

Regional comparative Analysis of MSME Sector

Dr. Surjeet Singh,

Assistance Professor, B.S.M.P.G. College,
Roorkee (Haridwar), Uttarakhand

Abstract: Micro, Small and Medium Enterprises have emerged as a highly vibrant and dynamic sector in the Indian economy after the Corona pandemic. It is a result of the continuous efforts of the government that micro, small and medium enterprises have started being established as engines of economic growth. Along with providing the base to large industries, MSMEs are also playing an important role in employment generation. The labour-intensive MSME sector employing over 10.6 crore people not only provides economic independence to the rural people but also has the potential to reduce regional imbalances for sustainable development. Government has started many schemes for the promotion of MSME sector, so that the potential of the MSME sector can be exploited to the fullest. But the distribution of MSMEs in India is very skewed. This research paper focuses on the existing diversity of MSMEs in different states and union territories. It is also to suggest the formulation of policies to reduce the spatial variation in India in the context of micro, small and medium enterprises, which will not only give economic development a boost, but the country will also be able to achieve the goal of self-reliance.

Keywords: MSMEs, employment, states, union territories, women labour participation, inequalities.

Introduction

Micro, Small and Medium Enterprises (MSMEs) have emerged as a highly vibrant and dynamic sector in the Indian economy. The main reason for this is that this sector boasts of huge employment opportunities at low capital cost along with contributing significantly to the economic and social development of the country. As ancillary units of large industries, MSMEs are contributing significantly to the inclusive industrial development of the country. The MSME sector is producing more than 8000 diversified products and services to meet the demand chain of domestic and global markets. Through financial assistance, technology support, infrastructure development, skill development and training, the government is striving to make the MSME sector competitive and market compliant. The Indian economy is heavily dependent on micro, small and medium enterprises (Biswas, 2016). This sector has the potential to reduce regional inequality through income generation, create employment opportunities, reduce poverty and above all, drive regional development. MSMEs are complementary to large-scale industries and are considered ancillary to them (Muthu, 2015).

New Definition of MSMEs

To promote the MSME sector, the government has increased the limit of investment and turnover. According to the new provisions applicable from July 1, 2020, the limits of investment and turnover in MSMEs are as follows:

Table 1: Turnover and Investment Criteria

Criteria	Manufacturing Enterprises and Enterprises rendering Services	
	Turnover	Investment
Micro	Up to Rs.25 Lakh	Up to Rs. 10 lakh
Small	Above Rs. 25 lakh up to Rs. 5 crore	Above Rs. 10 lakh up to Rs. 2 crore
Medium	Above Rs.5 crore up to Rs. 10 crore	Above Rs. 2 crore up to Rs. 5 crore

Source- As per Micro, Small and Medium Enterprises Development Act, 2006

Progress of MSMEs

According to the data of Ministry of Micro, Small and Medium Enterprises, as of July, 2012, the registered micro enterprises were 95.51 percent, small enterprises 4.08 percent and medium-sized enterprises 0.39 percent. MSMEs are making very good progress in the areas of manufacturing, infrastructure, service industry, food processing, packaging, chemicals, IT etc. There are 42.05 million MSME units registered and unregistered in India as per the report of CII, 2018. Out of the total employment, 40 percent i.e., 10.6 crore jobs are being given by MSMEs. It accounts for 45 percent of the country's total productivity and more than 40 percent of the total export value. Self-financed proprietary firms, private co-operative societies, private self-help groups, khadi industries not only provide employment opportunities on a large scale, but also reduce regional imbalances by industrialization in rural and backward areas. Many programs are being run by the Government of India to encourage the MSME sector, in which Prime Minister's Employment Generation Program, Credit Linked Capital Subsidy Scheme, Skill Development and Training Scheme, Infrastructure Development Scheme, Cluster Development Program, Technology and Quality Upgradation Scheme etc are included.

