

**“Role of MSME Sector in India Economy”**

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**I. ABSTRACT**

Over the past few decades, the Micro, Small and Medium Enterprises sector has emerged as an exceedingly lively and dynamic Indian economy sector. MSMEs in India have been increasingly become important for the sole reason of their role in the Indian economic structure. The MSME sector is vital for India’s economy. There are more than 6 crore enterprises in various industries, employing more than 10 crore people. . India’s micro-sized enterprises face many hurdles and yet are capable of taking advantage of opportunities in rapidly changing global markets. MSMEs contribute significantly to the country’s industrial output, jobs, exports and consistent employment growth, followed by agriculture.

*Keywords:* MSME, vital, economy, employment, challenges.

**II. INTRODUCTION**

In the past few years, MSMEs have generated a huge number of employments, at a relatively lower cost of capital as compared to the large-scale business or ventures or establishments. As there is the increase in employment opportunities in the MSME sector, they help increase the country’s socio-economic development.

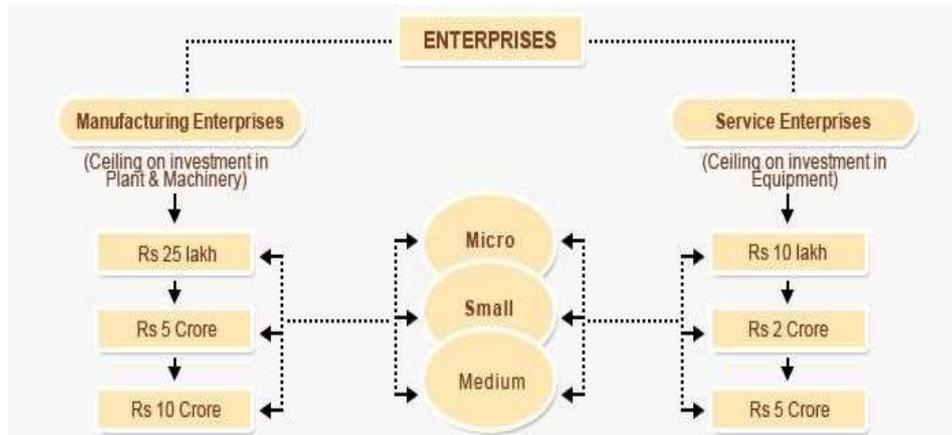
The MSME sector not only providing employment but also helped rural development which was the biggest challenge in front of the Government as in initial phase of industrialization which has attracted rural population towards urban region. It has provided balanced regional development of the country and proved as a key success factor for rural development. The Ministry of Micro, Small and Medium Enterprises (MSME) intends to make the MSME sector, including Khadi, Village and Coir Industries even more vibrant by providing support to existing enterprises and encouraging creation of new enterprises, by way of various programmes and schemes in cooperation with concerned Ministries, Departments and State Governments. The long-term goal of the ministry is to enhance manufacturing base in the country by improving performance of MSMEs through skill and entrepreneurship development.

In India, the enterprises have been classified broadly into two categories:

- (i) Manufacturing; and
- (ii) Those engaged in providing/rendering services.

Both the categories have been further classified into micro, small and medium enterprises based on their investment in plant and machinery (for manufacturing enterprises) or on equipment (in case of enterprises providing or rendering services). The present ceiling on investment to be classified as micro, small or medium enterprises is as follows:

<i>Classification</i>	<i>Manufacturing Enterprises</i>	<i>Service Enterprises</i>
<b>Micro</b>	Up to ₹25 lakh	Up to ₹10 lakh
<b>Small</b>	Above ₹25 lakh & up to ₹5 crore	Above ₹20 lakh & up to ₹2 crore
<b>Medium</b>	Above ₹5 crore & up to ₹10 crore	Above ₹2 crore & up to ₹5 crore



**Source:** Micro, Small and Medium Enterprises Development Act, 2006

**Highlights of the MSME Sector**

- Number of MSME Units: More than 6 crore units in various sectors
- Production: 45% of Industrial Manufacturing Output
- Exports: 40% of total exports in India
- Employment: Providing jobs for more than 10 crore people, creating 20 lakh jobs annually
- Goods manufactured: Over 8000 different products

**The study goals**

The key objectives of this study are:

1. To understand the role of MSMEs in the Indian economy and their performance.
2. Understanding the policies of government for the MSMEs in India.
3. Analyze the status of MSMEs in the district of Panchkula.
4. To understand the problems of MSMEs in India.

