSME definition as per MSMEs Development Act, 2006 which has widen the scope as well as coverage of MSME sector. Nevertheless, this gives a clear indication of the fact that investment

in MSMEs has been showing a significant investment growth in the country, which helps in increasing the total capital formation of the country.

**2.5.7 Production made by MSMEs:** In India MSMEs are manufacturing over 6,000 products. Some of the major products produced by subsectors of MSMEs in terms of manufacturing output are food products (18.97%), textiles and readymade garments (14.05%), basic metal (8.81%), chemical and products with chemical content (7.55%), metallic products (7.52%), machinery and equipments (6.35%), transport equipments (4.5%), rubber and plastic products (3.9%), furniture (2.62%), paper and paper products (2.03%) and leather and leather products (1.98%).

**Figure-2.7: Trends in Output by MSMEs over the years**



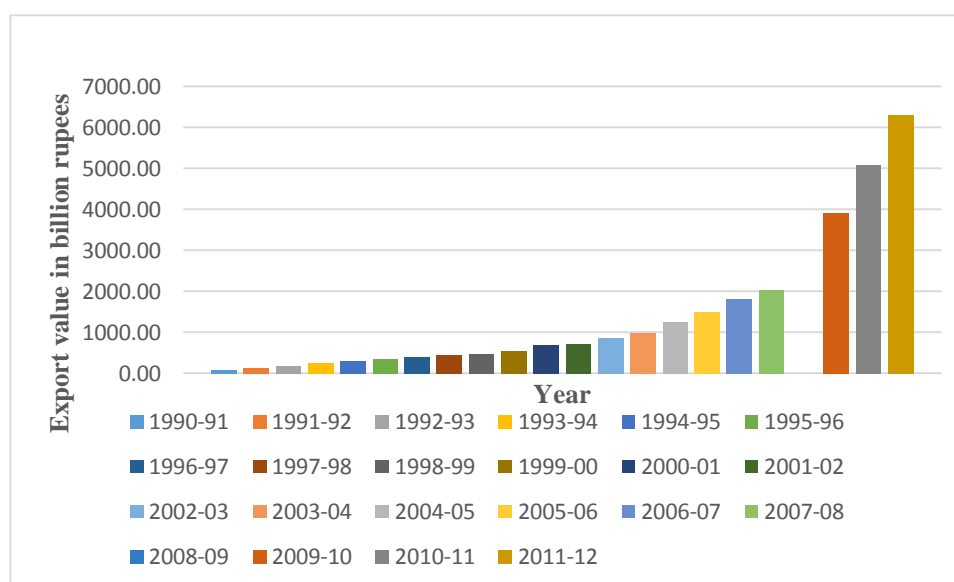
*Source: Annual Report, 2013-14, 2014-15 & 2015-16. Ministry of Micro, Small and Medium Enterprises, [www.msme.gov.in](http://www.msme.gov.in)*

**Interpretation:** It can be observed from the above **figure-2.7** that production made by MSMEs has risen from ₹2, 82,270 crores in 2001-02 to ₹ 18, 34,332.05 crores in 2011-12. Output (production) data are not available for the years 2012-13, 2013-14 and 2014-15. The huge increase in production has been observed from the year 2006-07 onwards. This happens may be due to the changes in MSME definition as per MSMEs Development Act, 2006 which has widened the scope as well as coverage of MSME sector.

### 2.5.8 Contribution to export:

With the establishment of a huge number of contemporary small-scale industries in the post-independence period, the involvement of the small-scale sector in export earnings has increased by leaps and bounds. What is encouraging to observe is that the majority of the exports of the small-scale industries consists of such non-traditional items like readymade garments, sports goods, leather sandals and chappals, other leather products, canned and processed fish, woollen garments and knitwear, processed foods, chemicals and allied products and a large number of engineering goods.

**Figure-2.8: Trends in Export by MSMEs in India**



**Source:** Handbook of Statistics on the Indian Economy, Reserve Bank of India (2015-16).  
Retrieve from: <http://dbie.rbi.org.in>. N.B: Data is not available for 2008-09.

**Interpretation:** It can be interpreted from the **figure 2.8** that the export made by the MSMEs has increased steadily from ₹ 96.64 billion in 1990-91 to ₹ 6301.05 billion in 2011-12. The huge increase in export made by MSME sector has been observed from the year 1990-91 onwards. This may happen due to the adoption of liberal economic policy or due to changes in MSME definition as per MSMEs Development Act, 2006 which has widened the scope of MSME sector. Nevertheless, above figure gives a clear indication of the fact that MSMEs have been showing a significant growth in export of

the country. Which in turn leads to earn more foreign currency as well as it will help to create more employment opportunity by involving people in the process of export.

