Performance, Development Challenges & Opportunity Framework of MSME Sector in Competitive Environment: A Realization Pertaining To Indian Scenario

Ram Murti
Assistant Professor
Department of Commerce,
GMN (PG) College, Ambala Cantt

Abstract
Regarding to the paper, we examines the challenges and prospects of Micro, Small and Medium Enterprises development in India. In the case of micro, small and medium enterprises, the lack of awareness, exposure and opportunities generates many problems to the entrepreneurs. Hence, micro level planning is very essential to improve the performance of micro small and medium enterprises and the standard of living of the micro, small and medium entrepreneurs. We begin with an overview of this sector in India and look at some recent trends which highlight the development and significance of this sector vis-à-vis the Indian economy. Than we have provided the statistical data about few previous years status of MSME with respect to Indian Scenarios. Furthermore, we do an impact assessment of specific government policy interventions on the growth of entrepreneurship in the MSME sector in India. The policies of interest are state outlays and subsidies targeted towards this sector. More specifically, we analyze the impact of total financial subsidies to the sector, total state investment in industrial parks and clusters aimed at this sector and the total state expenditure to support technology within the MSME sector. Finally, this paper provides recommendations for the improvisation by the government facilitator role for access finance with encouraging more banks and other financial institutions. The results also suggest the core competence of the government in certain roles by creating a facilitating environment for the providing advantageous situation in modern era to these MSMEs.

Keywords:- Development & Challenges, MSMEs (Micro, Small and Medium Enterprises), MSEs (Micro and Small Enterprises), SME (small and medium enterprises), Financial Improvisation, Employment Generation, Low Capital , Evolving Marketing Needs

1 Introduction
Micro, small and Medium Enterprises (MSMEs) are one of the most vibrant and sensitive sectors in Indian economy. The significance of Micro, small and Medium Enterprises (MSMEs) is attributable to its capacity of employment generation, low capital and technology requirement, use of traditional or inherited skill, use of local resources, mobilization of resources and exportability of products. The sector not only plays a critical role in providing employment opportunities at comparatively lower capital cost than large industries but also helps in industrialization of rural and backward areas, reducing regional imbalances and assuring more equitable distribution of national income and wealth.

MSMEs complement large industries. Micro, Small and Medium Enterprises (MSME) contribute nearly 22 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 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. The major advantage of the sector is its employment potential at low capital cost. It is well known that the MSME sector constitutes the spine of the nation, small Industry has been one of the major pillars of India’s economic development strategy since Independence.

India accorded high priority to Small and Medium Enterprises (SMEs) from the very beginning and pursued support policies to make these enterprises viable, vibrant and over time, these have become major contributors to the GDP. Moreover, the MSME sector has weathered and overcome stiff competition in the post liberalization period in the domestic and International arena. In nutshell, the micro, Small and Medium enterprises (MSMEs) play a leading role in propelling economic growth sustaining livelihood and in promoting equitable regional development. Statistical data of the past few years, however, indicates that the share of MSMEs in GDP, manufacturing output and exports has been slowly declining.

Today, the Micro Small and Medium Enterprises in India constitute more than 90 per cent of the total number of industrial units and they form the backbone of industrial development. These units are suffering because of the low scale of operation and lack of latest technology. The era of liberalization has created higher competition from the foreign imports, changing manufacturing processes, highly dynamic and changing market condition and the requirement for different strategies. There is need for MSMEs to innovate newer processes and strategies to develop products which differentiate from imported products. To face the higher level of competition from big corporates houses and MNCs, MSMEs need to be dynamic and proactive to the evolving marketing needs and innovations. The MSME sector needs to be supported with better market facilities so that they can sustain themselves and contribute to productivity, employment generation and foreign trades.