**Research Design**

The data needed for the study was gathered from secondary sources. The collection of data included: (i) Ministry of MSMEs’ annual report 2017-18; (ii) Ministry of MSMEs’ press releases; (iii) Publications by District Industries Sector, Panchkula (iv) Various websites relevant to the topic.

### III. REVIEW OF LITERATURE

*Lahiri (2014)* conducted a study on the small scale industries at the Howrah district in West Bengal and found out that labour scarcity and problem of skilled labour to be one of the top problems of those MSMEs.

*According to the Annual Report on MSME, Ministry of Micro, Small and Medium Enterprises, Government of India (2017-18)*, a Credit Guarantee Fund Scheme for MSEs has ensured credit availability for loans upto ₹1 crore without collateral/third party guarantees.

*Das (2011)* adds that in India, there are two streams of micro financing: bank linked SHGs and microfinance intermediaries in India. Unlike the fixed repayment system in general loans, in case of microfinance, the enterprises can repay as and when they have sufficient cash flows, this means that it's a flexible repayment.

*Chakrabarty (2012)* mentions that delayed payments from big companies to the MSMEs disrupt their business cycle and eventually lead to sickness. The MSMED Act, 2006 brought in improved provisions but that is not helping the enterprises to a significant level because the enterprises are afraid of filing complaints against the corporate companies. The MSMEs are also discouraged due to onerous legal procedures. RBI has instructed banks to maintain sublimits within the total sanctioned limits to the corporates for payment to MSMEs in lieu of their purchase orders.

*Kumar (2006)* in his study pointed out the SSIs are important in a country such as India, where the problem of unemployment and underemployment was high and investment was low. His study found that the SSIs performed quite well in all industrial spheres, like production, investment and exports from 1973 to 1974 and from 1993 to 1994. The industry also met the employment goals of the eight five-year plans and also withstood the competition that arose due to the structural changes brought in by the globalisation era.

*Sunitha (2017)* says that MSMEs are adaptable in both, a developed and a developing economy, given that they have an encouraging environment to develop. In poorer countries as well as in more developed ones, MSMEs are a major economic factor.

*Gade (2018)* concludes that the MSMEs give the society with uniform development and can be a powerful means of using India's natural resources. The MSMEs give more employments per unit. To back their commitment and contribution, it is necessary to feed their character in an open manner. The priority that the MSME policies deserves should not be taken for granted.

*Raj Kumar Gautam and Raghubir Singh (2011)* in their article, "Marketing Barriers of Small Firms: The Punjab Perspective," presented the findings of a study on marketing barriers of small enterprises based on a sample of 173 small manufacturing enterprises from Punjab. The study brings out suggestions on strategies to be pursued by small enterprises on marketing and other key functional areas. As customers have become quality conscious, relevant certification matching the international standards is needed to continue to capture sizeable

share of the market. Marketing planning relating to various aspects of marketing mix and appropriate marketing strategies with greater usage of the web and internet marketing would enable the industry to successfully compete in the market.

