

# OVERVIEW AND PERFORMANCE OF MSME SECTOR IN INDIA

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## Introduction

The Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating largest employment opportunities at comparatively lower capital cost, next only to agriculture. MSMEs are complementary to large industries as ancillary units and this sector contributes significantly in the inclusive industrial development of the country. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets.

## Definitions of Micro, Small & Medium Enterprises:

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

### Manufacturing Sector

Enterprise Category	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

Enterprise Category	Investment in equipment
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: Compiled by Author)

## Review of Literature

Bargal et al. (2009) examined the causal relationship among the three variables GDP, SSI output and SSI exports and also have compared the performance parameters of SSIs in the pre and post liberalization era. The study found that the annual average growth rate of different parameters of SSIs have declined in the period of nineties vis-à-vis the pre-reform years. There is an absence of any lead-lag causal relationship between exports and production in small-scale sector and GDP of Indian economy.

Dixit and Pandey (2011) applied co-integration analysis to examine the causal relationship between SMEs output, exports, employment, the number of SMEs and their fixed investment and India's GDP, total exports and employment (public and private) for the period 1973-74 to 2006- 07. Their study revealed the positive causality between SMEs output and India's GDP.

Singh et al. (2012) analyzed the performance of Small scale industry in India and focused on policy changes which have opened new opportunities for this sector. Their study concluded that SSI sector has made good progress in terms of number of SSI units, production & employment levels. The study recommended the emergence of technology development and strengthening of financial infrastructure to boost SSI and to achieve growth target.

Venkatesh and Muthiah (2012) found that the role of small & medium enterprises (SMEs) in the industrial sector is growing rapidly and they have become a thrust area for future growth. They emphasized that nurturing SME sector is essential for the economic well-being of the nation. The above literature highlights the various aspects viz. Performance, growth & problems of MSMEs in Indian economy and induces for continued research in this field

### Methodology

The present research study is "Empirical" in nature. The study is primarily based on secondary data. All financial data are compiled from Annual report of MSMEs, Government of India, different books and periodicals

### Period of the Study

So as to draw meaningful inferences, the study has been undertaken for 5 years i.e., from 2011-12 to 2015-16

### Objectives of the Study

The following are the specific objectives of the study:

1. To review the genesis of MSMEs
2. To analyze the performance of MSMEs in the country
3. To make suggestions based on findings

**Limitation:** Non-inclusion of primary data is the main limitations of the study

Performance evaluation of MSMEs in the country is done by taking indicators such as of number units, employment opportunities generated by MSMEs and Gross Output. MSMEs Growth.

**Table1-Estimated Number of MSMEs (Activity Wise)**

Activity Category	Estimated Number of Enterprises (in lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	114.14	82.50	196.64	31
Trade	108.71	121.64	230.35	36
Other Services	102.00	104.85	206.85	33
Electricity*	0.03	0.01	0.03	0
All	324.88	309.00	633.88	100

\*Non-captive electricity generation and transmission and distribution by units not registered with the Central Electricity Authority (CEA)  
Source: Annual report 2017-18, GOI, Ministry of MSME

From table1,it can be seen that There were 633.88 lakh unincorporated non-agriculture MSMEs in the country engaged in different economic activities (196.64 lakh in Manufacturing, 230.35 lakh in Trade and 206.84 lakh in Other Services and 0.03 lakh in Non-captive Electricity Generation and Transmission,) excluding the MSMEs registered under (a) Sections 2m(i) and 2m(ii) of the Factories Act, 1948, (b) Companies Act, 1956 and (c) Construction activities falling under Section F of National Industrial Classification (NIC) 2008 It is seen that 31% MSMEs were found to be engaged in Manufacturing activities, while 36% were in Trade and 33% in Other Services. Again out of 633.88 estimated numbers of MSMEs, 324.88 lakh MSMEs (51.25%) were in rural area and 309 lakh MSMEs (48.75%) were in the urban areas

