



GROWTH AND PERFORMANCE OF MSMEs IN INDIA

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Abstract

The global story of growth, including that of India, during the past two decades has been one at significant tendencies of exclusion as well (ILO, 2012). Look at the India story: In India, the growth rate has been significantly high since 1990. But employment opportunities have not grown to that extent. This implies that, the benefits of growth have been relatively concentrated with limited spill-over of the purchasing power. Therefore, there is a need for inclusive policies. Inclusion, in the MSME context, means broad- basing growth with the following specific focus. This can be done by strengthening the base and the reach of MSMEs, through the following steps: 1) ensuring growth of the MSME sector 2) managing spatial distribution and 3) targeting socially excluded groups in an attempt to mainstream them. This is because; the cornerstone of MSME policy is to provide opportunities of a distributive nature, along with a physical balancing of regions through disbursal of the intervention. Hence, policies speak of backward area development as also of reducing inequalities based on indicators of social vulnerability, such as caste and gender. Those excluded from the labour market are sought to be „included’ into the stream through provision of employment opportunities, as also opportunities of going up the income and career ladder as enterprise start-ups.

Micro, Small & Medium Enterprises Development (MSMED) Act, 2006

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 on June 16, 2006 which was notified on October 2, 2006. With the enactment of MSMED Act 2006, the paradigm shift that has taken place is the inclusion of the services sector in the definition of Micro, Small & Medium enterprises, apart from extending the scope to medium enterprises. The MSMED Act, 2006 has modified the definition of micro, small and medium enterprises engaged in manufacturing or production and providing or rendering of services. The Reserve Bank has notified the changes to all scheduled commercial banks. Further, the definition, as per the Act, has been adopted for purposes of bank credit vide RBI circular ref. RPCD. PLNFS. BC.No.63/ 06.02.31/ 2006-07 dated April 4, 2007.

Definition of Micro, Small and Medium Enterprises

Manufacturing Enterprises i.e. Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below

- A micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs. 25 lakh;

A small enterprise is an enterprise where the investment in plant and machinery is more than Rs. 25 lakh but does not exceed Rs. 5 crore; and A medium enterprise is an enterprise where the investment in plant and machinery is more than Rs.5 crore but does not exceed Rs.10 crore. In case of	the above	enterprises, investment	in plant And machinery
is the	original cost	excluding land and	building and the items

specified by the Ministry of Small Scale Industries vide its notification No.S.O. 1722(E) dated October 5, 2006 (Annex I).

Service Enterprises i.e. Enterprises engaged in providing or rendering of services and whose investment in equipment (original cost excluding land

and building and furniture, fittings and other items not directly	related to
the service rendered or as may be notified under the	MSMED Act,
2006) are specified below.	

- A micro enterprise is an enterprise where the investment in equipment does not exceed Rs. 10 lakh;
- A small enterprise is an enterprise where the investment in equipment is more than Rs.10 lakh but does not exceed Rs. 2 crore; and
- A medium enterprise is an enterprise where the investment in equipment is more than Rs.2 crore but does not exceed Rs.5 crore.



Bank Loans to Micro and Small enterprises, both Manufacturing and Service are eligible to be classified under Priority Sector advance as per the following

Features of MSMEs In India

The salient features of the Act are: The earlier concept of „Industries’ has been changed to „Enterprises’. Enterprises have been classified broadly into: (1) Enterprises engaged in the manufacture/production of goods pertaining to any industry; and (2) Enterprises engaged in providing/ rendering of services. Manufacturing Enterprises have been defined in terms of investment in plant and machinery (excluding land & buildings) and further classified into: (a) Micro Enterprises – investment up to Rs.25lakh; (b) Small Enterprises – investment. Above Rs.25lakh & up to Rs. 5crore; (c) Medium Enterprises – investment above Rs.5crore & up to Rs. 10crore. The Service enterprises have been defined in terms of their investment in equipment (excluding land & buildings) and further classified into: (a) Micro Enterprises – investment up to Rs.10lakh; (b) Small Enterprises – investment above Rs.10lakh & up to Rs. 2crore; (c) Medium Enterprises – investment above Rs.2 crore & up to Rs. 5 crore. It defines.