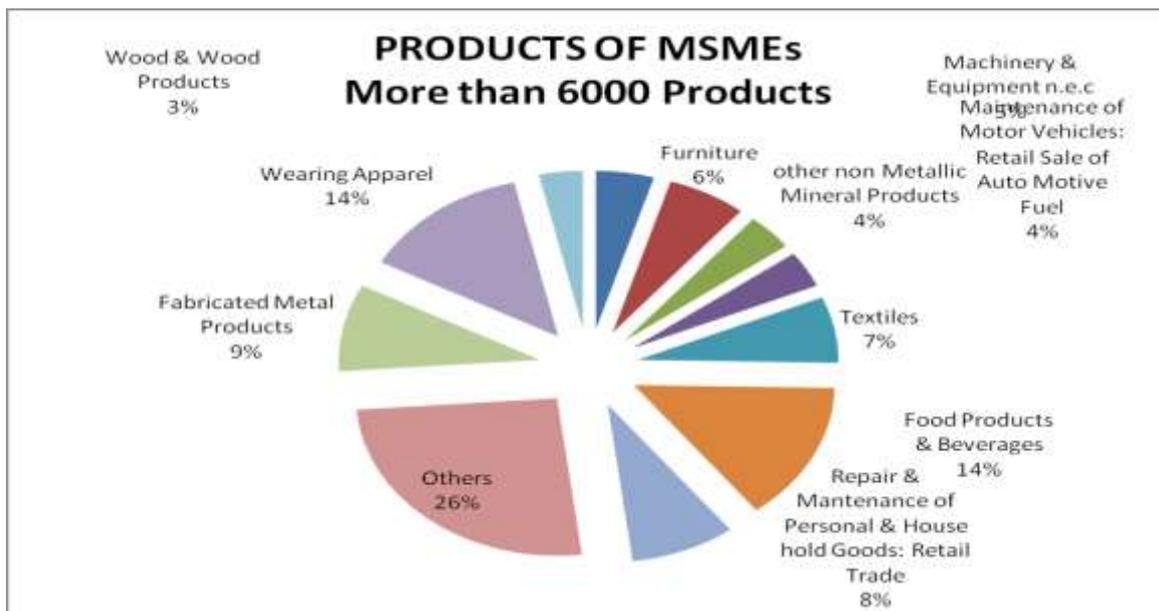
**IV. MSME-BACKBONE OF INDIAN ECONOMY**

The MSME sector is vital for India’s economy. There are more than 6 crore enterprises in various industries, employing more than 10 crore people. In all, the MSME sector accounts for 45 percent of Indian industrial output and 40 percent of the exports. Although 90 percent of MSMEs are unregistered, the contribution of the sector to India’s GDP was approximately 28 percent a year, leading to a growth of 8 percent in GDP of our country. As stated earlier, MSMEs are well known to offer great openings for both self-employment and wage work.

MSMEs in India have been increasingly become important for the sole reason of their role in the Indian economic structure. To preserve and promote this phenomenon, the Government of India has been constantly making efforts via its think tank-NITI AAYOG; this can clearly be seen from the facts and figures of the manufacturing sector that are on the rise. Various councils and committees have been set up so as to make MSME units globally competitive. Government has announced National Manufacturing Policy for raising the share of manufacturing to 25% of GDP by 2022. Government aims at making India a global manufacturing hub under its “Make in India initiative announced in September 2014. To enable ease of registration of MSMEs, Ministry of MSME has notified a straightforward single-page enrolment form known as ‘Udyog Aadhaar Memorandum’ (UAM).

MSME items available

**Source:** 4<sup>th</sup> All India Census of MSMEs-2006-2007: Registered Sector



***A. Role of MSMEs in GDP and overall production output***

In excess of 6 core units play a massive role in boosting country's economic growth. Over the last few years, the production of MSMEs has steadily grown and stood at about 28.7% of total industrial output at the end of FY16. This will be clearly caught on by taking a look at the table below:

Year	GVO (₹crore)	Share of MSMEs in Total Manufacturing Output (%)	Share of MSMEs in GDP (% of total)
2011-12	2583263	31.86	29.57
2012-13	2977623	32.36	29.94
2013-14	3343009	32.26	29.76
2014-15	3658196	31.86	29.39
2015-16	3936788	31.60	28.77

Consistent growth of MSME is an indication of Governments focused approach towards technological enhancement to increase their productivity. It is clear from the table above that the commitment of MSMEs towards the growth of industrial production is very well going strong. Constant growth in the figures of MSMEs is a sign about the efforts that the Government is taking to boom their productivity.

### ***B. Role of MSMEs in Job Creation and Reduction in Regional Disparities***

Over the period, MSMEs are expanding with a consistent development rate and giving both urban and rural people with employment opportunities. According to the 2017-18 MSME report, about 49 percent of MSMEs are located in urban areas, while 51 percent in rural areas make a good contribution towards development in those areas. As a result, the standard of living of the population of rural areas is improving healthily. Also, as most of the MSMEs perform labour intensive works so the investment required is relatively less, so it enables them to offer more number of jobs per capital that is invested as compared to medium or large-scale industries.

