

Prospects and Challenges of Micro Small Medium Enterprises (MSMEs) in India: A comparative Study

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Abstract

SMEs are considered to be driving stone of any country's economy be it under developed or developed as it provides maximum employment to locals and helps in raising the standard of living. In most developing countries, Micro, Small and Medium enterprises (MSMEs) constitute the bulk of the industrial base and contribute significantly to their exports as well as to their GDP or GNP (Kharbanda, V. P., 2001). SMEs are said to be the lifeblood of any vibrant economy and they are known to be the silent drivers of a nation's economy (Monika, S., et. al., 2010). The majority of people living in rural area draw their livelihood from agriculture and allied sectors. However, the growth and balanced development of other sectors such as industries and services is also necessary to sustain the growth of Indian economy in an inclusive manner. It has proved to be very highly dynamic sector in Indian economy which not only plays an important role in providing employment opportunities to people but also facilitates in the growth and development in rural areas which provides many facilities to the people living in or around the industry. It proves to be cost beneficial for industrialists in developing economy as it requires less capital compared to large industries. It also plays prominent role in boosting production in country and gives a major base for self-reliance and domestic production. According to various researches and examples taken into consideration the major problems faced by SMEs in India and as a result affects the Indian Economy on a very large scale. Solutions to these problems can open many doors to revive the Indian Economy and improve the conditions.

Keywords: — SMEs (Small and Medium Enterprises), Import, Export, GDP (Gross Domestic Product)

Introduction

The Government of India is striving to improve the economic and social conditions of rural population and non-farm sector through a host of measures including creation of productive employment opportunities based on optimal use of local raw materials and skills as well as undertaking interventions aimed at improving supply chain; enhancing skills; upgrading technology; expanding markets and capacity building of the entrepreneurs/artisans and their groups/ collectives. For instance, India has more than 31.15 million MSMEs, which account for almost 50 percent of industrial output and 42 percent of India's total exports. It is the most important employment generating sector next to agriculture and is an effective tool for promotion of balanced regional development. It provides employment opportunity to more than 73.22 million people (MSMEs Annual Report 2011-12). New opportunities that arise within the country every day create the need for jobs and also an insatiable appetite for new entrepreneurial talent. The priority must be to unite the diverse units of the MSMEs under an organized structure and integrate their operations into that of major global firms (Sivakumar, V., & Daniel, F., 2009). Hence the attempt has been made to study the growth and performance of MSMEs and its contribution to nation economic development.

Need for the Study

MSMEs contribute the largest number of firms, and also contribute significantly to both employment generation and Gross Domestic Product (GDP) formation (AESMEC, 1998; Peres & Stumpo, 2002). Micro, Small and Medium Enterprises (MSMEs), including khadi and village/rural enterprises constitute an important segment of Indian economy in terms of their contribution to country's industrial production, exports, employment and creation of an entrepreneurial base (MSME, 2012-13). Increasing MSME sector results in decentralized industrial development, better distribution of wealth and investment and entrepreneurial talent. The government has initiated several policies for the growth and development of MSMEs. The MSMEs in India are acting as power and spirit of economic growth in the 21st century (Nalla, B.K.K., & Sardar, G., 2012). New opportunities that arise within the country every day create the need for jobs and also an insatiable appetite for new entrepreneurial talent (Siva kumar, V., & Daniel, F., 2009). Hence this present study will examine the growth and performance of MSMEs and opportunity for entrepreneurial development.

Objectives and Methodology of the Study

- To learn the role of MSME
- To understand the performance of MSMEs
- To measure the growth of MSMEs sector
- To provide the avenues for entrepreneurial development

The present study is empirical in nature. In order to accomplish the objective, the study relied on time series secondary data for India from Annual Reports published by the Government of India, Ministry of Micro, Small and Medium Enterprises.. For the study purpose number of working firms, employment provided by the sector, fixed investment and production of the sector are selected as a variable to measure the growth and performance. The study adopts growth rates to examine the growth and performance of the MSMEs in India.

Role and performance of Entrepreneurship on the MSMEs sector in India

Despite its reform experience being very young, "India has made its mark in the global entrepreneurial scene. Indian citizens (for example, Sunil Mittal and Naresh Goyal) made their name known as world class entrepreneurs" (Koveos, & Peter, E. 2007). The priority must be to unite the diverse units of the SMEs under an organized structure and integrate their operations into that of major global firms (Sivakumar, V., & Daniel, F., 2009). Promotion of entrepreneurship among MSMEs is widely handled through a combination of public and private sector organizations in different countries. Entrepreneurship development within MSMEs has been made part of the development Action Plan at the national level by India also (Asian Productivity Organization, 2011). Despite the definitional differences, it is commonly agreed that entrepreneurship is a driving force behind MSMEs. Available evidence suggests that entrepreneurship can contribute significantly to achieving key policy objectives. Entrepreneurship is an effective means of achieving certain policy objectives, but not all, and at least in the short term, there are tradeoffs.

