

## Micro Small and Medium Enterprises in India -An overview

**Surbhi Aggarwal**

Assistant Professor Department of Applied Sciences PEC University of Technology  
Chandigarh, India

### Abstract

The Micro, Small & Medium Enterprises (MSME) sector plays a significant role in the Indian economy and is expected to assume a greater role in the coming times. The MSMEs constitute over 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. The development of this segment is extremely critical to meet the national imperatives of financial inclusion and generation of significant levels of employment across all areas in the country. Also, it can provide support to new age entrepreneurs who have the potential to create globally competitive businesses from India.

In this paper we will cover the concept of MSME, its scope and role in our economy and what efforts and initiatives are taken by the government to promote this sector? The research is based on secondary data collected from various sources and is based on exploratory research methods. My main objective is to explore the role of these various sectors in our economy in detail.

**Introduction:** The organization of the Development Commissioner (Micro Small and Medium Enterprises) [(earlier called Development Commissioner (Small Scale Industries)] was established as Small Industries Development Organisation (SIDO) in 1954 on the basis of the recommendations of the Ford Foundation. Over the years, it has seen its role evolve into an agency for advocacy, hand holding and facilitation for the small industries sector. With the enactment of the MSMED Act 2006, the organization has been renamed as Micro, Small and Medium Enterprises-Development Organisation (MSME-DO) with the wider mandate of promotion and development of MSME sector. It has over 60 offices and 21 autonomous bodies under its management. These autonomous bodies include Tool Rooms, Training Institutions and Project-cum-Process Development Centres. MSME-DO provides a wide spectrum of services to the small industries sector, now enlarged to include all enterprises, excluding the larger ones. MSME-DO provides economic information services and advises Government in policy formulation for the promotion and development of MSME sector. Consequent upon the increased globalization of the Indian economy, MSME sector is facing new challenges. MSME-DO has recognised the changed environment and is currently focusing on providing support in the fields of credit, marketing, technology and infrastructure to MSMEs. Global trends and national developments have transformed MSME-DO's role into that of a catalyst of growth of small enterprises in the country.

## Definition

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:

1. **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) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise are defined in terms of investment in Plant & Machinery.
2. **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 are as under

<b>Manufacturing Sector</b>	
<b>Enterprises</b>	<b>Investment in plant &amp; machinery</b>
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
<b>Service Sector</b>	
<b>Enterprises</b>	<b>Investment in equipment</b>
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

## Importance and Contribution of MSMEs

There are approximately 46 million Micro, Small and Medium Enterprise sector enterprises across various industries, employing 106 million people. There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSME Sector in addition to provide wide range of services. Overall, the MSME sector accounts for 45 percent of Indian industrial output and 40 percent of exports. The contribution of the MSME sector to India's GDP currently stands at ~8 per cent for 2011-12, and is growing at a rate higher than the projected GDP growth rate. The contribution of MSME segment to the GDP in some of the global economies is in the 25-60 per cent range.

**Source- KPMG report 2015**

As per the results of Fourth All India Census of MSME, the sector contributes significantly to the number of enterprises, employment and output of the country.

**TABLE 2.1: PERFORMANCE OF MSME, EMPLOYMENT AND INVESTMENTS**

Sl. No.	Year	Total Working Enterprises (in Lakh)	Employment (in Lakh)	Market Value of Fixed Assets (Rs. in Crore)
I	II	III	IV	V
1.	2006-07	361.76	805.23	868,543.79
2.	2007-08 <sup>#</sup>	377.36	842.00	920,459.84
3.	2008-09 <sup>#</sup>	393.70	880.84	977,114.72
4.	2009-10 <sup>#</sup>	410.80	921.79	1,038,546.08
5.	2010-11 <sup>#</sup>	428.73	965.15	1,105,934.09
6.	2011-12 <sup>#</sup>	447.64	1,011.69	1,182,757.64
7.	2012-13 <sup>#</sup>	447.54	1,061.40	1,268,763.67
8.	2013-14 <sup>#</sup>	488.46	1,114.29	1,363,700.54

- Including activities of wholesale/retail trade, legal, education & social services, hotel & restaurants, transports and storage & warehousing (except cold storage) for which data were extracted Economic Census 2005, Central Statistics Office, MOSPI.  
 - Estimated on the basis of per enterprises value obtained from sample survey of unregistered sector for activities wholesale/retail trade, legal, education & social services, hotel & restaurants, transports and storage & warehousing(except cold storage) which were excluded from Fourth All India Census of MSME, unregistered sector.  
<sup>#</sup> - Projected.