2. Importance of the Study

However, despite government institutional and policies support to enhancing the capacity of small and medium scale enterprises, small and medium scale enterprises has fallen short of expectations. This, then, generated serious concern and skepticism on whether SMEs can bring about economic growth and national developments in India. SMEs are faced with significant challenges that compromise their ability to function and to contribute optimally to the economy. The prospects of the micro small and medium enterprises will be properly evaluated to identify the scope of micro small and medium enterprises in the globalized economy. The problems and prospects of micro, small and medium enterprises should be equally examined to identify their future scope. Therefore, there is a need for change in the socio-economic, physical and psychological aspects of micro, small and medium entrepreneurs. It is highly used for the policy makers to frame a suitable policy and entrepreneur’s development programmes to make the micro, small and medium entrepreneurs more competitive and efficient in the competitive globalized economy. Hence, there is a need for a common understanding amongst the policy makers and administrators in multiple departments of the local, state and central governments to help create an ecosystem that enables and assists entrepreneurs through the life cycle of creation, growth and closure of enterprises and encourages them to operate in the organised economy.
3. Issues Concerning The MSME Sector

i. The problems faced by MSMEs (access to bank credit, access to capital, technology, skill, market, etc.) are quite unique to the nature of the sector. These concern several institutions and departments of the Government. There is, therefore, a need for an MSME perspective in the functioning of such institutions and departments. Some of the major bottlenecks impeding the growth of the MSME sector are briefly discussed in the subsequent paragraphs.

ii. Access to adequate and timely credit at a reasonable cost is the most critical problems faced by this sector. The major reason for this has been the high risk perception among the banks about this sector and the high transaction costs for loan appraisal. While the quantum of advances from the public sector banks (PSBs) to the MSEs has increased over the years in absolute terms, from Rs.46,045 crore in March 2000 to Rs.1,85,208 crore in March 2009, the share of the credit to the MSE sector in the Net Bank Credit (NBC) has declined from 12.5 per cent to 10.9 per cent during the same period. Similarly, there has been a decline in the share of micro sector as a percentage of NBC from 7.8 per cent in March 2000 to 4.9% in March 2009.

iii. Access to Equity capital is a genuine problem. At present, there is almost negligible flow of equity capital into this sector, despite the fact that overall capital inflows have witnessed significant increase in the recent years. Absence of equity capital may pose a serious challenge to development of knowledge-based industries, particularly those that are sought to be promoted by the first-generation entrepreneurs with the requisite expertise and knowledge. 3.4 In the present global environment, the MSMEs have to be competitive to survive and thrive. To ensure competitiveness of the MSMEs, it is essential that the availability of infrastructure, technology and skilled manpower are in tune with the global trends. MSMEs are either located in industrial estates set up many decades ago or are functioning within urban areas or have come up in an unorganized manner in rural areas. The state of infrastructure, including power, water, roads, etc. in such areas is poor and unreliable. Further, the MSE sector in India, with some exceptions, is characterised by low technology levels, which acts as a handicap in the emerging global market. As a result, the sustainability of a large number of MSEs will be in jeopardy in the face of competition from imports. Although India has the advantage of a large pool of human resources, the industry continues to face deficit in manpower with the right skill set for specific areas like, manufacturing, service, marketing, etc. The HR problem is further exacerbated by the low retention rate.

iv. While India continues to be a growing market cheap imported goods have a direct impact on the MSEs and their survival. Given the globalization, governments across the world are providing supportive measures to the MSEs through targeted benefits and facilities. In line with the practice internationally, a Public Procurement Policy for MSEs is vital to ensure a stable market for the MSEs. 3.6 Worldwide, MSMEs are credited with high level of innovation and creativity, which also leads to higher level of failures. Keeping this in view, most of the countries have put in place mechanisms to handle insolvencies and bankruptcies. The present mechanism available in India for MSMEs is archaic. It does not focus on revival. Hence, business failure in India is viewed as a stigma, which adversely impacts individual creativity and development in the country. An enabling policy environment, which helps viable enterprises facing temporary disruptions to
continue while allowing others to close down speedily, with an appropriately structured social security base, is essential for the promotion of MSMEs in India.

