

Performance of MSMEs in India: A Review

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ABSTRACT

Micro, Small and Medium Enterprises (MSMEs) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country.

Keywords: MSMEs, National Income, Industrialization, Socio- Economic Development, etc.

INTRODUCTION:

The Micro, Small and Medium Enterprises (MSMEs) sector constitutes an important segment of the Indian economy in terms of its contribution to the country's industrial production, exports, employment and creation of an entrepreneurial base. MSMEs have the advantages of generating gainful employment with low investment, diversifying the industrial base, reducing regional disparities through dispersal of industries into rural, semi-urban and backward areas. The government established the Ministry of Small Scale Industries and Agro and Rural Industries (SSI & ARI) in October, 1999 as the nodal ministry for formulation of policies and programmes/ schemes, their implementation and related coordination, to supplement the efforts of the states for promotion and development of this category of industries in India. The Ministry of SSI and ARI was bifurcated into two separate ministries, namely, Ministry of Small Scale Industries and Ministry of Agro and Rural Industries, in September 2001. The role of the Ministry of Small Scale Industries is mainly to assist the States in their efforts to promote growth and development of the SSIs to enhance their competitiveness and to generate additional employment opportunities. In addition, the Ministry attempts to address issues of country-wide common concerns and also undertakes advocacy on behalf of the MSMEs.

The output of the MSME Sector contributes almost 40 per cent to the gross industrial value-added and 45 per cent of the total exports from India and is the second largest employer of human resources after agriculture. The development of Small Scale Sector has, therefore, been assigned an important place in India's national plans. In order to facilitate the promotion and development and enhancing competitiveness, it was felt to have a separate legislation for this sector. The need for a single legislation was pointed out by different committees and also by several associations. In addition there was no statutory consultative and recommendatory body to look into the promotion and development of this sector. The Government also felt that there was a need for defining the Micro, Small and Medium Enterprises concept, to promote service sector, to strengthen existing law on delayed payments and to facilitate closure of sick enterprises. Keeping this in view, the Government of India brought out Micro, Small and Medium Enterprises Development Act 2006, which became operational from 2nd October, 2006. It is a known fact that the service sector has fast emerged as a sector with a lot of employment potential and is becoming a good contributor to the economy. Therefore, manufacturing and service sectors have been defined separately.

Manufacturing Enterprises:

Micro Enterprises – investment up to Rs. 25 lakh

Small Enterprises – investment above Rs. 25 lakh and up to Rs. 5 crore

Medium Enterprises – investment above Rs. 5 crore and up to Rs. 10 crore

Service Enterprises:

Micro Enterprises – investment up to Rs. 10 lakh

Small Enterprises – investment above Rs. 10 lakh and up to Rs. 2 crore

Medium Enterprises – investment above Rs. 2 crore and up to Rs. 5 crore

REVIEW OF LITERATURE:

Dixit and Pandey (2011) applied co-integration analysis to examine the causal relationship between SMEs output, exports, employment, 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.

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 continuous research in this field.

Mukund Chandra Mehta (2013) says that lack of finance, low on production capacity, lack of skilled man power, lack of infrastructure facilities, lack of industrial estate facilities etc. He concludes that government should consider these factors influencing SME's in formulating of any schemes or programs.

Neeru Garg (2014) says that there are many opportunities and problems faces by MSME's in India. He found that many opportunities from external environment are finance and subsidies provided by government, by globalization, credit & finance, competitive technology, skill development, national manufacturing competitive programs, export promotion and infrastructure development etc. There are many programs by government like cluster development, credit schemes, entrepreneurship development programs, etc. He highlights some major challenges faced by MSME's are due to lack of finance, IT literacy, management skills, financial and human resources, infrastructure, lack of knowledge on foreign markets and market information etc.