Source- Annual Report 2014-2015(Ministry of MSME)

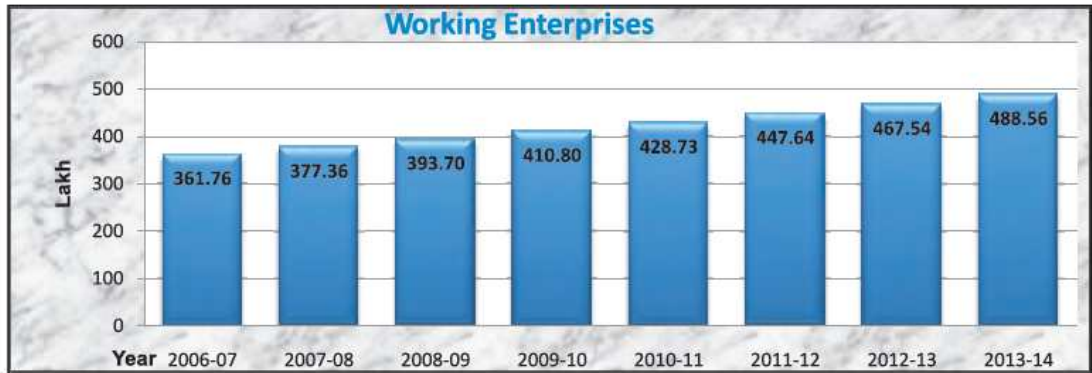
**Contribution of MSMEs in GDP**

(at 2004-05 prices)

Year	Gross Value of Output of MSME Manufacturing Sector (₹ in crore)	Share of MSME sector in total GDP (%)			Share of MSME Manufacturing output in total Manufacturing 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	1488352	7.45	28.60	36.05	39.63
2010-11	1653622	7.39	29.30	36.69	38.50
2011-12	1788584	7.27	30.70	37.97	37.47
2012-13	1809976	7.04	30.50	37.54	37.33

Source:  
 1. Fourth All India Census of MSME 2006-07,  
 2. National Accounts Statistics (2014), CSO, MOSPI and  
 3. Annual Survey of Industries, CSO MOSPI

**No. of Working Enterprises in MSME Sector**



Projected data for the years 2007-08 to 2013-14

Source- Annual Report 2014-2015(Ministry of MSME)

## Growth Potential of MSME Sector

The MSME sector can be one of the key drivers for India's transition from an agriculture based to an industrialised economy. There is a huge potential for MSME sector to contribute significantly to employment generation and thus development of the Indian Economy. It has emerged as a major supplier of mass consumption goods as well as a producer of electronic and electrical equipment and drugs and pharmaceuticals. An impetus to the sector is likely to have a multiplier impact on economic growth.

MSME in India has the potential to increase the share of contribution to GDP from the current 8 per cent to about 15 per cent by the year 2020.(KPMG, *The New Wave MSMEs(2015)*) Various areas for growth as given by (Anis Ali, Firoz Husain, (2014)) potential can be summarised as:

- **Employment generation-** There are numerous possibilities in the field of manufacturing and service rendering of MSME'S. The rate of employment generation can be extended more by promoting the Indian MSME's and making them globally competitive.
- **Minimization of regional imbalance-**The MSME'S can be a good vehicle to minimize or remove the regional imbalances. The rural areas of the nation can be developed through the running of MSME unit sin such areas. The MSME'S will utilize the work force of rural areas and lead to the removal of regional imbalance.
- **Enhancement of export-** The MSME'S can be a means to enhance the export business of India. The Indian items like –dari, kaleen, wooden items and other hand- made souvenir articles are in great deman in the world.
- **Attraction to the foreign investment** –With the launch of new govt initiatives and schemes like 'Make in India', this sector can be a source to attract foreign investment in India.