4. Review Of Literature

- Hashim, (2004) has provided an insight into the strengths and weaknesses of small and medium-sized enterprises. It can also be concluded that there are certain weaknesses that prevail in SMEs and need to be removed.
- Sahoo, K, Sukanta. (2004) examined the contribution of SSI in the industrial sector and concluded that with the decline in agricultural employment and virtual stagnation in the organized manufacturing sector, employment in SSI sector has emerged as the only ray of hope.
- Bala Subrahmanyam (2004) highlighted the impact of globalization and domestic reforms on small-scale industries sector. The study stated that small industry had suffered in terms of growth of units, employment, output and exports. The Researcher highlighted that the policy changes had also thrown open new opportunities and markets for the small-scale industries sector. He suggested that the focus must be turned to technology development and strengthening of financial infrastructure in order to make Indian small industry internationally competitive and contribute to national income and employment.
- Basil Anthony Ngwu Onugu (2005) examined historical experience of economic growth and development in various countries is replete with success stories of the salutary effect and positive impact and contributions of SMEs in industrial developments, technological innovations and export promotion. The Industrial Revolution of 1760-1850 represents a good testimony of the inherent innovative spirit of SMEs, which is increasingly challenged in the present century particularly after winds of economic change cum technological innovations and industrial liberalisation have swept various economies of the world. These challenges notwithstanding, SMEs have remained as much important and relevant economic catalysts in industrialized countries as they are in the developing world. In many developed countries, more than 90% of all enterprises are within the SME sub-sector while 80% of the total industrial labour force in Japan, 50% in Germany and 46% in USA small businesses contribute nearly 39% of the Country’s national income. Comparable figures in many other developed countries are even higher.
- Sudan, F. K. (2005) described the challenges in Micro and Small Scale Enterprises Development and policy issues by arising different questions related to Micro and Small Enterprises. The study explained the meaning, advantages, problems and policy options of MSE sector. The study concluded that all the policies which were opted by GOI were the efforts to form a dynamic MSE sector and a diversified economy providing expanded employment opportunities to absorb all new labour force and offer exciting career opportunities.
- Bargal et al. (2009) examined the causal relationship among the three variables GDP, SSI output and SSI exports and also have compared the performance parameters of SSIs in the pre and post liberalization era. The study found that the annual average growth rate of different parameters of SSIs have declined in the period of nineties vis-à-vis the pre-reform years. There is an absence of any lead-lag causal relationship between exports and production in small-scale sector and GDP of Indian economy.
Kansal et al. (2009) in their study, an attempt has been made to analyze the impact of globalization on the growth of small scale industries. The comparative analysis of growth pattern of key parameters between Pre- and Post – Globalization periods reveals that the “globalization” had a negative impact on the growth of small scale sector measured in terms of number of units, production, employment and exports. It shows that globalization had a negative impact on the growth of SSI. Annual Report of MSME 2011-2012, gives the overall view of MSMEs with respect to its performance and growth in production, employment, export, and number of industries, detail view of various schemes and of various departments of MSMEs. Annual Report of MSME 2012-2013, , gives the overall view of MSMEs with respect to its performance and growth in production, employment, export, number of industries, detail view of various schemes and of various departments of MSMEs. Final Report of Fourth All India Census of MSME gives a sound, accurate and comprehensive database of MSMEs for sound policy formation.

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.

Singh et al. (2012) analyzed the performance of Small scale industry in India and focused on policy changes which have opened new opportunities for this sector. Their study concluded that SSI sector has made good progress in terms of number of SSI units, production & employment levels. The study recommended the emergence of technology development and strengthening of financial infrastructure to boost SSI and to achieve growth target.

Recommendations of the Inter-Ministerial Committee for Accelerating Manufacturing in Micro, Small & Medium Enterprises Sector (2013) reveals During deliberations with a diverse set of MSME stakeholders, it was repeatedly flagged that the MSMEs, as individual and collective entities, lack the abilities of the larger enterprises to advocate on economic and functional issues, and therefore come adversely on the receiving end of the unexpected actions of other stakeholders, including the state machinery. While the primary concern of the entrepreneur should be to run the enterprise, the prevalent ecosystem places huge demands on the time and resources of the entrepreneur engaged in manufacturing. Moreover, the issues and challenges at the different stages of the lifecycle of a manufacturing enterprise are quite diverse. A complex and unfriendly business ecosystem pushes small entrepreneurs towards the informal and unregistered segment, which is growing faster than the organised segment by more than five times, and already accounts for over 95 percent of all MSMEs. This trend must be reversed as it is not sustainable.

5. Objectives of the study

I. To understand the prospects of the micro small and medium enterprises will be properly evaluated to identify the scope of micro small and medium enterprises in the globalized economy.

II. To identify the determine factors influencing micro small and medium enterprises as well as recommend appropriate measures through which micro and small businesses can be more effectively developed in Indian economy.
III. To highlight Policy framework to face the higher level of competition for the dynamic and proactive evolving marketing needs and innovations.