### ***C. Current performance scenario of MSMEs in India***

Year	Total working MSMEs (in Lakh)	Employment to people (in Lakh)	Value of Fixed Assets (Rs in crore)	Share of MSMEs in GDP (% of total)
2006-07	361.76	805.23	868543.79	35.13
2007-08	377.36	842	920459.84	35.41
2008-09	393.7	880.84	977114.72	36.12

2009-10	410.8	921.79	1038546.08	36.05
2010-11	428.73	965.15	1105934.09	36.69
2011-12	447.64	1011.69	1182757.64	37.97
2012-13	467.54	1061.4	1268763.67	37.54
2013-14	488.46	1114.29	1363700.54	30.64
2014-15	510.57	1171.32	1471912.94	30.74
2015-16	633.88	1109.89	1543491.66	28.77
<b>CAGR</b>	<b>5.77%</b>	<b>3.26%</b>	<b>5.92%</b>	<b>-1.98%</b>

**Source:** Annual Report 2017-18 by Ministry of MSME

National Sample Survey (NSS) did a survey for the year 2015-16 wherein it analyzed how much business openings were there in the MSME sector. It stated that this sector has created more than 11.10 crore jobs throughout the country. In Manufacturing—360.41 lakh; Trading—387.18 lakh; Other Services—362.82 lakh. In India, small industries in the states of West Bengal, Uttar Pradesh, Maharashtra, Gujarat, Tamil Nadu and Haryana, to name a few, have been doing exceedingly well.

#### V. DETAILS OF EXISTING MSME UNITS IN PANCHKULA DISTRICT OF HARYANA

TYPE OF INDUSTRY	NUMBER OF UNITS	INVESTMENT (Lakh Rs.)	EMPLOYMENT (Nos.)
<i>Agro based (Pulses, cereals, fruit &amp; vegetables processing)</i>	135	970	490
<i>Soda water</i>	2	30	21
<i>Cotton textile</i>	114	400	520
<i>Woolen, silk &amp; artificial Thread based clothes</i>	84	170	184
<i>Jute &amp; jute based</i>	8	22	30
<i>Ready-made garments &amp; embroidery</i>	52	295	275
<i>Wooden based furniture</i>	109	435	270
<i>Paper &amp; Paper products</i>	28	85	140
<i>Leather based</i>	26	80	105
<i>Chemical based (Laundry soaps, wax candles, agarbatties)</i>	58	240	320
<i>Rubber, Plastic &amp; petro based</i>	31	140	95
<i>Mineral based (Pottery)</i>	3	40	25
<i>Metal based (Steel Fabrication and casting iron tools)</i>	186	837	950

<i>Engineering units (Steel amirahs, shutters, padlocks, utensils)</i>	456	2150	2315
<i>Electrical machinery and transport equipment</i>	31	90	125
<i>Repairing &amp; servicing</i>	262	310	520
<i>Others</i>	277	655	1050
<b>Total</b>	<b>1862</b>	<b>₹69.29 crore</b>	<b>7425</b>

**Source:** District Industries Centre (DIC), Panchkula and Study of Brief Industrial Profile of Panchkula carried out by MSME Development Institute, Karnal.

Manufacturing sector in Panchkula is not very booming however there are two main clusters in Panchkula. Firstly, there is manufacturing of mostly textile and handloom products in the Raipur Rani Town of Panchkula. The turnover is quite low as there exists small artisan units, wherein self employment is most common. Roughly five thousand people seek their living from that unit. The investment in plant and machinery is relatively low because of the fact that ‘daris’ (thick carpets) and other handmade items are manufactured so most of the work requires manpower. Areas of work also include tying and dyeing of fabric.

Major issues faced by the people working here is that of sourcing raw material from far off places; low value addition for their product; limited local market; lack of brand image; poor connection among industries; high packaging costs; no campaigns for export marketing; poor distribution channels; among others. The Ministry of Textiles has addressed this by taking up the cluster for modernization.

Secondly, there is a cluster for auto and other metal parts in Panchkula Industrial Area, wherein manufacturing of machine parts, stainless steel trading, dealing in tap handles, heat treatment of metal take place. As this type of industry requires machinery and different kind of raw materials, so investment in plant and machinery for this cluster is relatively high. Employment levels are on the lower side as these are small units in which not a lot of people are required to operate machinery. One of the examples of this would be the water jet cutting machine used in such units, which is used for cutting tiles and metal. Also, tools and utensils made from casting iron etc. are also prevalent.

Major issues here are absence of testing facilities; limited market penetration in neighbouring areas; poor industry link; and poor efforts on part of the government for promotion. Also, another problem would be stiff competition from products made in China.

From the reports of the Government of Haryana, there seems to be no cluster of MSMEs working as service enterprises, however as far as working of them are concerned there are a few which provide services in respect of GPS, radios and other security and surveillance related equipment and items.