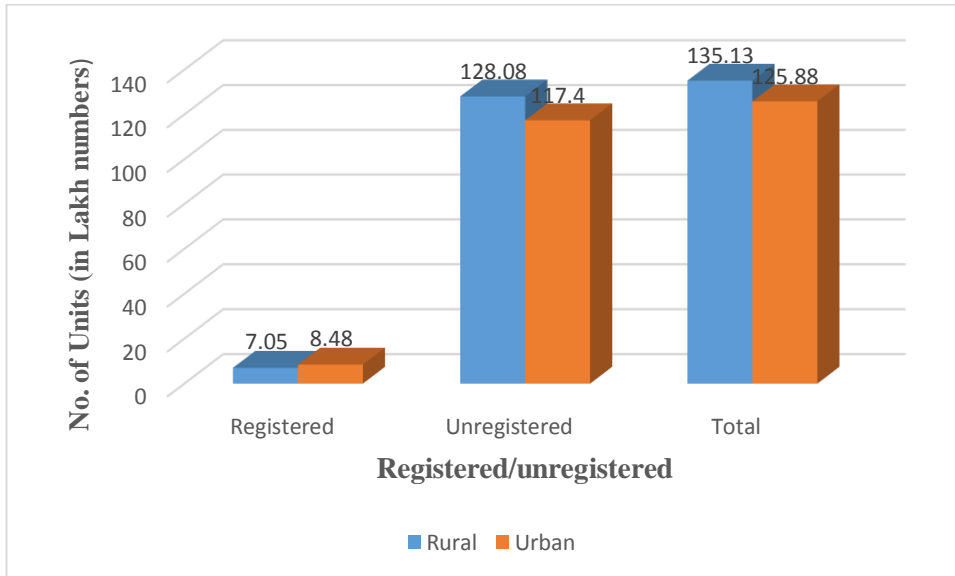
#### **2.5.9 Mobilisation of Capital and Entrepreneurial Skill:**

The small-scale industries are at a divergent advantage as far as the utilisation of capital and entrepreneurial skill is concerned. A number of entrepreneurs are spread over small towns and villages of the country. Obviously, large scale industries cannot make use of them as effectively as the small-scale and village industries scattered over every part of the country. Similarly, large-scale industries cannot utilise the savings made by people in areas far flung from the urban centres. But this task can be successfully done by setting up a network of small scale and cottage industries. In addition, a great number of other resources scattered over the country can be put to a decisive use by the small scale and cottage industries.

#### **2.5.10 Regional Dispersal of Industries:**

Large enterprises are usually concentrated in metropolitan cities. The smaller towns and the rural areas in order to benefit from modern industrialism must inspire small enterprises. Industrialisation of the country can become complete only if it goes through into the distant corners of the country. It may be a genuine fact that it may not be feasible to start small enterprises in every village, but it is fairly possible to select a group of villages and start small enterprises to satisfy the needs of the small area from the local centre. Decentralisation of industrial enterprises also helps to tap local resources such as raw materials, idle savings, local talents and also improves the standard of living in backward regions. In addition, decentralisation helps to solve the problems of bottle neck in the few industrial towns by widening the area of employment. Following figure-2.9 will describe the spread of MSMEs in our country.

