

PERFORMANCE EVALUATION OF MSMEs- AN ANALYTICAL STUDY

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ABSTRACT

The Micro, Small and Medium Enterprises (MSMEs) sector is a very crucial segment in the Indian Economy. The contribution of the sector to the economic growth is substantial. Looking at the economic reforms initiated post 1991 have not given enough attention to the MSME sector that it actually deserves. On the economic front the present study reviews the economic contribution of the MSME sector post the second decade since the economic reforms of 1991. The study attempts to account the MSME economic performance mustering the data from various economic reports and publications.

Keywords: MSME, Economic growth, Performance.

INTRODUCTION

The role of SMEs in developing and emerging economies is undisputed and is well recognized. Contributing significantly to the employment generation (as a group, SMEs provide greater level of employment than large firms), poverty alleviation and rural development (SMEs are capable of pushing economic reforms and modernization of local economies), SMEs are considered to be the engine of growth, the world over. SMEs stimulate innovative ideas / business methods, and entrepreneurial skills; they are flexible and can adapt quickly to changing market demand and supply situations; help in diversifying economic activity, and make a significant contribution to industrial development and exports. Thus, it is not surprising, that the establishment and promotion of SME's across the globe has assumed strategic importance.

Micro, Small and Medium Enterprises (MSMEs) have noteworthiness in an employment abundant nation like India, and different approaches are set up to advance the segment. Dissecting MSME information from different sources, this segment demonstrates that the structure of assembling MSMEs has changed essentially in the most recent decade: the offer of capital oriented enterprises in output has expanded; work efficiency stays low with conceivable supplanting of work with capital. In a work plenteous nation like India, the significance of MSMEs cannot be overemphasized. Under the 'Make in India' battle

propelled in 2014, which means to advance Indian production, a huge number of advantages have been reported for MSMEs as far as repayment of technology obtaining costs, rollover help from capital increases expense, and measures to encourage the stream of formal back to the segment – notwithstanding segment particular activities.

OVERVIEW OF INDIAN MSME

Over last 5 decades MSME sector emerged as extremely effervescent and vigorous segment of Indian economy. MSME plays dual role of providing employment and industrialization of rural/backward areas, thereby reducing regional imbalance and equitable distribution of national income. MSME's are harmonizing to large industries as supplementary units, which adds to socio economic development. It consists of 36 million units, providing employment over 80 million persons with 8% contribution to GDP. The Indian MSME is a major contributor in the economic growth. It is said to be the backbone of the Indian economy. It has provided resilience to ward off global economic shocks and adversities. Nearly, 20% of the Indian MSME are based out in the rural areas of India and continues to provide employment opportunities to nearly 40% of the India's labor force. According to Reserve Bank of India (2017), in the year 2015–16, the MSME sector comprised of more than 51 million enterprises employing more than 117 million persons.

Leading industries of MSME sector (as per 2014-15 MSME report):

- Retail trade (except of motor vehicle & motor cycles) and Repairs of personal and household goods – 39.85%
- Manufacturing of wearing apparels- 8.75%
- Manufacturers of foods and beverages-6.94%
- Other services activities -6.2%, other business activities – 3.77%
- Hotels and restuarents-3.64%
- Sales maintenance of motor vehicles and cycles – 3.57%
- Furniture manufacturing -3.21%, Textile -2.33%
- Fabricated metals except machinery and equipment-2.33% and others 19.4%. According to India MSME report 2014, three sub sectors demonstrates promising picture: food processing- high potential because of agro linkage, textiles-innovation, and electronics- linkage with ITES.

NUMBER OF MSMES IN INDIA FY 2020, BY TYPE

The micro, small and medium enterprises sector in India just like the population, only second to China. In financial year 2020, the total number of MSMEs in the country was more than 63 million. The majority comprised of micro enterprises, with a higher number in rural areas than urban parts of the country. More often than not, these were run by the owners with little or no support and revenue earnings as a priority.