Need for the Study

Although the Central and State Governments together have developed an extensive network to promote micro, small and medium enterprises. But can it properly exploit the potential of the MSME sector? Can it help in achieving the goal of making the country self-reliant? The answer to these questions will be sought in this research paper by identifying the inequalities in the MSME sector. This research paper will provide an insight into the consequences of measures taken by the government to strengthen MSMEs.

Objectives of the Study:

The main objectives of the study are as follows-

1. To analyse the situation related to MSMES in various States and Union Territories.
2. To give suggestions for effective operation of MSMEs.

Research Methodology

This descriptive and analytical study is based on secondary sources. The relevant data for this study has been collected from the Annual Reports and other published documents of the Ministry of MSME and Directorate of Industries. Apart from these, published research papers, journals and research articles have also been used. Various statistical tools such as average, percentage and ratio have been widely used to cross-examine the data. Along with these, time graphs, charts etc. have also been used for analytical purposes.

Review of Literature

The theoretical and empirical aspects are reviewed by literature from various sources.

Gaikkad VK and Tripathi RN (1982) found in their study that initiative, drive and hard-working habit were a basic characteristic of all the selected entrepreneurs. But they did not have enough knowledge and awareness about the policies of the government. Ignorance and lack of adequate funds were the major factors in the development of industrial entrepreneurship in rural areas.

Pareek HS (1989) in his book 'Financing of Small Industries in a Developing Economy' has presented an analysis of the capital structure of 181 small scale industries with special reference to the financial aspects. The study found apathy on the role of financial institutions and state agencies in lending to small scale industrial units.

Ghatak, Shambhu (2016) in his analysis found that the MSME sector has to aggressively work towards quality enhancement and system change.

Srinivas, KT. (2017) pointed out that the MSME sector plays an important role in self-employment and capital development. This sector has greatly enhanced the new and inspired progress of enterprises for the general development of the country.

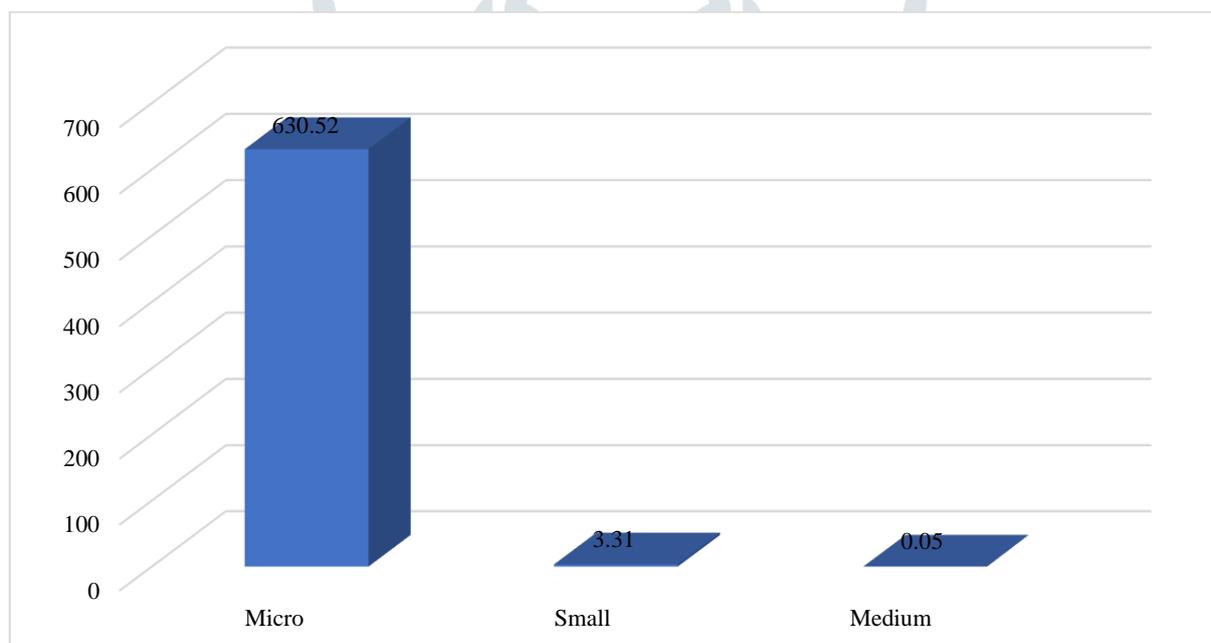
Subrahmanya, B. (2018) in its study, after examining the bookkeeping data framework, came to the conclusion that the MSME sector can earn more profit if the important bookkeeping data structure of their business is created.