**Figure-2.9: Spread of MSMEs in India**



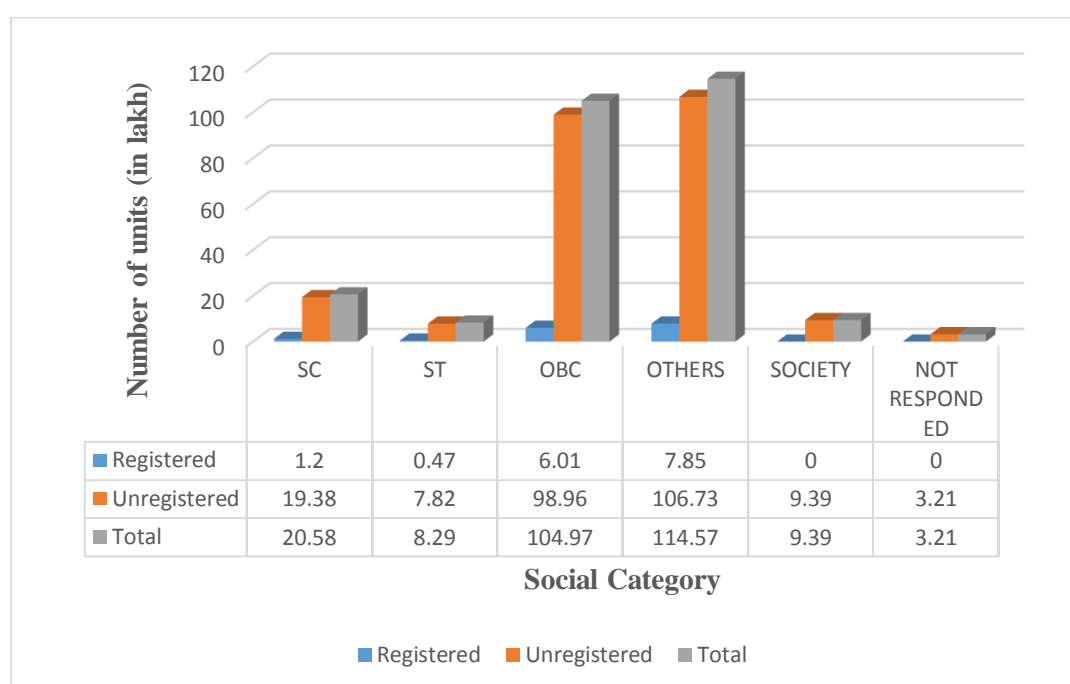
*Source: Quick results, Fourth All India Census (for registered and unregistered) of Micro, Small and Medium Enterprises (2006-07).*

**Interpretation:** From the figure-2.9 it is clear that good number enterprises are from rural area. In total 51.77% of MSMEs are from rural areas whereas 48.23% of total units are in the urban areas. More and more enterprises from rural areas helps to remove regional disparity of income and unemployment problem in the rural areas. Not only those, rural enterprises ensures proper utilisation of local resources.

### 2.5.11 Equitable Distribution of Income among different social category:

Small-scale and cottage industries has been lead to more reasonable distribution of national income and wealth. This is primarily due to the fact that the ownership of small-scale industries is relatively extensive as compared to large-scale industries. MSMEs also helps to remove disparity of social economic status among the different social group in our society.

**Figure-2.10: Spread of MSMEs among the different social groups**



**Source:** Quick results, Fourth All India Census (for registered and unregistered) of Micro, Small and Medium Enterprises (2006-07).

**Interpretation:** As per the social category, 7.88 % of the enterprises were owned by Scheduled Caste (SC) entrepreneurs, 3.18 % by Scheduled Tribe (ST) entrepreneurs, 40.22 % by entrepreneurs of Other Backward Classes (OBCs) and 43.90% by the other cast of the society. It clarifies that MSMEs have been able to pay a huge contribution towards the socio economic development for the people of the country. Though the share in MSMEs among the SC and ST communities are less in both registered and unregistered sector, Government of India and different State Governments are trying to attract these communities to increase their participation through new policy initiatives.



## **2.6 Issues concerning the MSME sector:**

The problems faced by MSMEs are quite unique to the nature of the sector. These make concern to several institutions and departments of the Government. Therefore, a need for an MSME outlook in the functioning of such institutions and departments. The following are the summary of problems of MSMEs discussed below:

### **2.6.1 Credit and Finance:**

The financial disability of small enterprises is beyond question. Their internal resources are so small that they have no surplus to live on during the period of business stain. This leads to instability of their profits which deters banks from giving unsecured loans. The flow of credit from the public sector banks (PSBs) to the MSEs has increased over the years in total terms, from ₹46, 045 crores in March 2000 to ₹1, 85,208 crores in March 2009. However, the share of the credit to the MSE sector in the Net Bank Credit (NBC) has dropped from 12.5 per cent to 10.9 per cent during the same period. Similarly, there has been a drop in the share of micro sector as a percentage of NBC from 7.8 per cent in March 2000 to 4.9% in March 2009.

Nevertheless there is still a need for a positive change in the attitude and method of our financial institutions towards small-scale enterprises. Their credit-worthiness should not be evaluated in terms of the value of the assets but in terms of the ability of an enterprise to do the job and earn profit.