Medium Enterprises’ to facilitate achievement of economies of scale. It provides statutory basis to Purchase Preference Policy for goods and services provided by micro and small enterprises. It also strengthens the legal provisions to check delayed payments to micro & small enterprises. The Act provides statutory basis to the National Board for Micro, Small & Medium Enterprises. The cumbersome two-stage registration process of SSI has been substituted with an optional filing of memorandum by Micro, Small & Medium Enterprises. The Act aims at facilitating the promotion and development of small and medium enterprises in a competitive way. It seeks to empower the Central Government to notify programmes, guidelines or instructions for facilitating the promotion and growth of small and medium enterprises. One of its primary objectives is to make provisions for ensuring timely and smooth flow of credit to small and medium enterprises rendering of services. Manufacturing Enterprises have been defined in terms of investment in plant and machinery (excluding land & buildings) and further classified into: (a) Micro Enterprises – investment up to Rs.25lakh; (b) Small Enterprises – investment above Rs.25lakh & up to Rs. 5crore; (c) Medium Enterprises – investment above Rs.5crore & up to Rs. 10crore. The Service enterprises have been defined in terms of their investment in equipment (excluding land & buildings) and further classified into: (a) Micro Enterprises – investment up to Rs.10lakh; (b) Small Enterprises – investment above Rs.10lakh & up to Rs. 2crore; (c) Medium Enterprises – investment above Rs.2 crore & up to Rs. 5 crore. It defines “Medium Enterprises” to facilitate achievement of economies of scale. It provides statutory basis to Purchase Preference Policy for goods and services provided by micro and small enterprises. It also strengthens the legal provisions to check delayed payments to micro & small enterprises. The Act provides statutory basis to the National Board for Micro, Small & Medium Enterprises.

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Andhra Pradesh Scenario

Andhra Pradesh is an agricultural state which produces the largest quantity of rice in India. Other food grains include millets, jowar and ragi. Cash crops include Tobacco, Groundnut, Chillies, Turmeric, Oilseeds, Cotton, Sugar and Jute. Agriculture accounts for a third of its GDP and 70% of employment.

The state has largest deposits of quality chrysolite asbestos in the country. Other mineral deposits are coal, copper, manganese, mica, coal and limestone. AP’s strength lies in its fully diversified industrial base, with the thrust on high-tech sectors including FT, pharmaceuticals, biotechnology and Nano Technology. Traditional sectors such as textiles, leather, minerals, and food processing are also being further developed for high value addition.

Major industries in the state are in machine tools, synthetic drugs, pharmaceuticals, heavy electrical machinery, fertilizers, electronic equipment’s, aeronautical parts, chemicals, asbestos, glass, cement and cement products and watches. In the small scale sector, there are pesticides and insecticides production, engineering workshops, automobile units and repairs, chemical industries, utensils manufacturing, wooden furniture, electrical items/ cotton ginning and edible oil, etc. More than 95 per cent of the total number of industrial enterprises in the state are MSMEs (174,000 units) and only 4,800 units are large enterprises. The fourth census of MSMEs conducted by the state government revealed that 10 per cent had shut shop.

Most of the MSMEs units are in natural geographic clusters such as : Readymade Garments, Jeans Garments and Power loom in Anantpur, Rayadurg, Chitradurg, Chittoor. Nagari, Guntur, Sirsillam, and Brass and Aluminum Utensils in Chittoor,



Ventimalta, Srikalahasti, Chundur and Rajahmundry. Steel Furniture in Krishna, Chundur, Kavadiguda, Charminar and Vijayawada; Marine Foods in Visakhapatnam, East Godavari and Kakinada. East Godavari district houses most of the rice mills and refractory units.