Growth and Performance of Micro, Small and Medium Enterprises (MSMEs)

Key Results of NSS 73rd Round Survey (2015-16) on Micro, Small and Medium Enterprises
Estimated number of MSMEs in country:

MSMEs in India are playing a crucial role by providing large employment opportunities at comparatively lower capital cost than large industries as well as through industrialization of rural & backward areas, inter alia, reducing regional imbalances, assuring more equitable distribution of national income and wealth. As per the National Sample Survey (NSS) 73rd

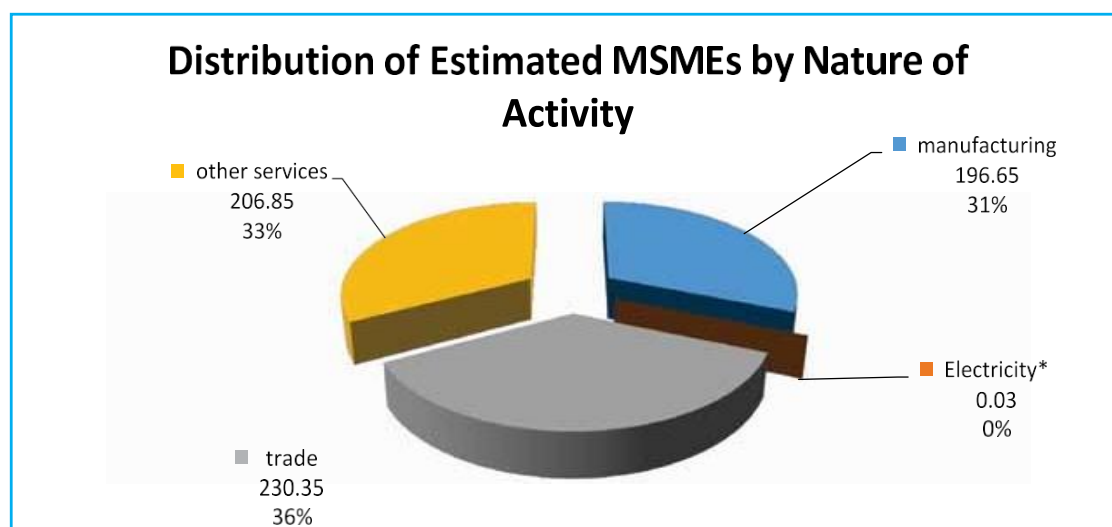
round, conducted by National Sample Survey Office, Ministry of Statistics & Programme Implementation during the period 2015-16, there were 633.88 lakh unincorporated non-agriculture MSMEs in the country engaged in different economic activities (196.65 lakh in Manufacturing, 0.03 lakh in Non-captive Electricity Generation and Transmission, 230.35 lakh in Trade and 206.85 lakh in Other Services) excluding those 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.

Activity-wise distribution of MSMEs

Statement No. 1: Estimated Number of MSMEs (Activity Wise)

Activity Category	Estimated Number of Enterprises (in lakh)			Share (%)
	Rural	Urban	Total	
(1)	(2)	(3)	(4)	(5)
Manufacturing	114.14	82.50	196.65	31
Electricity*	0.03	0.01	0.03	0
Trade	108.71	121.64	230.35	36
Other Services	102.00	104.85	206.85	33
All	324.88	309.00	633.88	100

Figure 1 Distributions of Estimated MSMEs (Nature of Activity Wise)



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 accounted for 0.52% and 0.01% of total estimated MSMEs, respectively. Out of 633.88 estimated number of MSMEs, 324.88 lakh MSMEs (51.25%) are in rural area and 309 lakh MSMEs (48.75%) are in the urban areas.