IV. To provide Statistical data of the past few years, however, indicates that the share of MSMEs in GDP, manufacturing output and development as per Indian Scenario.

V. To identify the scope of micro small and medium enterprises in the globalized economy & examining the challenges of micro, small and medium enterprises for the better future in existing competitive markets.

6. Data Collection
The present study is exclusively based on secondary data which has been collected from the various issues of Annual Reports on MSMEs and Handbook of Statistics on the Indian Economy published by Ministry of MSMEs and Reserve Bank of India (RBI), Newspapers, Magazines, Books, Economic journals and Internet etc.

7. Indian MSME Sector: Conceptual Understanding
Before, beginning the analysis of the study as per the above stated objectives, it is imperative to throw some light on conceptual aspect of MSMEs in India. It is as follows:

7.1 Definition of MSMEs
In India formerly industrial units, were classified as small scale and large-scale units. The medium scale units were not defined in India. Moreover, the investment ceiling to define the small and large-scale industries was also not encouraging. However, the enactment of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 has broadened the definition and coverage of the small sectors significantly. The act has recognized the concept of “enterprise” to include both manufacturing and services sector and medium enterprises are clearly defined. The most significant change is increasing the investment criterion for small and medium enterprises, which is a base to boost the small sector.

The MSME sector is an important pillar of Indian economy as it contributes greatly to growth of Indian economy with a vast network of around 30 million units, creating employment of about 70 million, manufacturing more than 6000 products, contributing about 45% to manufacturing output and about 40% of exports, directly and indirectly. This sector even assumes greater importance now as the country moves towards a faster and inclusive growth agenda. Moreover, it is the MSME sector which can help realize the target of proposed National Manufacturing Policy of raising the share of manufacturing sector in GDP from 16% at present to 25% by the end of 2022.

- Manufacturing Enterprises: The enterprises engaged in the production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951 are taken in the scope of manufacturing enterprises. These enterprises are defined in terms of investment in plant and machinery. Micro enterprises are classified as those with investment in plant and machinery not exceeding Rs. 25 lakhs. While investments in plant and machinery for a small enterprise is kept in the range between Rs. 25 lakhs and Rs. 5 crores, a medium enterprise is defined with investment in plant and machinery in the range between Rs. 5 crores and Rs. 10 crores.

- Service Enterprises: The enterprises engaged in rendering services making investment in equipment are specified as service enterprises. Micro enterprise where investment in equipment does not exceed Rs. 10 lakhs; small enterprise where investment in equipment falls between Rs.
10 lakhs and Rs. 2 crores; and a medium enterprise where investment in equipment falls between Rs. 2 crore and 5 crore.

### 7.2 Features of MSME Sector

The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services, and levels of technology. The sector not only plays a critical role in providing employment opportunities at comparatively lower capital cost than large industries but also helps in industrialization of rural and backward areas, reducing regional imbalances and assuring more equitable distribution of national income and wealth. MSMEs complement large industries as ancillary units and contribute enormously to the socioeconomic development of the country.

**Key highlights of the MSME Sector:**

- MSMEs account for about 45% of India’s manufacturing output.
- MSMEs account for about 40% of India’s total exports.
- The sector is projected to employ about 73 mn people in more than 31 mn units spread across the country.
- MSMEs manufacture more than 6,000 products ranging from traditional to high tech items.
- For FY11, total production coming from MSME sector was projected at ` 10,957.6 bn, an increase of more than 11% over the previous year.

### 7.3 MSME Credit – Data Limitations

While the commercial banks provide mostly working capital, the MSME sector generally requires funds of two types viz. long term fund for investment in fixed assets for setting up new unit or expansion/modernization of existing unit and secondly, working capital or short term funds to manage day-to-day operations of their businesses.