In this paper, Bidja, A. B., & Mandizwidza, K. (2017) researched the relationship between focused needs and firms among small-scale enterprises and growing needs of assembling firms.

Analysis of the Problems

According to the 73rd round of NSS, the details of micro, small and medium industries are as follows:

Figure 1: Number of Enterprises (Number in Lakh)



Source- Annual Report 2017-18, Ministry of MSMEs

It is clear from Figure 1 that in India only micro-industries predominate. Their contribution to the MSME sector is more than 99 percent. The situation has remained the same for the last several decades. Mostly micro industries are facing problems like raw material, finance, marketing, market etc. Small entrepreneurs have their own mind set, due to which they are found indifferent towards the expansion of their industry. For proper exploitation of the potential of MSME sector, the expansion of small and medium industries will have to be increased. This inequality is not only at the level of industries, but the uneven distribution of MSMEs in different states is also a hindrance in the development of the country.

Table 2: State-wise Distribution of Estimated Number of MSMEs

No. of MSMEs	No. of States	Name of States/UT
Less than 50 thousand	7	Arunachal Pradesh, Mizoram, Sikkim, A & N Islands, Dadra & Nagar Haveli, Daman & Diu, Lakshadweep
Less than 1 lakh	4	Chandigarh, Nagaland, Goa, Puducherry
1 to 5 lakh	5	Manipur, Meghalaya, Tripura, Himachal Pradesh, Uttarakhand,
5 to 10 lakh	4	Haryana, Jammu & Kashmir, Chandigarh, Delhi,
10 to 15 lakh	2	Assam, Punjab,
15 to 20 lakh	2	Jharkhand, Odisha

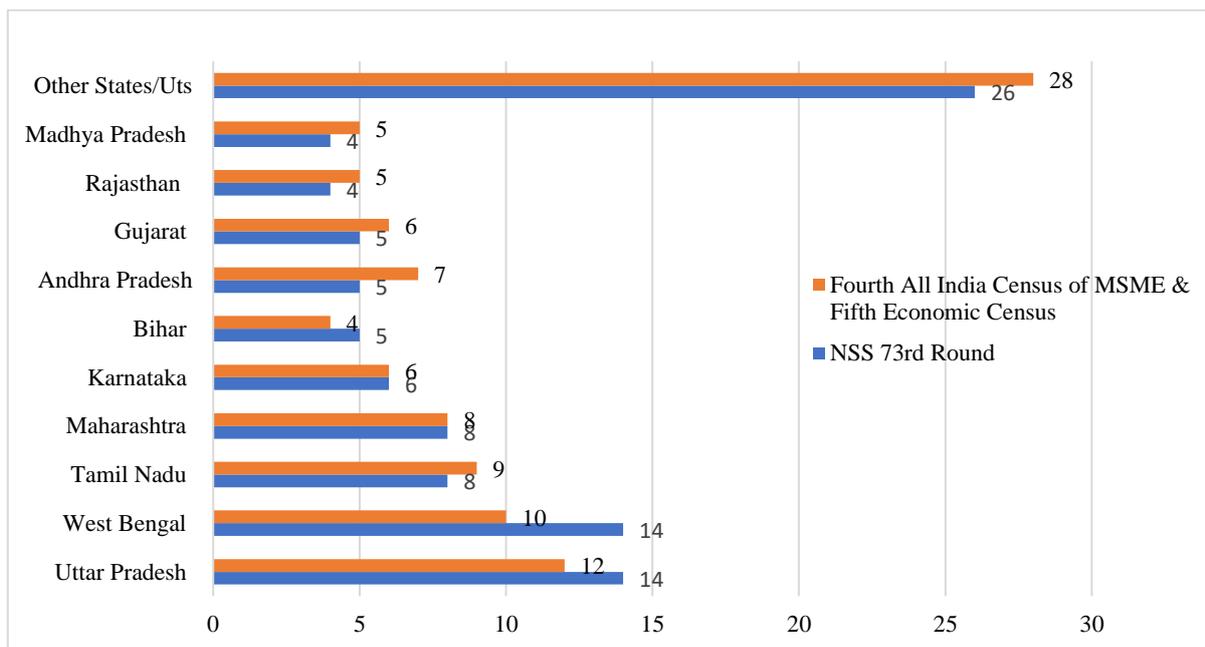
20 to 25 lakh	1	Kerala
25 to 30 lakh	3	Madhya Pradesh, Rajasthan, Telangana
30 to 35 lakh	3	Andhra Pradesh, Bihar, Gujarat
35 to 40 lakh	1	Karnataka
40 to 50 lakh	2	Maharashtra, Tamil Nadu,
85 to 90 lakh	2	Uttar Pradesh, West Bengal