REVIEW OF LITERATURE

M.L.Ashoka (2019) throws light on the initiatives taken by the Government of India to promote entrepreneurship among the young Indians with a financial support and schemes. In this background, it is the right time to evaluate schemes and supportive institutions, which are promoting the entrepreneurship in India. The author highlights the perception of the Micro, Small and Medium Enterprises (MSME) entrepreneurs towards the financial institutional support for the development of the MSME in India especially Small Industries Development Bank of India (SIDBI) supportive schemes. Total 400 respondents were selected across the Karnataka to evaluate the performance of SIDBI and also to highlight the satisfaction level of the entrepreneurs towards the SIDBI supports. (**M.L.Ashoka, 2019**)

ZiaAfroz (2014) contend that Micro, Small and Medium Enterprises (MSMEs) play a catalytic role in the development process of most economies of any country. Similarly, MSMEs form the backbone of the Indian economy and have become engine of economic growth in India. Today, MSME occupies a very important position in Indian Economy System due to its very significant and important contribution in terms of output, exports and employment. The MSMEs are the biggest employment provider after agriculture, employing nearly 32 million people. The author closely analyses the growth and development of the Indian MSME sector since opening of the economy in 1991. It also looks into the present scenario of MSMEs and the challenges they face like lending, marketing, and license raj issues. (ZiaAfroz, 2014)

D.Sudarsana Murthy (2016) opines that as a result Small Scale Sector was recognized as employment oriented sector during the early sixties. The employment oriented thinking for Small Scale Sector underwent changes by the end of sixties and now Small Scale Sector was recognized as an effective instrument to utilize the entrepreneurial potential remained hitherto dormant in the country. 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 (D.Sudarsana Murthy, 2016).

Shripad Marathe (2017) observes that India is world second populated country here the demand for product always varies area to area. To fulfillment of those needs some times big business houses failed and then Micro small and medium enterprises comes into the picture. Micro, Small & Medium Enterprises are very much important sector of Indian economy it contributes around 90% of industrial growth and contributed around 21% of employment. The paper focuses on Performance of Indian MSMEs past and present scenario and also tries to find out is there effect of financial crises of 2007-08 on MSME by using structural break modal chow test, Graphical representation and results shows that

MSMEs has contributed to the economic development of India and also Financial crises has affected the MSMEs in India. (Shripad Marathe, 2017)