Table 1, Statement showing cumulative number of Small Scale Units registered on permanent basis with State / UTs directorate of Industries

Sl. No.	State/UT	Cumulative No. of Small Scale Units as on 31 st December, 2002						
		Pre-liberalisation period			1990	Post-liberalisation period		
1.	Andhra Pradesh	69789	(5.9)	78051	85470	93281	107372	(6.5)
2.	Assam	9374	(0.80)	11510	11366	12805	14354	(0.87)
3.	Bihar	59886	(5.11)	65192	71804	76779	83982E	(5.12)
4.	Gujarat	65553	(5.59)	71299	78441	78441	94879	(5.79)
5.	Haryana	61229	(5.2)	65166	69365	74360	79953	(4.8)
6.	Himachal Pradesh	9929	(0.84)	10565	11107	11653	12165	(0.74)
7.	Jammu & Kashmir	17935	(1.53)	19080	19877	21677	22653	(1.38)
8.	Karnataka	62534	(5.34)	68300	74182	80292	88513	(5.4)
9.	Kerala	42900	(3.66)	49574	57738	78420	86595	(11.2)
10.	Madhya Pradesh	139780	(3.39)	149239	160896	1725458	184245E	(11.24)
11.	Maharashtra	54610	(4.66)	53955	56837	59953	68003	(4.15)
12.	Manipur	2890	(0.24)	3719	4152	4059	4310E	(0.26)
13.	Meghalaya	100.	(0.08)	1114	1233	1360	1617E	(0.09)
14.	Nagaland	509	(0.04)	547	580	615	642	(0.039)
15.	Orissa	16061	(1.37)	15251	15736	16004	16505	(1.007)
16.	Punjab	96519	(8.24)	106526	115003	124453	134337	(8.20)
17.	Rajasthan	56761	(4.84)	58367	59931	62393	64437	(3.93)
18.	Tamil Nadu	86499	(7.38)	96501	107503	116940	133807	(8.16)
19.	Tripura	3523	(0.30)	4054	4411	4967	5665	(0.34)
20.	Uttar Pradesh	145797	(12.45)	161017	185566	217376	247907	(15.1)
21.	Sikkam	109	(0.009)	131	185	209	224	(0.01)
22.	Arunachal Pradesh	365	(0.03)	451	474	525	571	(0.03)
23.	West Bengal	131656	(11.24)	131619	137526	139878	142508E	(8.70)
24.	Mizoram	1694	(0.14)	2087	2245	2478	2638	(0.16)
25.	Goa	4494	(0.38)	4794	4947	5146	5381	(0.32)
26.	Andaman & Nicobar	537	(0.04)	586	653	795	852	(0.05)
27.	Chandigarh	2401	(0.20)	2512	2656	2765	2844	(0.17)
28.	Dadra Nagar & Haveli	272	(0.02)	278	284	282	306	(0.01)
29.	Delhi	23817	(2.03)	24804	25774	26228	26606E	(1.62)
30.	Lakshadweep	Nil		Nil	104	144	184	(0.01)
31.	Pondicherry	2380	(0.20)	2631	2893	3190	3517	(0.21)
32.	Daman & Diu	228	(0.01)	259	344	385	440E	(0.026)
TOTAL		1171034		1262238	1369283	1498193	1637812	

Source: Ministry of MSME.



The District Industries centres setup by the Government, have greatly contributed to the promotion of small scale units in the rural areas.

Problems of MSMEs

Despite constituting more than 80 % of the total number of industrial enterprises and supporting industrial development, many MSMEs in India have problems such as sub-optimal scale of operation, technological obsolescence, supply chain inefficiencies, increasing domestic and global competition, fund shortages, change in manufacturing strategies and turbulent and uncertain market scenario.