**Table 1: Limitation of MSME Credit Data Availability**

<table>
<thead>
<tr>
<th>Data type</th>
<th>Status of availability with sources</th>
</tr>
</thead>
</table>
| 1 Working Capital                    | Credit O/S to MSE sector from banks – Available from 2008  
|                                      | Credit O/s to medium enterprises - available from 2010  
|                                      | Factoring data for MSMEs – Not available  
|                                      | Data on NBFCs support to MSMEs – Available for total, not for SMEs |
| 2 Term loans                          | Data from banks – Available from 2008  
|                                      | Data on VC funds for SMEs - not available  
|                                      | Long term support to MSMEs through FDI, securitization, NBFCs are not available. |
| 3 Credit outstanding in              | Not available  
| Break- up of term loans and working  |                                      |
| capital                               |                                      |
| 4 Share of MSMEs in GDP               | Not available in absolute terms      |
The long term credit funds are mainly provided by the institutions like Small Industries Development Bank of India (SIDBI), Commercial Banks, State Financial Corporations (SFCs), Non-Banking Financial Companies (NBFCs), NEDFi, etc. and in a limited measure, from other sources like Foreign Direct Investment, VC/PE funds, etc. Similarly, the working capital needs of the sector are largely met by the banking sector, including Scheduled Commercial Banks (SCBs), Regional Rural Banks (RRBs), Urban Co-operative Banks (UCBs), National Small Industries Corporation (NSIC), factoring companies, etc. It is important to note that data on credit from all these sources to MSME sector are not available in consistent and time-series manner. The limitation of availability of MSME credit data is enumerated in Table 1.

As per the available literature, data on estimation of credit gap for the MSME sector are not available in India. However, the National Commission on Enterprises in the Unorganized Sector (NCEUS) had estimated the credit gap only for the micro enterprises in the unorganized sector at 6.31 lakh Crore (73%) as at end March 2012, with the caveat that the number of such unorganized micro enterprises was estimated at 70 million with an average credit off take of `1.23 lakh per enterprise. This is in contrast to the MSME sector, which is estimated to have 32.2 million enterprises with an average credit off take of `7.16 lakh as at end March, 2012, based on scheduled commercial banks data on number of MSME accounts. Some data of the credit linkage of MSME sector are given by 4th Census on MSMEs in 2006-07. According to the census, based on available data for 1.5 million MSMEs, formal financial institutions contributed 11.2% of the total credit outstanding to only 5.2% of total enterprises.

### 7.4 Share Of Msme In The Economy

There are approximately 46 million Micro, Small and Medium Enterprise sector enterprises across various industries, employing 106 million people. Overall, the MSME sector accounts for 45 percent of Indian industrial output and 40 percent of exports. While most of the sector is un-Organised (approximately 94 per cent), informal and un-registered, initiatives to have more enterprises registered are well underway.

The contribution of the MSME sector to India’s GDP currently stands at ~8 per cent for 2011-125, and is growing at a rate higher than the projected GDP growth rate. The contribution of MSME segment to the GDP in some of the global economies is in the 25-60 per cent range. MSME in India has the potential to increase the share of contribution to GDP from the current 8 per cent to about 15 per cent by the year 2020. Against the backdrop of non-availability of estimated demand for the credit from MSME sector and the credit gap, the Sub-Group has made an attempt to estimate the supply of, demand for and gap of credit for the MSME sector for the 12th Plan.

### 7.5 Employment opportunities

With the increase in MSME contribution to the GDP, there is a potential to increase its contribution to employment to over 50 per cent over the next decade. It is also vital for the informal MSMEs who are currently not registered need to be made part of the formal MSMEs eco system. Growth incentives
in the form of privileges and direct benefits for the MSMEs will encourage registration and participation in the growth opportunity. Typically, MSME sector can provide comparatively larger employment opportunities at comparatively lower capital cost especially in the rural and remote areas, by becoming part of the industrial ecosystem and act as ancillary units for large enterprises to support the system in growth. India needs to create 10 to 15 million job opportunities per year over the next decade to provide gainful employment to its population. Current MSME employment is at 28 per cent of the overall employment. MSMEs can contribute significantly to employment generation and development of the Indian economy. The MSME sector is one of the key drivers for India’s transition from an agrarian to an industrialized economy. MSMEs account for a large share of industrial units. The total number of enterprises in MSME sector was 46 million with total employment of 106 million. It is also critical to see that adequate growth is met across services, manufacturing and agriculture segments to ensure holistic and stable overall economic growth. The current growth of MSME is non-uniform and there exists a significant gap in growth of enterprises across services and manufacturing sectors. Steps to lower this gap must be taken for a balanced growth outlook.