**Table 2-Distribution of Enterprises Category Wise (Numbers in lakh)**

Sector	Micro	Small	Medium	Total	Share (%)
Rural	324.09	0.78	0.01	324.88	51
Urban	306.43	2.53	0.04	309.00	49
All	630.52	3.31	0.05	633.88	100

Source: Annual report 2017-18, GOI, Ministry of MSME

Form the above table; it can be observed that The Micro sector with 630.52 lakh estimated enterprises accounts for more than 99% of total estimated number of MSMEs. Small sector with 3.31 lakh and Medium sector with 0.05 lakh estimated MSMEs accounts for 0.52% and 0.01% of total estimated MSMEs, respectively.

**Table 3 Percentage Distribution of Enterprises in rural and urban areas. (Male/ Female ownership category wise)**

Sector	Male	Female	All
Rural	77.76	22.24	100
Urban	81.58	18.42	100
All	79.63	20.37	100

Source's 73rd Round Survey (2015-16) on Micro, Small and Medium Enterprises

Table, 3 depicts that, Out of 633.88 lakh MSMEs, 608.41 lakh (95.98%) MSMEs were proprietary enterprises. There has been overwhelming predominance of male owners in proprietary MSMEs. Thus, for proprietary MSMEs as a whole, male owned 79.63% of enterprises as compared to 20.37% owned by female. There was no significant deviation in this pattern in urban and rural areas, although the dominance of male owned enterprises was slightly more pronounced in urban areas as compared to rural areas (81.58% as compared to 77.76%).Further male dominance in ownership has been more pronounced for small and medium enterprises with 95% or more enterprises being owned by them, as compared to micro enterprises where 77.76% were owned by males.

**Table 4- Contribution of Manufacturing Output of MSME in GDP**

(Figures in Rs. Crores adjusted for FISIM* at current prices)						
Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in	Total GDP	Share of MSME in

				GVA (%)		GDP (in %)
2011-12	2583263	-	8106946	31.86	8736329	29.57
2012-13	2977623	15.27	9202692	32.36	9944013	29.94
2013-14	3343009	12.27	10363153	32.26	11233522	29.76
2014-15	3658196	9.43	11481794	31.86	12445128	29.39
2015-16	3936788	7.62	12458642	31.60	13682035	28.77

Source: Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation

FISIM stands for Financial Intermediation Services Indirectly Measured.

\*FISIM stands for Financial Intermediation Services Indirectly Measured.

From the above table, it can be seen that the contribution of Manufacturing MSMEs in the country's total Manufacturing GVO (Gross Value of Output) at current prices has also remained consistent at about 33%, i.e. one third during the last five years.

**Table 5 Estimated Employments in MSME Sector (Broad Activity Category Wise)**

Broad Category	Activity	Employment (in lakh)			Share (%)
		Rural	Urban	Total	
Manufacturing		186.56	173.86	360.41	32
Trade		160.64	226.54	387.18	35
Other Services		150.53	211.69	362.22	33
Electricity*		0.06	0.02	0.07	0
All		497.78	612	1109.89	100

\*Non-captive electricity generation and transmission  
Source: Annual report 2017-18, GOI, Ministry of MSME

It can be seen from the above table the Trade category generated major portion of the employment in MSME Sector i. e 35% comprising of Rural and Urban Employment. Next to it the other services sector stands in employment generation i. e 33% and Manufacturing and electricity sector have contributed 32% and 0% respectively.