## Problems and Challenges to the Sector

Despite of the importance of the MSMEs in Indian economic growth, the sector is facing challenges. The two largest barriers faced by the Indian entrepreneur – especially those solving developmental problems - are capital and diversity. (The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) (2014))The list of the problems that are faced by existing/new companies in SME sector are as under:

- Absence of adequate and timely banking finance
- Limited capital and knowledge
- Non-availability of suitable technology
- Low production capacity
- Ineffective marketing strategy
- Constraints on modernization & expansions
- Non availability of skilled labor at affordable cost

- Follow up with various government agencies to resolve problems due to lack of man power and knowledge etc.

### **Source- Report of Chamber of Indian Micro, Medium and Small Enterprises (CIMSME)**

#### **Policy Initiatives for the MSMEs in India**

The formulation and implementation of policies and programmes/projects/schemes for MSME sector is undertaken by the Ministry with the assistance of its attached and autonomous organizations, namely, Micro, Small and Medium Enterprises Development Organization (MSMEDO) or Development Commissioner (MSME), the National Small Industries Corporation Limited (NSIC), the Khadi and Village Industries Commission (KVIC), the Coir Board and three National Level Entrepreneurship Development Institutes, viz., National Institute for Entrepreneurship and Small Business Development (NIESBUD), NOIDA (*V.P.*), National Institute for Micro, Small and Medium Enterprises (NI-MSME), Hyderabad and the Indian Institute of Entrepreneurship (IIE), Guwahati. (Prof M. Chandraiah ,R. Vani(2014))

#### **Recent Initiatives by The Govt. of India**

During the year 2015, Ministry of MSME launched various initiatives to improve the ease of doing business and to make Micro, Small and Medium Enterprises more globally competitive. Some of the programmes launched during the year include

##### **1. Udyog Aadhaar Memorandum (UAM)**

The Ministry in September-2015 under the MSME Development Act, 2006 has notified that every MSME unit shall file Udyog Aadhaar Memorandum (UAM). The cumbersome filing of EM has now been done away with and the entrepreneurs in the MSME sector just need to file online, a simple one-page UAM on <http://udyogaadhaar.gov.in> to instantly get a unique Udyog Aadhaar Number (UAN).

##### **2. Framework for Revival and Rehabilitation of MSMEs**

A Framework for Revival and Rehabilitation of MSMEs has been notified in May-2015 under section 9 of the Micro, Small and Medium Enterprises Development Act, 2006. The salient features of the same are as follows:

- Identification of incipient stress
- Committees for Distressed Micro, Small and Medium Enterprises
- Corrective Action Plan (CAP) by the Committee with various Options
- Restructuring Process
- Prudential Norms on Asset Classification and Provisioning
- Identification of Willful Defaulters and Non-Cooperative Borrowers

##### **3. Prime Minister's Employment Generation Programme (PMEGP)**

PMEGP is the flagship programme of the government offering credit linked subsidy to establish new enterprises for generating continuous and sustainable employment opportunities in Rural and Urban areas of the country.

- Rs. 860.51 crore has been released by the Ministry as margin money under PMEGP out of which Rs. 528.32 crore has already been disbursed by the banks.
- 24126 new enterprises providing employment to 170983 persons have been benefited under the Scheme.
- There is more than 50% increase over the previous year in terms of funds disbursed by the banks, no of projects with funds disbursed and the employment generated.

#### **4. A Scheme for Promotion of Innovation, Rural Industry and Entrepreneurship (ASPIRE)**

ASPIRE has been launched on 16.03.2015 with an objective to set up a network of technology centers, incubation centres to accelerate entrepreneurship and also to promote start-ups for innovation and entrepreneurship in rural and agriculture based industry with a fund of Rs.210 crores.

- The planned outcomes of ASPIRE are setting up Technology Business Incubators (TBI), Livelihood Business Incubators (LBI) and creation of a Fund of Funds for such initiatives with SIDBI.

#### **5. Scheme of Fund for Regeneration of Traditional Industries (SFURTI)**

The objectives SFURTI is to organize the traditional industries and artisans into clusters to make them competitive and provide support for their long term sustainability by way of enhancing the marketability of products, improving the skills of artisans, making provision for common facilities and strengthening the cluster governance systems.

- Funds to the tune of Rs.62 Crore have been sanctioned under the Scheme in 2015 as against Nil in 2014.
- 68 clusters have already been approved in 2015 itself against the target of 71 clusters during 12<sup>th</sup> Plan period with more than a year of the plan period to spare.