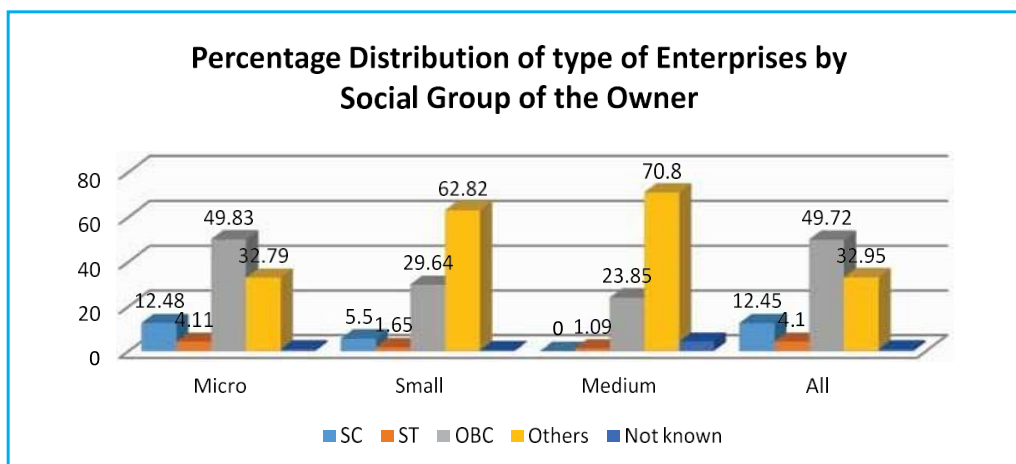
Statement No. 2 and figure 2 shows the distribution of enterprises in rural and urban Areas. State-wise estimated number of MSMEs.

Statement No. 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

Figure:2



Employment

As per the National Sample Survey (NSS) 73rd round conducted during the period 2015-16, MSME sector has been creating 11.10 crore jobs (360.41 lakh in Manufacturing, 0.07 lakh in Non-captive Electricity Generation and Transmission, 387.18 lakh in Trade and 362.82 lakh in Other Services) in the rural and the urban areas across the country. Statement No. 2.7 and Figure 2.5 shows the distribution of MSMEs activity wise.

Statement No. 3: Estimated Employment in the MSME Sector (Activity Wise)

Broad Activity Category	Employment (in lakh)			Share (%)
	Rural	Urban	Total	
(1)	(2)	(3)	(4)	(5)
Manufacturing	186.56	173.86	360.41	32
Electricity*	0.06	0.02	0.07	0
Trade	160.64	226.54	387.18	35
Other Services	150.53	211.69	362.22	33
All	497.78	612.10	1109.89	100

*Non-captive electricity generation and transmission

Figure 3: Distribution of employment in the MSME sector category wise



*Non-captive electricity generation and transmission

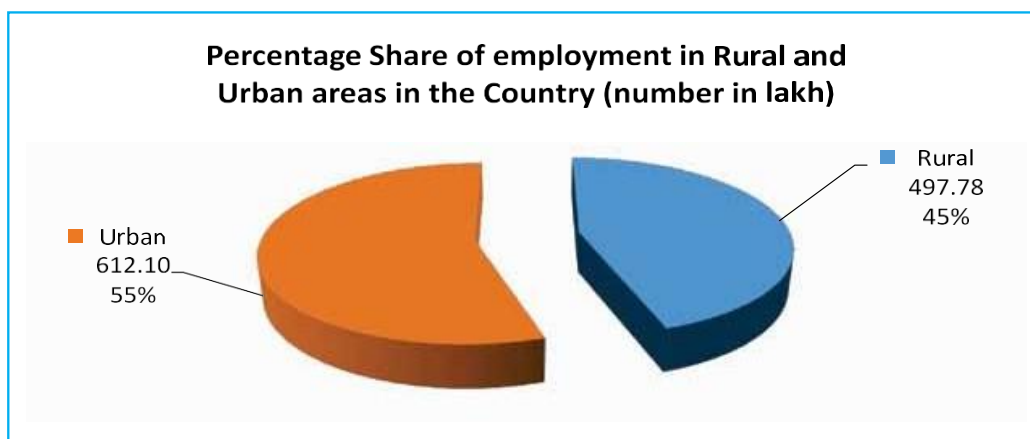
Micro sector with 630.52 lakh estimated enterprises provided employment to 1076.19 lakh persons that in turn accounts for around 97% of total employment in the sector. Small sector with 3.31 lakh and Medium sector with 0.05 lakh estimated MSMEs provided employment to 31.95 lakh (2.88%) and 1.75 lakh (0.16%) persons of total employment in MSME sector, respectively. Statement No. 2.8 and figure 2.6 shows the distribution of employment sectorwise in Rural and Urban Areas.

Distribution of employment in Rural and Urban Areas

Statement No. 4: Distribution of employment by type of Enterprises in Rural and Urban Areas (Numbers in lakh)

Sector	Micro	Small	Medium	Total	Share (%)
Rural	489.30	7.88	0.60	497.78	45
Urban	586.88	24.06	1.16	612.10	55
All	1076.19	31.95	1.75	1109.89	100

Figure 4 Percentage Share of Rural and Urban MSMEs in the Country



State-wise Distribution of estimated MSMEs

Statement No. 5: State-wise Distribution of enterprises

State of Uttar Pradesh had the largest number of estimated MSMEs with a share of 14.20% of MSMEs in the country. Top 10 States accounted for a share of 74.05% of the total estimated number of MSMEs in the country. Statement No.5 and Figure 5 show the distribution of estimated enterprises in top ten States.