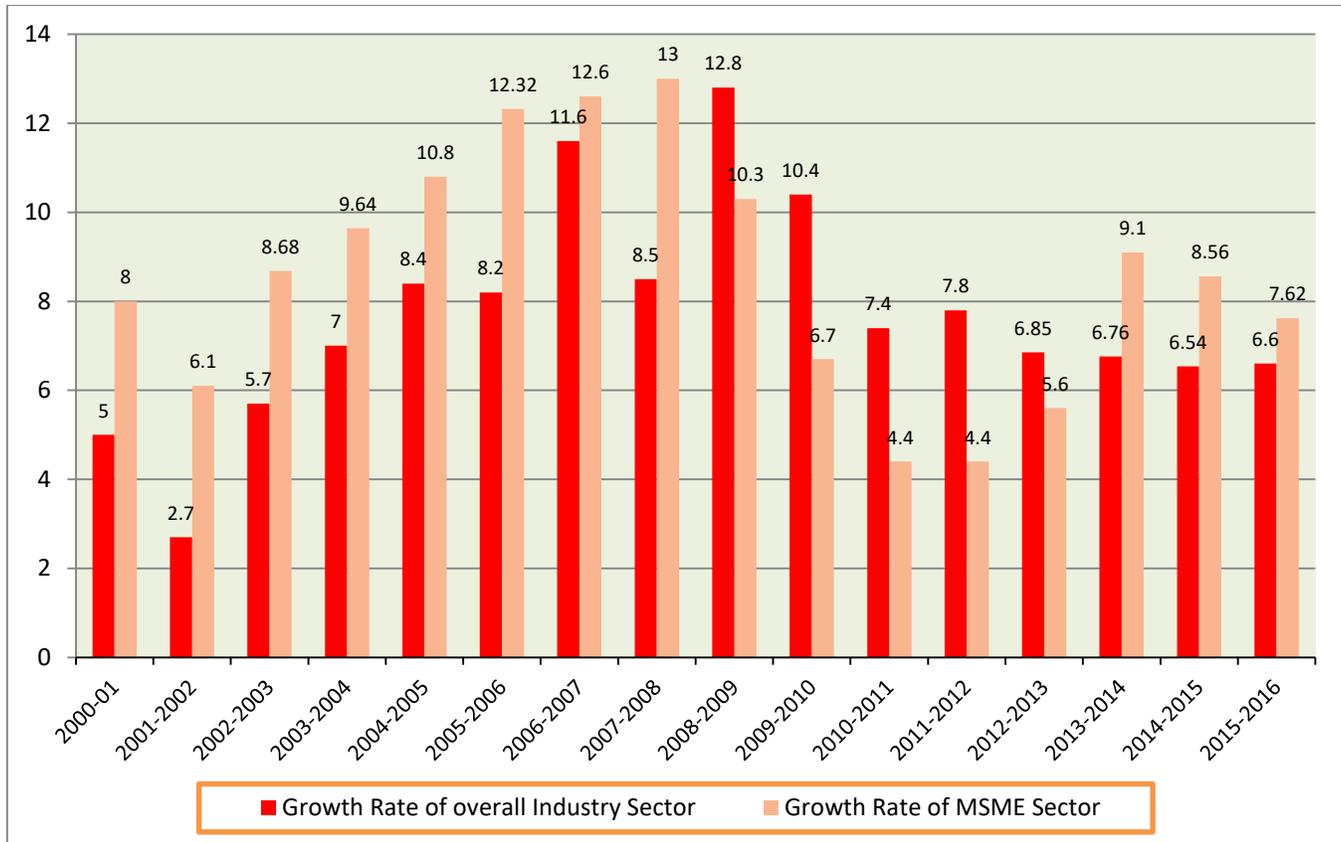
GROWTH RATE OF MSME SECTOR IN COMPARISON WITH THE OVERALL INDUSTRIAL SECTOR

MSMEs provide employment opportunities at comparatively lower capital cost and act as ancillary units for large enterprises to support the system in growth. Chart I depicts the growth rate of MSME sector in comparison with the overall industrial sector during last sixteen years. The MSME sector has in many years registered a higher growth rate than the overall growth of industrial sector.

Table 1
Comparison of MSME sector Via-a-Vis Overall industry

Growth rate in percentage	Growth Rate of overall Industry Sector	Growth Rate of MSME Sector
2000-2001	5	8
2001-2002	2.7	6.1
2002-2003	5.7	8.68
2003-2004	7	9.64
2004-2005	8.4	10.8
2005-2006	8.2	12.32
2006-2007	11.6	12.6
2007-2008	8.5	13
2008-2009	12.8	10.3
2009-2010	10.4	6.7
2010-2011	7.4	4.4
2011-2012	7.8	4.4
2012-2013	6.85	5.6
2013-2014	6.76	9.1
2014-2015	6.54	8.56
2015-2016	6.6	7.62

Figure 1
Comparison of MSME sector Via-a-Vis Overall industry



(Source: Annual Reports of Ministry of MAME)

During 2000 to 2006, India witnessed industrial growth in the range of 5-8% annually. Subsequently, it recorded double digit growth for 4-5 years, before slowing down to around 6% growth during 2015-2016. The MSME sector improved its growth performance during 2003 – 2009 and recorded a growth of over 10% during 2008-09. Introduction of MSMED Act, 2006 apparently played a role here. However, post 2008 global financial crisis, MSME growth fell sharply and hovered around 4-7%.

CONTRIBUTION OF MSMES IN INDIAN ECONOMY

MSMEs have been contributing significantly to the expansion of entrepreneurial base through business innovations. 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. There are over 6000⁴ products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India.

As per the latest data available with Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation (MoSPI), the contribution of MSME Sector in the country's GVA and GDP, at current prices for the last five years is given in table 2.

Table 2
Contribution of MSMEs in Country's Economy at Current Price (in ₹ crore)

Year	MSME GVA	Growth (%)	Total GVA	Share of MSME GVA (%)	Total GDP	Share of MSME in GDP (%)
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: Annual Report Ministry of MSME 2017-18)

The contribution of the MSME sector to India's GDP remained stagnant around 30% in recent years. GVA of MSMEs decelerated marginally during the same period.

MSMEs require low capital to start the business, but create huge employment opportunities. As per the National Sample Survey (NSS) 73rd round conducted during the period 2015-16, MSME sector has been creating 1109 lakh jobs (360.41 lakh in Manufacturing, 387.18 lakh in Trade and 362.22 lakh in Other Services and 0.07 lakh in Non-captive Electricity Generation and Transmission) in the rural and the urban areas across the country. Table 3 shows activity- wise distribution of employment generated by MSMEs.