The micro level being human capacity problem, inappropriate attitudes; MSMEs level constraints being limited access to support services, including credit, technical and management training, advise and marketing, rules, laws and regulations affecting business, weakness of woman advocacy organizations and macro level problems are cultural environment that makes it more difficult for women to start and run enterprises due to their traditional reproductive roles and lack of concrete initiative for poverty alleviation and business development strategies of the country. The report tried to study to what extent do women entrepreneurs, aspire, try and actually achieve significant growth, what strategies do women entrepreneurs who manage to formalize their businesses and those who develop from one level to another adopt and what role, if any, does the support environment play in facilitating upward mobility of women enterprises. The report defines small enterprises as ones employing 10 to 49 employees, micro enterprises as those with 1 to 9 employees.

Rating of MSMEs

In spite of the increasing avenues of funding for MSMEs, credit penetration in this sector is still low. The primary reasons for this are insufficient credit information on MSMEs, low market creditability of MSMEs and constraints in analysis. To tackle this problem, the SME Rating Agency of India (SMERA) was launched in 2013 by SIDBI in association with Dun & Bradstreet (D&B), Credit Information Bureau (India) Ltd and leading public and private sector banks.

Need for MSMEs

With India's vast cultural diversity, geographical expanse and entrepreneurial spirit, Micro, Small and Medium Enterprises (MSMEs) have always played a vital role in the growth of India's economy. MSMEs have over a 45 percent share in manufacturing output in India, producing over 6000 value-added products. They contribute nearly 40 percent in the overall export from the country. They are one of the biggest employment-providing sectors after agriculture, accounting for employment to about 60 million skilled and unskilled people. The role of MSMEs in terms of employment creation, upholding the entrepreneurial spirit and innovation has been crucial in fostering competitiveness in the economy. For India to achieve a growth rate of over 8 per cent, it is imperative that the industrial sector along with the MSMEs grows at a faster pace. Indian MSMEs have a more positive outlook towards their growth and business prospects in contrast to most of their regional counterparts. However MSMEs in India, constitute more than 90 per cent of the total number of industrial enterprises and form the backbone of industrial development, but suffer from the problems of sub-optimal scale of operation and technological obsolescence. Indian MSMEs are facing tough competition from their global counterparts due to liberalization, change in manufacturing strategies, turbulent and uncertain market scenarios and the need to adopt certain strategies for growth. There is also an imminent need for MSMEs to innovate by thinking out-of-the-box and to develop products with unique differentiators¹⁹. They also need to attract Venture Capitalists and Private Equity investors to get sufficient investments and enter markets where there are not too many players.

Innovation has always been the hallmark of Micro, Small and Medium Enterprises. Studies conducted by the US Department of Commerce, revealed that since World War II, 50% of all innovations and 95% of radical innovations, have come from new and smaller firms. The innovation process is seen as a cycle involving trial and error, where problems, at some stage of development lead to the need for re-evaluation of the earlier stage of the innovation process. Although Indian MSMEs realize the importance of technological innovation, most of the Indian MSMEs still believe in importing technology, rather than developing it in-house or through/in association with, National Research and Development (R&D) centres. Indian MSMEs, over the years, have largely ignored R&D requirements and have not embarked on new product development or technological up-gradation at the requisite pace. This is despite the fact, that India has the third largest pool of technologically trained manpower. The growth rate for MSMEs has always been higher than the rate of growth of the industrial sector as a whole. To maintain the same momentum and to be competitive, they will increasingly need to learn and imbibe the process of innovation, in their day to day working. I am certain that Indian MSMEs have the required vigour's and resilience and in the current situation they will not only survive but will also move from strength to strength. I think this decade is going to belong to the MSMEs of India.



Conclusion

Micro, Small and Medium Enterprises (MSME) contribute nearly 8 percent of the country's GDP, 45 percent of the manufacturing output and 40 percent of the exports. They provide the largest share of employment after agriculture. They are the nurseries for entrepreneurship and innovation. They are widely dispersed across the country and produce a diverse range of products and services to meet the needs of the local markets, the global market and the national and international value chains.

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