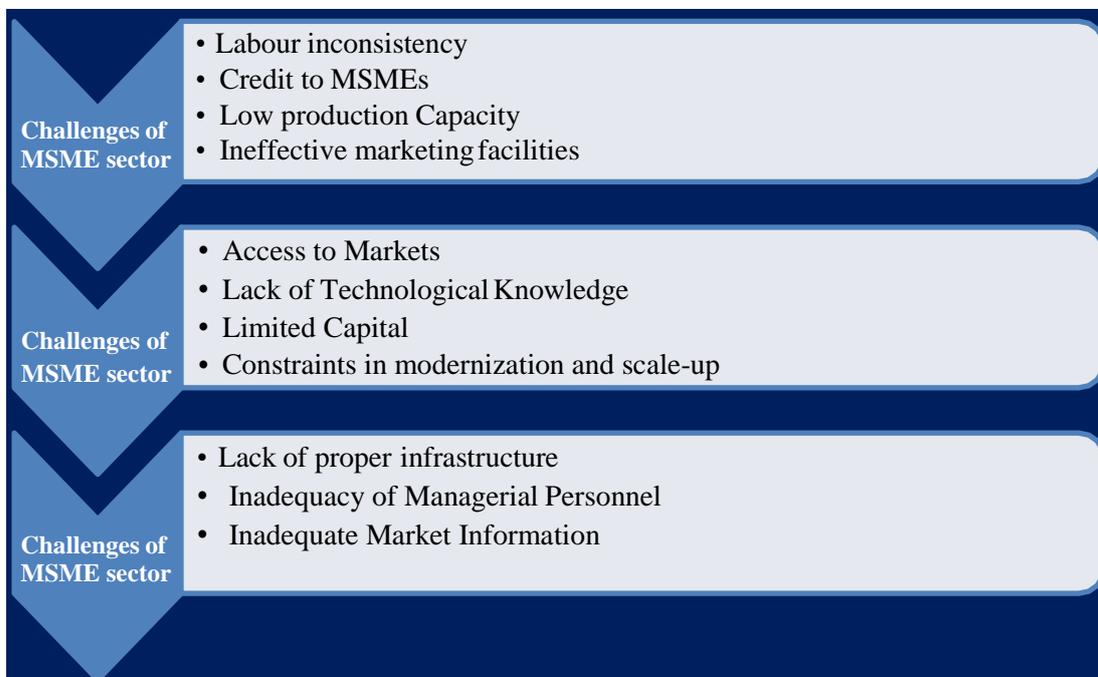
*Major issues faced and requirements raised by these units of Panchkula:*

1. Non-availability of timely and adequate finance;
2. Interruptions and disruptions in power supply;
3. Tax reductions;
4. Sound infrastructure such as road, water supply, safety etc.

For setting up of MSMEs in Panchkula, there is Product Identification centre in Karnal, Haryana. Both Provisional and Permanent Registration of MSMEs happen at Panchkula itself. For finance, the Haryana Financial Corporation can be approached. As far as testing of products is concerned, it can be availed only at Testing Centre in Okhla, New Delhi. Set-up process is not very difficult as the allied departments for the products are located in Panchkula itself and all the information and requirements are supplied to the parties very concisely.

## VI. MAJOR ISSUES IN MSME SECTOR

Notwithstanding all the efforts and initiatives taken by the Government of India and the banking institutions to make available the funds required by them, still there arises a gap between the demand for financing and how much finance these enterprises get in hand. Hereunder are the other things which hinder the growth of the sector and emerge as a challenge for the person operating MSMEs.



## VII. CONCLUSION

MSMEs address major challenges of the overall Indian economy also, that are unemployment and poverty. By reducing regional imbalances, giving employment to local people living in rural areas, they have done their part to knock-down disparities. Acting as a motivational

factor for the existing MSMEs and as an aspiration factor for the potential MSMEs, increase in the income of people and the trend of promoting the interests of consumers, there will be various opportunities for MSMEs to play with in the domestic as well as export-market.

### VIII. SUGGESTION

Around the world, MSMEs are known for its capability of acting as a turbo to the engine of development for the economy; hence the advisor and policy makers should give them their due credit by making and implementing policies for them diligently. Furthermore, government must act on the recommendations given by different institutions/committees on the MSME sector. As far as banking and other financial institutions are concerned, they have done quite well by providing easy finance, but now there is the need for them to put their heart out for MSMEs so that more and more units make use of the numerous financing schemes that are available at present. For it, government shall introduce a new credit giving agency solely for the MSME sector.

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