#### **6. LMCS**

The Objective of the Scheme is to enhance the manufacturing competitiveness of MSMEs through application of various Lean Manufacturing Techniques (e.g. Total Productive Maintenance (TPM), 5S, Visual control, Standard Operation Procedures, Single Minutes Exchange of Dies or Quick Changeover (SMED), Value Stream Mapping, Just in Time, Kanban System, Kaizen, Cellular Layout, Poka Yoke).

- 188 New Clusters identified and selected for LM (Lean manufacturing) interventions.
- Lean manufacturing Interventions have been initiated in 359 Units.
- Organised 63 Awareness Programmes across the country.

#### **7. Credit Guarantee Trust Fund for Micro and CGTMSE Scheme**



CGTMSE was set up to strengthen credit delivery system and facilitate flow of credit to the MSE sector. The Credit Guarantee under CGTMSE seeks to reassure the lender that, in the event of a MSE unit, which availed collateral free credit facilities, fails to discharge its liabilities to the lender; the CGMSE would make good the loss incurred by the lender up to 85 per cent of the credit facility.

During the current financial year (April to October 2015), total number of proposals approved under the scheme was 2,31,774 involving a guarantee amount of Rs.11,446 crore.

### **8. Credit Linked Capital Subsidy Scheme (CLCSS) for Technology Upgradation**

CLCSS aims at facilitating technology upgradation of Micro and Small Enterprises (MSEs) by providing 15% capital subsidy (limited to maximum Rs.15 lakhs) for purchase of Plant & Machinery.

During the period (April to October 2015), 1,195 units benefitted and total subsidy released to the tune of Rs. 75.57 crore.

### **Source- Year End Review (2015) of Press Information Bureau Government of India Ministry of Micro, Small & Medium Enterprises**

#### **Observations:**

- Government Priority: The development of the micro, small and medium enterprises (SME) sector is on the priority of Government Agenda. As per the Results-Framework Document (RFD) for Ministry of Micro, Small and Medium Enterprises (2012-2013), the Mission of the government is to – “Promote growth and development of globally competitive Micro, small and Medium Enterprises, including Khadi, Village and Coir industries.
- Targeting higher GDP: To endeavor to achieve a cumulative growth of 40%-50% in the number of registered enterprises by the end of 12th Plan and enhance this sector's contribution to GDP from the present 8% to 10% by the end of 12th Plan.”
- Foreign trade: The role of micro, small and medium enterprises (MSMEs) in the economic and social development of the country is well established. As per the Report of the Working Group on Micro, Small and Medium Enterprises (MSMEs) Growth for 12th Five Year Plan (2012-2017), the sector accounts 45% of the manufacturing output and 40% of total exports of the country.
- Broader scope for labour as well as variety: Over 6000 products ranging from traditional to high-tech items are being manufactured by the MSMEs in the country. The labour to capital ratio in MSMEs and the overall growth in the sector is much higher than in the large industries. The geographic distribution of the MSMEs is also more even. Thus, MSMEs are important for the national objectives of growth with equity and inclusion.

- State wise Analysis: The State-wise distribution of MSMEs show that more than 55% of these enterprises are in 6 States, namely, Uttar Pradesh, Maharashtra, Tamil Nadu, West Bengal, Andhra Pradesh and Karnataka. Further, about 7% of MSMEs are owned by women and more than 94% of the MSMEs are proprietorships or partnerships.

### **Conclusion:**

The Indian eco-system is currently characterized by highly fragmented efforts and low levels of collaboration between SMEs, research, technology and academic institutions and the respective service providers. (The Deutsche Gesellschaft für Internationale Zusammenarbeit(GIJ) (2014)) The development of MSME segment is extremely critical to meet the objectives of financial inclusion and generation of employment.

It is also important that the MSME segment develops in all areas of agriculture, manufacturing and services sectors because each of these sectors contribute significantly to the overall GDP growth as well as employment generation. The MSME sector can act as a catalyst to bring about this socio-economic transformation. Thus, the new policy initiatives for MSMEs should provide for the development of a business eco system that enables and continuously support business that are gearing to deliver the right product, the right quality, the right solution and the right service at a competitive price, both in domestic and international markets.

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