Source- Annual Report 2017-18, Ministry of MSMEs

It is clear from the above table that there are 11 states and union territories where the number of MSMEs is less than one lakh, and in 7 states and union territories, the number of MSMEs is less than 50 thousand. Uttar Pradesh and West Bengal are the only two states where the number of MSMEs is 90 lakh and 88 lakhs respectively. Equal distribution is the first condition for harnessing the unlimited potential of the MSME sector.

Out of 36 states and union territories, 26 states contribute very little in the MSME sector, the contribution of 11 states and union territories is negligible. Out of 36 states and union territories, only 10 states have an extension of MSME activities, which is as follows:

Figure 2: Comparative Percentage Distribution of MSMEs in top 10 States



Source- Annual Report 2017-18, Ministry of MSMEs

The contribution of 10 states in the MSME sector is about two-thirds while the contribution of other states and union territories is only one-third. The distribution of MSMEs is unequal even among the 10 well performing states on a proportionate basis. Among these states, Madhya Pradesh is at the last position and Uttar Pradesh is at the first place. This situation has persisted in India for the last several decades.

If the country has to take the path of self-reliance, then we have to reduce the unequal distribution of MSMEs. For this, MSMEs in other states and union territories will have to be given more incentive.

Low Ownership of Women in MSME Sector

No country can develop unless women contribute to it. Like other sectors, the labour participation of women in the MSME sector is also very low. Ownership in this area is also owned by men. The following table says a lot.

Table 3: Percentage Distribution of Entrepreneurs Owned by Male/Female

Sector	Male	Female
Micro	79.56	20.44
Small	94.74	5.26
Medium	97.33	2.67
All	79.63	20.37

Source- Annual Report 2017-18, Ministry of MSMEs

It is clear from Table 3 that only 20.37 percent of enterprises are owned by women as compared to 79.63 percent of enterprises owned by men. The dominance of male-owned enterprises (81.58 percent) is slightly higher in urban areas than in rural areas (77.76 percent). The percentage of women is slightly better as compared to small and medium enterprises. There is a need to think in a new way for the participation of women in micro, small and medium enterprises.

If the ownership of enterprises is analysed social category wise, the Backward Groups (OBCs) account for about 66.27 percent of MSMEs. Most of it is owned by OBCs (49.72 per cent). The representation of SC and ST owners is only 12.45 per cent and 4.10 per cent respectively. This analysis also makes it clear that 66.42 per cent enterprises in the micro sector are owned by socially backward groups, while 36.80 per cent and 24.94 per cent enterprises in the small and medium sectors are from socially backward classes.

If the MSME sector is to be made an engine of growth, then it has to be understood that such people are more employed in micro enterprises, for whom the availability of finance for the expansion of industries is a big problem. Being illiterate, they avoid the long and formal process of taking loans from banks. Non-availability of essential raw materials, skilled workforce and other inputs increases the cost of production of the MSME sector. Due to lack of proper knowledge of advanced techniques of production and comparatively weak advertising and sales promotion, products are not produced at low prices. Due to which the potential of this area is not properly exploited, it becomes backward. As a result, it becomes very difficult for MNCs to compete with quality goods at low prices.