Figure 5: Distribution of MSMEs in Top Ten States

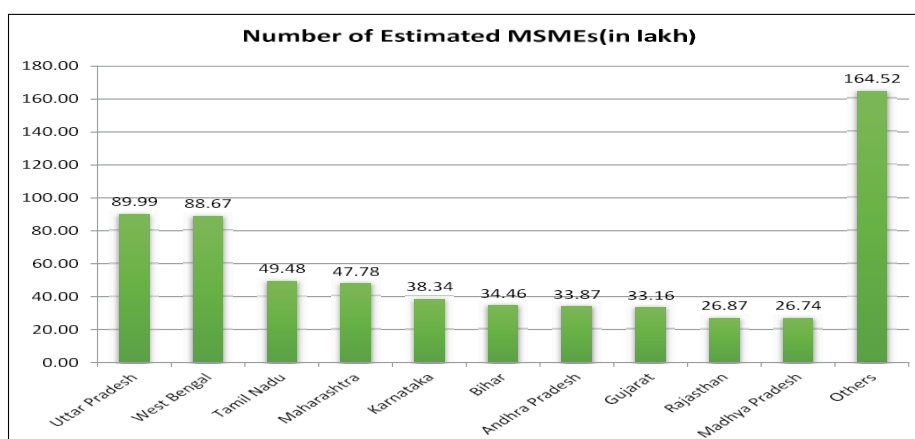
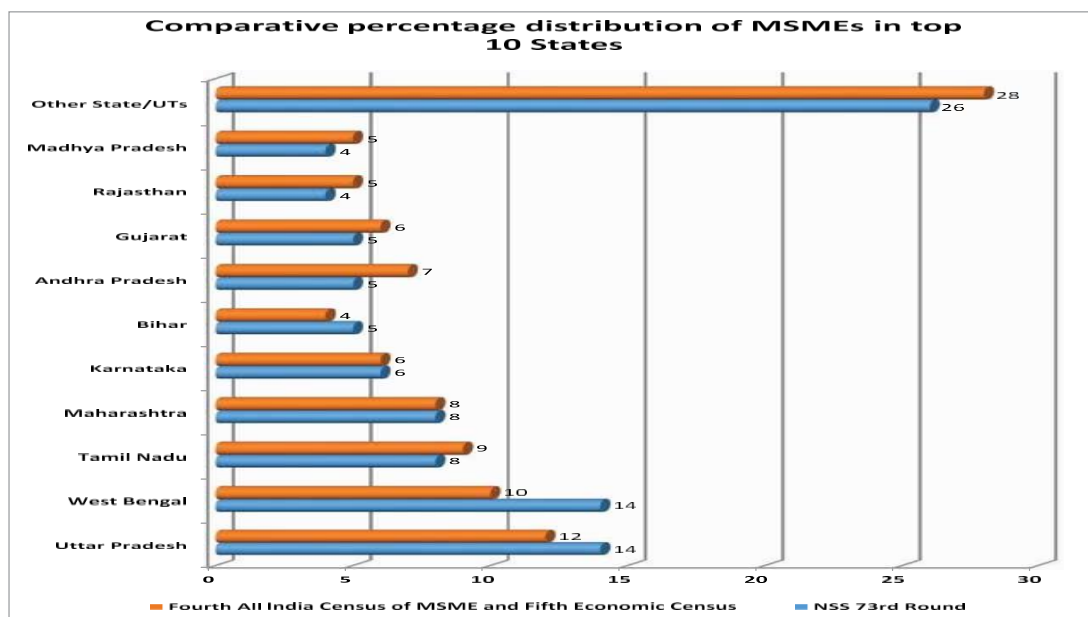


Figure: 5.1



Conclusion

MSMEs sector has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and provide employment. The sector is basically less capital intensive and high manpower absorption in nature. It is estimated that 1 lakh rupees investment in MSMEs sector creates four employment opportunities. Tremendous growth of MSMEs sector generates more employment opportunities, support large scale industries, half of the industrial output and considerable part of the export earnings. At the same time there is a considerable increase of sick MSMEs in India. The future studies at the field level will provide strategies to overcome the problems regarding management of human resources, production process, financing and marketing activities to help the MSMEs to achieve the success and contribute the nation sustainable economic development.

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