Gisha.P.Mathai (2015) say that problems faced by SME's in India are facing problems relating to lack of credit facilities from banks, infrastructure problems, unavailability of raw materials, lack of technology, lack of training, lack of skills both managerial and technical, lack of laws pertaining to labour, competition from large companies etc. They had given some suggestions in their article relating to challenges are implementing training and development awareness programs, research and development facilities, meeting consultants etc.

RESEARCH OBJECTIVES:

1. To study the performance of MSMEs in India.
2. To analyse the problems of MSMEs.
3. To suggest the measures to minimize the problems.

Data Base:

The study is based on secondary data only. Secondary data collected from Reserve Bank of India and Annual Reports of Ministry of Micro, Small and Medium Enterprises, Govt. of India. 2017-18. The period of the study was taken for eighteen years i.e., 2000-01 to 2017-18.

Performance of MSMEs:

The Micro, Small and Medium Enterprises (MSMEs) sector plays a significant role in the improvement of production, employment and exports of the country. This sector accounts for about 45 per cent of the manufacturing output and 40 per cent of the total exports of the country. There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India. It is well known that the MSMEs provide the maximum opportunities for both self employment and jobs. The performance of MSMEs in India is presented in Table 1.

Table 1: Performance of Micro, Small and Medium Enterprises (MSMEs) Sector in India During 2000-01 To 2017-2018

Year	No. of Total MSMEs (in lakh)	Fixed Investment (Rs. Crore)	Production (Rs. Crores)	Employment (Lakh persons)
2000-01	101.1	146845	261297	238.73
2001-02	105.21	154389	282270	249.33
2002-03	109.49	162317	314850	260.21
2003-04	113.95	170219	364547	271.42
2004-05	118.59	178699	429796	282.57
2005-06	123.42	188113	497842	294.91
2006-07	361.76	500758	709398	805.23
2007-08	377.36	558190	790759	842.00
2008-09	393.70	621753	880805	880.84
2009-10	410.80	693835	982919	921.79
2010-11	428.73	773487	1095758	965.15
2011-12	447.73	853139	1176939.36	1011.80
2012-13	467.56	967154	1285687.46	1061.52
2013-14	488.63	996236	1355342.92	1082.63
2014-15	512.23	1043243	1442653.25	1123.57
2015-16	554.34	1093376	1523392.68	1167.63
2016-17	586.82	1137674	1632642.34	1236.42
2017-18	633.90	1186432	1734296.76	1278.89

Source: 1. Reserve Bank of India and Ministry of Micro, Small and Medium Enterprises, Govt. of India. 2017-18.
 2. www.indiastat.com

It can be observed from Table 1 that the number of MSMEs increased from 101.1 lakh units in 2000-01 to 118.59 lakh units by 2004-05. The increase in units, however, has been predominant between 2004-05 and 2014-15 from 101.1 lakh to 512.23 lakh units. During the post reform period, the growth of MSME units has been gradual and steady from 101.1 lakh units in 2000-01 to 633.90 lakh units in 2017-18. There has been a steady growth in investment, production, employment and exports during 2017-18 since 2000-01. The investment and production increased from Rs. 146845 crore and Rs. 261297 crore in 2000-01 to Rs.1186432 crore and Rs.173429676 crore in 2017-18 respectively. There has been a steady increase of employment and exports of MSMEs. The employment in MSMEs increased from 238.73 lakh in 2000-01 to 282.57 lakhs during 2004-05, and to 1278.89 lakh during 2017-18.

Table 2 : Compound Growth Rates of MSMEs in India During 2000-01 To 2017-18

Year	Number of MSMEs	Fixed Investment	Production	Employment
2000-01 To 2009-10	15.05	16.22	14.17	14.46
2010-11 To 2017-18	5.09	5.49	5.91	3.58
2000-01 To 2017-18	11.23	12.88	11.60	10.22

From Table 2 indicates that the compound growth rate of number of MSMEs for the whole period (2000-01 to 2017-18) is 11.23 per cent, while it is 5.09 per cent in recent past against 15.05 per cent during 2000-01 to 2009-10 period. On the production front, the compound growth rate for the whole period is 11.60 per cent. It was 14.17 per cent during 2000-01 to 2009-10 period and 5.91 per cent in the recent past. The compound growth rate of fixed investment is more than the other components. It is 12.88 per cent for the whole period. The compound growth rates of employment have been worked to 10.22 per cent, 14.46 per cent and 3.58 per cent for the corresponding periods respectively.