Recommendations

Without reducing the inequalities of the MSME sector, its potential cannot be properly exploited, for which the following suggestions should be implemented:

- There should be a detailed survey to assess the technical and financial needs of the MSME sector in different states and UTs based on their needs and resources, so that proper arrangements can be made to meet the needs of MSMEs in each state and union territory. For this a panel of experts should also be formed for the purpose of technical advancement and guidance. This will not only encourage the latest technology but will also encourage productivity in the MSME sector by reducing costs.
- Many States and Union Territories are facing the problem of high cost of capital and non-availability of credit. In such States and Union Territories, simple credit system should be encouraged by reducing the legal formalities in the loans provided by commercial banks and other financial agencies. For this, not only digital literacy will have to be promoted but e-commerce will also have to be encouraged with relaxation in GST rates.
- Training and development programs should be conducted according to the demand of MSME sector, to make skilled labour available. For this, a better communication strategy has to be developed, in which media and social media can play an important role.
- Complicated labour laws are the biggest hurdle for the MSME sector. These complex labour laws should be made simple and flexible to avoid unnecessary problems. In view of the challenges faced by the MSME sector, it is necessary that the Central Government as well as the State Government should make their labour reforms flexible.
- There is a need to improve the productivity and quality of the MSME sector, reduce costs and drive innovation. To promote the efficiency and competitiveness of the market. For this a cluster approach may be encouraged.
- The Central and State Governments will have to work mutually and collectively for the promotion and development of MSMEs. To encourage women's participation, the level of education will also have to be raised.

Conclusion

With respect to MSMEs, regional diversity remains across all the states and union territories of India. Its share in national and state GDP shows an increasing trend with slight fluctuations. Only by removing the distribution inequalities of the MSME sector, the untapped potential of this sector will be optimally exploited. The policies of the government will also prove to be effective only when the contribution of MSMEs will be promoted in all the states of the country. The goal of 5 trillion-dollar economy can be achieved only by equitable distribution of MSME sector.

References

1. Bidja, A. B., & Mandizvidza, K. Strengthening enterprises growth and effectiveness in developing economies. A case of very Small, Small and Medium-sized Enterprises in Cameroon. IOSR Journal of Business and Management (IOSR-JBM), 19(3), 2017, 19-27.
2. Biswas, I. Analysis of Technology-mix in Clusters of Micro Small and Medium Enterprises (MSMEs) in West Bengal: Identification of adaptation gaps and policy prescriptions (Published Ph.D Thesis). TERI University, Centre for Regulatory and Policy Research, New Delhi, 2016.
3. Gaikad V K and Tripathi R N (1982) Socio – psychological factors influencing industrial entrepreneurship in rural areas. Hyderabad: National Institute of Community Development p. 112.
4. Ghatak, Shambhu. "Micro, small and medium enterprises (MSMEs) in India: an appraisal." Journal of technology management & innovation 6.1 (2010): 66-76.
5. Mead, C. D., & Liedholm, C. The Dynamics of Micro and Small Enterprises in Developing Countries. World Development, 26(1), 1998, 61-74
6. Ministry of Micro, Small and Medium enterprises, Annual report, 2021-22, Government of India.
7. Muthu, N. Spatial Difference in the distribution of Micro, Small and Medium Enterprises (MSMEs) in India. Journal of International Academic Research for Multidisciplinary, 3(3),2015, 332-338
8. Pareek H S Financing of small industries in a developing economy. New Delhi: Mittal Publications. 1989, p.93.
9. Srinivas, K. T. (2017). Role of micro, small and medium enterprises in inclusive growth. International Journal of Engineering and Management Research, 3(4), 57-61.
10. Subrahmanya, B. (2018). Small-Scale Industry Development for Export Promotion: India's Experience Under Liberalisation. Micro and Small Enterprises in India: Era of Reforms, 46-66.