Table 3
Estimated Employment in MSME Sector (Broad Activity Category Wise)

Broad Activity Category	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	612.10	1109.89	100

(Source: National Sample Survey (NSS) 73rd round 2015-16)

STATE-WISE DISTRIBUTION OF ESTIMATED MSMES

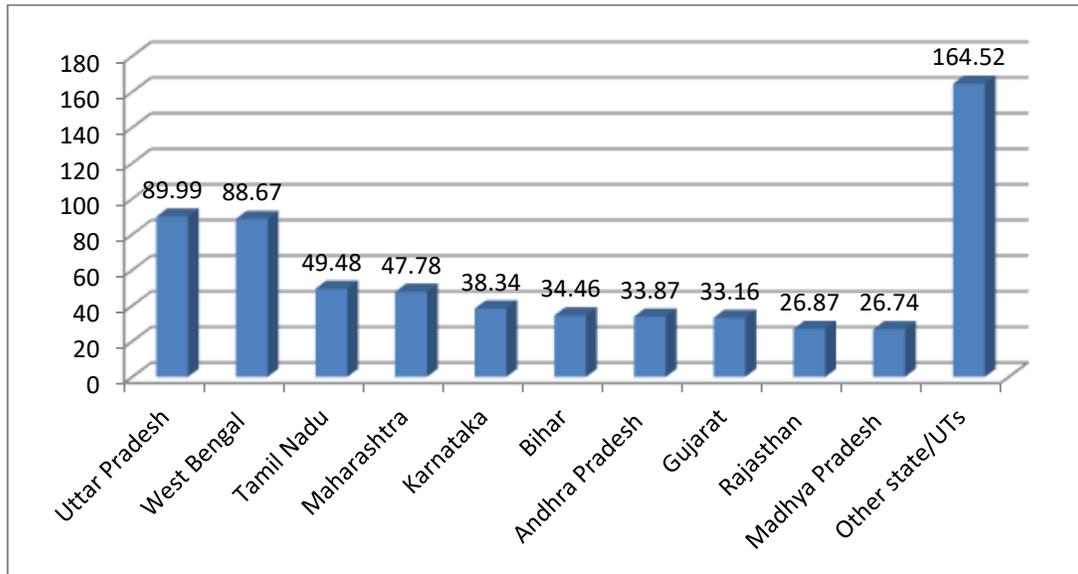
In India, MSMEs are concentrated mainly in top ten states. Nearly 93% of enterprises comes from these ten States. Chart III shows the distribution of estimated enterprises in top ten States. It can be seen that Uttar Pradesh has the largest number of estimated MSMEs with a share of 14.20% of MSMEs in the country. West Bengal comes a close second with a share of 14%. The top ten States together accounted for a share of 74% of the total estimated number of MSMEs in the country.

Table 4
Top state-wise Distribution of Enterprises

Number of MSMEs in Lakhs	Percentage
Uttar Pradesh	89.99
West Bengal	88.67
Tamil Nadu	49.48
Maharashtra	47.78
Karnataka	38.34

Bihar	34.46
Andhra Pradesh	33.87
Gujarat	33.16
Rajasthan	26.87
Madhya Pradesh	26.74
Other state/UTs	164.52

Figure 2
Top state-wise Distribution of Enterprises



Source: (Annual Report 2017-18 Ministry of MSME)

Table 5
Internal and External Problems of MSMEs

Problems	External	Internal
Finance	Non availability of finance Access to finance Excessive collateral security	High cost of borrowings Inadequate finance Recovery from debtors Low promoters contribution
Managerial	Locational disadvantage Government price controls.	Lack of technical know-how Absence of long term planning Lack of management skills
Marketing	Market saturation. Weak market demand Competitive environment of market	Lack of sales promotion Limited local market Price of the product is high Dependency on large scale industries Lack of marketing research
Raw material	Raw material not available Imports are difficult	Raw material not available Imports are difficult
Technological	Delay in delivery of machines	Obsolete Plant and Machinery Poor capacity utilization. Inadequate maintenance Transport bottleneck
Labour	Unavailability of skilled Labour	Labour Absenteeism / turnover High rates of wages / salaries Inefficient handling of labour problems

Source: (Dr. Mateen Ahmed Siddiqui. (April 2015). *Engines of Growth - A Study of the Growth and Performance of Indian MSMEs in the Present Scenario. International Journal Of Core Engineering & Management (IJCEM), Volume 2, Issue 1 pp 44-59*)