Table 3: India’s Merchandise Exports – the Share of MSMEs Sector and Total Exports During 1990-91 To 2017-18

(Rs in Crores)

Year	Total Exports	MSME Exports	Share of MSME Sector (%)
1990-91	32553	9664	29.69
1991-92	44042	13883	31.52
1992-93	53688	17784	33.12
1993-94	69751	20307	29.11
1994-95	82674	29068	35.16
1995-96	106353	36470	34.29
1996-97	118817	39248	33.03
1997-98	130101	44442	34.16
1998-99	141604	48979	34.59
1999-00	158184	54200	34.26
2000-01	203571	69797	34.29
2001-02	209018	71244	34.09
2002-03	255137	85013	33.32
2003-04	293367	97644	33.71
2004-05	375340	124417	33.14
2005-06	425650	150242	35.29
2006-07	465698	169980	36.50
2007-08	495845	183462	37.00
2008-09	506214	193171	38.16
2009-10	520072	206573	39.72
2010-11	531064	220392	41.50
2011-12	557476	252258	45.25
2012-13	586327	279351	47.64
2013-14	518576	315685	51.03
2014-15	644325	356432	55.31
2015-16	687262	398364	57.96
2016-17	722434	452726	62.66
2017-18	768356	536438	69.82

Source: 1. Reserve Bank of India and Ministry of Micro, Small and Medium Enterprises, Govt. of India. 2017-18.
 2. Centre for Industrial and Economic Research (CIER), New Delhi ,2018
 3. www.indiastat.com,IIMK2.p.600

It can be observed from Table 3 The share of MSMEs sector to total exports increased consistently from 29.69 per cent during 1990-91 to 35.16 per cent during 1994-95 and to 69.82 per cent during 2017-18. It is striking to observe that the share of MSME sector has oscillated between a minimum of 29.69 per cent and a maximum of 34.29 per cent during the pre-reform period. In absolute terms, the exports of MSMEs sector increased from Rs.7,626 crore in 1989-90 to 29,068 crores registering an increase of 381 per cent. During the same period, the total exports recorded an increase of 298 per cent. During the post-reform period, the share of MSMEs sector in the total exports ranged between a minimum of 29.69 per cent and a maximum of 69.82 per cent. In absolute terms, the value of exports of MSMEs sector increased from Rs.9,664 crore in 1990-91 to Rs. 5,36,438 crore in 2017-18 registering an increase of 5550 per cent. This provides evidence to the fact that there has been a marked increase in the exports of MSME sector during the period 1990-91 to 2017-18.

Comparison of the MSME Sector with the overall Industrial Sector:

The MSME sector has maintained a higher rate of growth vis-à-vis the overall industrial sector as would be clear from the compound growth rates of production for both the sectors during last ten years as shown in the Table 4.

Table 4: Compound Growth Rates During 2017-18

Year	Growth Rate of MSME Sector (%)	Overall Industrial Sector (%)
2007-08	13.00	8.00
2008-09	13.56	8.56
2009-10	13.96	8.84
2010-11	14.76	9.71
2011-12	15.08	10.43
2012-13	16.12	11.26
2013-14	16.86	12.18
2014-15	17.42	13.43
2015-16	18.24	14.62
2016-17	18.95	15.57
2017-18	20.38	16.36

Source: 1. Reserve Bank of India and Ministry of Micro, Small and Medium Enterprises, Govt. of India.2017-18
2. Centre for Industrial and Economic Research (CIER), New Delhi, 2018.