**Table 6 Comparative Analysis between Fourth All India MSME Census (2006-07) and NSS 73rd Round (2015-16)**

**Growth of MSMEs** (Figures in lakh)

Parameter	NSS 73rd Round# , 2015-16	Fourth All India Census of MSMEs, 2006-07	Annual Compound Growth Rate (%)
No. of MSMEs (Total) 6	633.88	361.76	6.43
Manufacturing	196.65	115.00	6.14
Services	437.23	246.76	6.56
Employment (Total)	1109.89	805.24	3.63
Manufacturing	360.42	320.03	1.33
Services	749.47	485.21	4.95

\* Service includes Trade, Electricity & Other Services.  
Source: Annual report 2017-18, GOI, Ministry of MSME

From the above, it can be observed that Comprehensive information on the MSME Sector can be obtained from both Fourth all India MSME Census was held in 2006-07 and the NSS 73rd Round (2015-16). Being held almost 10 years' time gap, a comparison of the two sets of results can capture the growth of the basic parameters of the MSME Sector over a decade.

### Findings

- ✓ The MSME Units mainly fall in sole trading and partnership form of business.
- ✓ 31% MSMEs were found to be engaged in manufacturing activities, while 36% were in Trade and 33% in Other Services. Again out of 633.88 estimated number of MSMEs, 324.88 lakh MSMEs (51.25%) were in rural area and 309 lakh MSMEs (48.75%) were in the urban areas
- ✓ Micro sector with 630.52 lakh estimated enterprises accounts for more than 99% of total estimated number of MSMEs. Small sector with 3.31 lakh and Medium sector with 0.05 lakh estimated MSMEs accounts for 0.52% and 0.01% of total estimated MSMEs, respectively.
- ✓ There has been overwhelming predominance of male owners in proprietary MSMEs. Thus, for proprietary MSMEs as a whole, male owned 79.63% of enterprises as compared to 20.37% owned by female. There was no significant deviation in this pattern in urban and rural areas, although the dominance of male owned enterprises was slightly more pronounced in urban areas as compared to rural areas (81.58% as compared to 77.76%).
- ✓ The contribution of Manufacturing MSMEs in the country's total Manufacturing GVO (Gross Value of Output) at current prices has also remained consistent at about 33%, i.e. one third during the last five years.
- ✓ Micro sector with 630.52 lakh estimated enterprises provides employment to 1076.19 lakh persons, which accounts for around 97% of total employment in the sector.
- ✓ Small sector with 3.31 lakh and Medium sector with 0.05 lakh estimated MSMEs provides employment to 31.95 lakh (2.88%) and 1.75 lakh (0.16%) persons of total employment in MSME sector, respectively

### Suggestions

The Government of India has taken some steps to save MSMEs. A separate Ministry for MSMEs was set up. The following steps are to be taken by the government to develop MSMEs:

Small business started without proper planning have more chances of failure than those that have proper planning strategies.

Most of the entrepreneurs are Sole Traders who don't have all skills which are required to maintain the business unit and for which they need training.

The Government should identify such persons and provide training facilities. The infrastructural facilities are very less. The government should concentrate to develop such facilities to MSME entrepreneurs through establishing further centers in rural areas.

Many entrepreneurs suffer due to finance problem. Banks and other financial institutions should come forward and provide liberal finances on time especially in purchasing of raw materials etc.,

## Conclusion

In the current scenario for the SSI sector to achieve economic efficiency and international quality standards, there is an imminent need to upgrade its technology. While the setting up of the Technology Bank, as announced in the comprehensive policy package for MSMEs would facilitate technology transfer and match making, creation of a separate Small Industries Development Fund at the earliest would meet the much needed financial requirements of the sector for mass scale technology up gradation. The suggested fund would also provide access of resources for infrastructure, marketing development and other similar requirements of the sector. These measures are expected to help in accelerating the pace of growth of the sector. The government has already enhanced the limit of investment in plant and machinery in select subsectors of the SSI sector to facilitate their vertical expansion and building of competitive strength. In recent years, the MSME sector has consistently registered higher growth rate compared with the overall industrial sector. The key focus areas for the growth of MSMEs are finance, technology, infrastructure, marketing, entrepreneurship development, sickness and conducive regulatory environment. It is the MSME sector which can help realize the target of proposed National Manufacturing Policy of raising the share of the manufacturing sector in GDP from 16% at present to 25% by the end of 2022.

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