RECENT DEVELOPMENTS

- The BSE SME (small and medium enterprises) platform is expected to witness >60 SMEs to enter the market in one year (2021-22) to bring up equity funds for meeting their business requirements. The initial public offering (IPO) route witnessed 16 SMEs enter the market; they raised Rs. 100 crore (US\$ 13.74 million) in 2020.
- In May 2021, Emergency Credit Line Guarantee Scheme (ECLGS) expanded 'ECLGS 4.0' for onsite oxygen generation, wider coverage of ECLGS 3.0 and increase in tenor for ECLGS 1.0. In May 2021, the sanctioned loan amount disbursed stands at Rs. 2.54 lakh crore (US\$ 35.09 billion), an increase of 53% from Rs. 165,886 crore (US\$ 22.92 billion) in January 2021.
- In May 2021, IDBI Bank announced the introduction of its fully digitised loan processing system, with >50 products for MSMEs and agriculture.
- In May 2021, BSE, a stock exchange platform, collaborated with Dun & Bradstreet Information Services India to establish an ecosystem for small and medium enterprises for promotions and boosting growth.
- In May 2021, CSIR-CMERI handed over a technology for Oxygen Enrichment Unit to two MSMEs to enhance the technology capabilities of companies.
- In May 2021, NI-MSME (the National Institute for Micro, Small and Medium Enterprises, Hyderabad) signed an MoU with IIM Nagpur for collaboration in the areas of MSME development, training, research & consulting and entrepreneurship.
- In May 2021, Flipkart, through its financing programme, expanded benefits for MSME sellers. Under the new financing programme, the sellers can avail loan at an interest of 9% and raise credit for funds worth Rs. 5 lakh (US\$ 6.91 thousand) to Rs. 5 crore (US\$ 690.84 thousand).
- In March 2021, Spoton Logistics announced customisable logistics solutions for MSMEs. As part of this, the company has also enhanced its logistics hubs in locations such as Hyderabad, Bengaluru, Calcutta, Delhi, Ambala, Kochi, Chennai, Patna and Ranchi.
- In April 2021, the non-banking finance companies (NBFCs) requested the Reserve Bank of India to extend the one-time restructuring scheme of MSME advances till March 31, 2022, as these players are unable to revive their businesses.
- In March 2021, the Ministry of MSME, through the Development Commissioner (DC-MSME) implemented the Technology Centre Systems Program (TCSP) to establish 15 new Technology

Centres (TC). The centres provide assistance to the industry predominantly MSMEs in General Engineering, Automotive, Fragrance & Flavour and ESDM sectors.

- In March 2021, the Finance Ministry allowed private retirement funds to invest up to 5% in Category I & II AIFs regulated by SEBI; this will help widen the fundraising options for MSMEs and expand the domestic pool of capital

Category 1 AIFs consists of infrastructure, venture capital, angel and social venture funds. Category II AIFs covers funds where at least 51% of the size can be invested in either infrastructure, SMEs, venture capital or social welfare entities

- In March 2021, MSME support and development organisation, National Small Industries Corporation (NSIC) announced that they will assist MSMEs working with the Agricultural and Processed Food Products Export Development Authority (APEDA) across multiple areas
- The NSIC, through an MoU with APEDA, will help its MSME members in exploring the export potential of their agricultural and processed foods products. Additionally, APEDA members will get access to NSIC schemes, which would help them address issues pertaining to technology adoption, skills, product quality, and market access
- The relationship will also support promotion of green & sustainable manufacturing technology for MSME clusters, enabling units to switch to sustainable and green production processes and products
- In February 2021, Walmart's Vriddhi programme was extended to Uttar Pradesh, with launch of an e-institute to facilitate small businesses in granting access to skills and competencies across online and offline platforms such as Flipkart's marketplace and Walmart's global supply chain. The company stated that this new e-institute will benefit 50,000 MSMEs across the country to expand domestically and globally.



CONCLUSION

MSME's are the backbone of the country contributing tremendous to the economic development of the country by being the most attractive and promising sector for the employment among the younger generation, exports, diversification, innovation and resource mobilization. Small and medium enterprises (SMEs) have been the backbone of the Indian economy. The sector has huge potential in contributing towards the nation's GDP. The government of India has given top priority to this sector as visible from the industrial policy resolutions from time to time, the present move of increasing the investment limit and revising the policy of reservations has given a boost to this sector. To keep the growth engine on the right path and direction, it is necessary to put emphasis on the formulation of friendly policies, favourable

operating environment, improvement of proper infrastructure, securing peace and security, arranging proper finance, efficient manager and arranging appropriate modern technology for MSMEs.

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