Table 4, highlights that the growth rate of MSMEs was 13.00 per cent during 2007-08 and it reached 20.38 per cent during 2017-18, whereas the overall industrial sector growth rate was 16.36 per cent in 2017-18

PROBLEMS OF MICRO, SMALL AND MEDIUM ENTERPRISES:

The problems of MSMEs are divided into two groups—external and internal. As is obvious, external problems are those which result from factors beyond the control of the industrialist like the availability of power and other infrastructure facilities required for the smooth running of small-scale industries, while internal problems are those which are not influenced by external forces. The internal problems affecting the small-scale industries relate to organization, structure, production channel, distribution channel, technical know-how, training, industrial relations and inadequacy of management etc. The major problems of MSMEs are given below.

Finance:

It is well known that small units are mainly dependent on government assistance. Most of these units owe their origin to the spurt in the demand for their products either in the local market, the neighbouring or distant markets, or in a combination of markets. Generally speaking, the demand starts initially from the local market or neighbouring market and then is picked up from the regional and distant markets. The initial investment of these small units comes mainly from within; most of them invest their own funds or borrowed funds (mainly from relatives, friends and professional lenders). Much less comes from banks and government channels.

The small units depend more on their own funds and borrowed funds from non-banking and non-government sectors because of the fact that institutional lenders like banks and government financial corporations are generally reluctant to advance money to these small units, since they have yet to establish themselves. These small units are not in a position to offer the guarantee required by the banking sector. Even when small loans can be raised from government agencies, the procedure is so cumbersome that most of the entrepreneurs, who are either illiterate or semi-literate, hesitate to make use of these facilities. And since the finance they acquire is on a small-scale, entrepreneurs prefer to put in their own rather than borrowed funds. In this way, a number of factors work together and enable the new entrepreneurs to raise the initial capital needed for the starting of small units from sources other than government agencies. Of course, over a period of time, institutional finance is available for further expansion: but the extent to which they avail themselves of this finance depends upon the rate of growth of small units as well as the contacts they have built up with institutional lenders.

License:

The next problem is to obtain permission and license from the Industries Department of the State, local bodies etc. Despite the policy of the Government, petty officials are often unhelpful. Lot of time and energy is wasted in persuading these officials to perform their duties. It is also true that the small scale sector does not know how to make an approach and avail itself of the various facilities announced by the Central and State Governments. Alternatively, it is not in a position to communicate with the well organized, urbanized bureaucracy. These are the major handicaps which hinder the growth of the small- scale sector in the country. If the production programme calls for imported machinery or raw materials, the small industrialist has the additional problem of

obtaining suitable licenses and of going through import procedure which keep on changing frequently because of the changes in the Government's policy.

Location:

Banks and other financial institutions have not shed their traditional attachment to liquidity and safety of resources. On their part, the small entrepreneurs have no knowledge of the availability of varied financial assistance from various sources. With proper education and training, the small entrepreneur may seek better financial assistance. The choice of location, and getting water and power connections, also call for a great deal of effort on his part. It is not easy to decide on location, for the choice involves consideration of the availability of infrastructural facilities, the cost and tenure of acquisition, the availability of labour and proximity of the markets. Once the location is chosen, one has to go ahead to select and purchase a plot of land and construct a shed or to take it on rent or on ownership basis. At the same time, arrangements have to be made to select and procure machinery and to get it installed.