### **2.6.2 Marketing Assistance:**

Small scale enterprises suffer from marketing difficulties as their products are every so often not standardized and of inconstant quality. Unquestionably, the uniqueness of design is their special quality but it directs to imperfection of the market, which helps to give benefits to branded and advertised commodities. There is a need for government intervention to eliminate these imperfections by enlightening information and bringing producers and dealers into neighbouring contact with one another. In order to provide assurance for sale, Public Procurement Policy for MSMEs as envisioned in the Micro, Small and Medium Enterprises Development Act, 2006 may be started at the earliest. The policy may set an aim for government departments and PSUs to reach, over a specified period, an aim of at least 20% of their annual purchases are from micro and

small enterprises (MSEs), and order them to report their achievements in this regard in the annual reports.

### **2.6.3 Allocation of Raw Materials, Imported Component and Equipment:**

It has observed that MSME units have been facing difficulties in getting certain critical items of raw materials like aluminium, iron & steel, zinc, copper, bitumen, plastic granules, packaging paper etc., due to sharp fluctuations in market prices, non-availability of small quantities of such materials at affordable prices and non-availability of some of the materials in time. Not only that, MSMEs are also facing problem with imported components for production and selected imported equipment to the small enterprises and emphasised that the small scale industry has not shared proportionately in the growing supplies of raw materials. To address all these issue NSIC and other State Corporations have helped to bridge the gap in the supply of these raw materials which is significantly helping the MSMEs in making their operations competitive.

### **2.6.4 Technical Assistance:**

The development of small scale enterprises is hindered by the present poor level of technology and deficiency of trained and experienced supervisory personnel. Provision of technical service is therefore, an important and justified form of aid to stimulate increased productive efficiency and encourage new product lines. To overcome these issue related to technology a coordinating body should be established for continuous interaction with several agencies involved in development of new technologies for the MSMEs like Department of Science and Technology, Department of Scientific and Industrial Research, Department of Bio-Technology, Council of Scientific and Industrial Research, etc., for spreading of information on suitable technologies among the MSMEs.

### **2.6.5 Development of infrastructure:**

The present status of infrastructure, including power, water, roads, etc. in such areas is poor and undependable. Further, the MSE sector in India, except in few cases, is characterised by poor technology levels, which acts as a handicap in the emerging global market. As a result, the sustainability of a large number of MSEs will be in trouble in the face of competition from imports. Although India has the advantage of a large volume of human resources, the industry continues to face scarcity in manpower with the right skill set for specific areas like, manufacturing, service, marketing, etc. The human resource problem is further intensified by the low retention rate. In the present global environment, the MSMEs have to be competitive to stay alive and flourish. To ensure competitiveness of the MSMEs, it is essential that the availability of infrastructure, technology and skilled manpower are in tune with the global trends.

### **2.6.6 Industrial Estates:**

An industrial estate is an attempt to deliver, on a rental basis, good accommodation and other basic common facilities to groups of small entrepreneurs who would otherwise find it challenging to ensure these facilities at a judicious price. However India's experience proved to be a partial success. Major factors accounting for the poor output and employment performance of many estates include wrong location, incompatibility of sheds and space to the needy, low use of capacity in functioning firms, and occupation of factory sheds by the government agencies.

### **2.6.7 Absence of MSME friendly legislation:**

Although the government has provided a principal legislation in the form of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 for the MSME sector, there are enormous regulatory issues which effect the progress of entrepreneurship generally and on the efficacy of MSMEs in particular. The regulatory aspects involve compliance with labour, environment, municipal and various taxation laws (both state and central). An understanding of the concerns from all standpoints, including regulatory, labour and MSMEs, will help in formulating a welcoming regulatory environment which would facilitate promotion and confirm better compliance.

**2.6.8 Limited capital and knowledge:**

For MSMEs access to Equity capital is a real problem. Presently flow of equity capital into this sector is very much insignificant, despite the fact that overall capital introductions have observed significant increase in the recent years. Non-existence of equity capital may posture a serious challenge to development of knowledge-based industries, especially those that are wanted to be promoted by the first-generation entrepreneurs with the necessary expertise and knowledge.

**2.6.9 Lack of access to global markets:**

Now a days, India is among the quickest growing economies in the world. In addition to the large enterprises, a significant section of Indian MSMEs have attained global competitiveness, particularly in sectors like Garments, Leather Goods, Auto components, Engineering items, Gems and Jewellery etc. In the services sector beauty therapies, grooming, health care and education have massive export potentials. Export of final product directly from these enterprises, particularly to countries in developing world like Africa could be increased significantly through supporting services like information on new markets /products, facility of warehousing outside India, product advertising etc. As individual enterprises do not have adequate means to take up such initiatives, Government can provide necessary assistance by cluster / consortia based initiatives through PPP mode.