Raw Materials:

In view of the rising tempo of industrial activity, the shortage of right type of raw material at standard prices has affected the entire industrial sector. Because of their smallness and weak financial position, small-scale industries have to utilise the services of middlemen to get raw materials on credit. Such an arrangement, however, results in higher costs and is particularly disadvantageous when raw materials are imported, for the profit margins of middlemen are rather high. Their meagre resources induce small industrialists to use cheap and inferior materials, which naturally affect the quality of their finished products. Moreover, the irregular supply of certain raw materials adversely affects their production programmes. The availability of raw materials has been a great problem in our country. Some of them are chronically in short supply; some are very scarce at times and abundant at others; and there are great price variations. Manufacturers and suppliers very frequently create artificial scarcities and rig up prices. Even the government is at fault sometimes deliberately because it is politically motivated and often throws the trade into complete confusion by frequent changes in policy, especially in regard to controls. Quite often, the announced objective of the control policy is defeated by unscrupulous elements with the connivance of bureaucrats, who exploit the situation at the cost of the buyers.

Technology:

The growth of small-scale industries in India has not been very satisfactory despite the various provisions for its promotion in the Industrial Policy of the country. One of the major handicaps of the small-scale sector has been the absence of the latest technology, which alone can ensure quality and high rate of productivity. The small industrialist, therefore, should keep himself abreast of developments in technology, so as to:

- (i). Remain in the market;
- (ii). Improve the quality of his products;
- (iii). Lower the cost of production; and
- (iv). Pass on the benefits to the consumer.

Marketing:

Marketing is one of the major stumbling blocks for small-scale industries. The problems which they face in marketing their products are enumerated below:

Lack of standardization; Poor designing; Poor quality; Lack of quality control; Lack of precision; Poor finish; Poor bargaining power; Lack of service after sales; Scale of production; Brand preferences; Distribution contacts; Lack of knowledge of marketing; Competition; Ignorance of potential markets; Unfamiliarity with export activities—procedures and market know-how; and Financial weakness.

Recoveries:

One of the most difficult problems of the small industrialist today is recoveries from sales. It is an established practice for buyers to expect credit from sellers. This practice is forced upon the small industrialist by the larger ones. Initially, credit was available for a month or two; but with a very tight money market, a situation has developed in which buyers do not pay their suppliers for over 12 months, and get away with it.

The financial assistance availed of by the small unit with great difficulty (or a bank is taken advantage of by its customers, who do not pay their dues in time. The bank may, if at all, extend further assistance: but this assistance, after all, is not limitless. The New Bill Market Scheme of the Reserve Bank of India has not touched

this problem. The only way out of this situation is for the Central Government to introduce measures to curb the practice and save the small industrialist.

Labour:

Handling labour, which is a major contributor to industrial production, is one of the most difficult tasks of the industrialist because of the human element involved in it. One has to keep abreast of the maze of labour laws, which keep changing from time to time. Labour today is fully aware of their rights. They are, therefore, to be handled with patience and understanding. Unfortunately, trade unionists politically exploit the problems of labour, and, at times, even create a problem where there was none before. To protect their vested interests, politicians often prevent a settlement of a dispute between labour and employers, and thus work against the interests of both. It is very important, therefore, to evolve a code of conduct for trade unionists to protect the interests of labour as well as of employers; this will add to the general prosperity and well-being of both.

Faulty Planning:

Another important problem is faulty planning and inadequate appraisal of projects. No proper viability studies, technical or economic, are carried out before units are sponsored. The report of the study team of the State Bank of India (1975), which examined the difficulties and problems of the small sector, came to the conclusion that over 40 per cent of the sample units examined by it were started with feasibility studies or detailed project reports.

CONCLUSION:

MSMEs, as a major contributor towards growth of domestic economy and employment generation, should also get adequate support for its growth and development in terms of policy framework, incentives and other relevant aids and supports like providing good infrastructural facilities, developing various industrial parks and technology incubators under MSME cluster development programmes, creating networks of organisations which help to provide training to the skilled workforce to improve productivity, encourage entrepreneurship and competency in management, funding R&D investments, technology advancement may work for the betterment of the sector. Although, Indian MSMEs are finding it difficult to sell their products in the domestic and international markets because of increasing competition and to make their products globally competitive, Indian MSMEs need to up-grade their technology and put more emphasis on innovation.

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