7.6 Current Statistics of MSME Sector

A) Number of Enterprises in MSME Sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Enterprises in Lakhs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>361.76</td>
</tr>
<tr>
<td>2007-08</td>
<td>377.78</td>
</tr>
<tr>
<td>2008-09</td>
<td>393.85</td>
</tr>
<tr>
<td>2009-10</td>
<td>410.87</td>
</tr>
<tr>
<td>2010-11</td>
<td>428.76</td>
</tr>
<tr>
<td>2011-12</td>
<td>476.96</td>
</tr>
</tbody>
</table>

Figure 1: Number of Enterprises in MSME Sector -Projected data for the years 2007-08 to 2011-12
B) Employment in MSME Sector

![Employment in MSME Sector](image)

**Figure 2: Employment in MSME Sector - Projected data for the years 2007-08 to 2011-12**

C) Fixed Investment in MSME Sector

![Market Value Of Fixed Assets](image)

**Figure 3: Market Value Of Fixed Assets**
8. Data Analysis

Data has been analysed as per the Fourth All India Census of MSME. As per the results of Fourth All India Census of Micro, Small & Medium Enterprises (MSME), the sector contributes significantly to the number of enterprises, employment and output of the country. Based on the data sets of Third and Fourth All India Census of SSI/MSME, augmented with data sets of EC, 2005 and growth rate observed during Fourth (1998) and Fifth (2005) Economic Census, the performance of SSI/MSME Sector is summarized as below: It may be noted that for both the Third and Fourth All India Census of SSI/MSME, unregistered sector was assessed by conduct of sample survey of the sector. There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSME sector in addition to provide wide range of services. (i) (i) Registered Sector: In Registered Sector data collection was on complete enumeration basis. All the enterprises permanently registered up to 31-03-2007 at District Industries Centres (DIC) of the State Governments/UT. Administration numbering 21.04 lakh was surveyed on complete enumeration basis. In addition, 2.15 lakh enterprises registered under section 2m(i) & 2m(ii) of the Factories Act, 1948 were also surveyed on complete enumeration basis so that enterprises with investment in Plant & Machinery above Rs. one crore may be culled out. Further, 0.73 lakh KVIC/ Khadi and Village Industries Board (KVIB) units and 0.09 lakh Coir units were also taken up in the census of registered sector. In all, a total of 24.01 lakh enterprises were surveyed on complete enumeration basis.

(ii) Unregistered Sector: The activities of wholesale/retail trade, legal, education & social services, hotel & restaurants, transports and storage & warehousing (except cold storage) forming part unregistered sector were excluded from the coverage of sample survey of Fourth All India Census of MSME.

9. Results

a. Estimates of MSME Sector: Total number of enterprises in MSME Sector was estimated to be 361.76 lakh with total employment of 805.24 lakh. Summary results are as given below.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Characteristics</th>
<th>Registered Sector</th>
<th>Unregistered Sector</th>
<th>EC-2005*</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Size of Sector (lakh)</td>
<td>15.64</td>
<td>198.74</td>
<td>147.38</td>
<td>361.76</td>
</tr>
<tr>
<td>2</td>
<td>No. of rural units (lakh)</td>
<td>7.07(45.20%)</td>
<td>110.68(22.22%)</td>
<td>73.43(20.18%)</td>
<td>200.16(55.34%)</td>
</tr>
<tr>
<td>3</td>
<td>No. of Women Enterprises (lakh)</td>
<td>2.15(13.22%)</td>
<td>18.96(6.09%)</td>
<td>6.4(4.34%)</td>
<td>26.61(7.36%)</td>
</tr>
<tr>
<td>4</td>
<td>Total Employment (lakh)</td>
<td>92.69</td>
<td>408.84</td>
<td>303.31</td>
<td>805.24</td>
</tr>
<tr>
<td>5</td>
<td>Per Unit Employment</td>
<td>5.85</td>
<td>2.06</td>
<td>2.06</td>
<td>2.23</td>
</tr>
<tr>
<td>6</td>
<td>Total original value of Plant &amp; Machinery (Rs. in lakh)</td>
<td>10502461</td>
<td>9403980</td>
<td>-</td>
<td>19996421</td>
</tr>
<tr>
<td>7</td>
<td>Per unit original value of Plant &amp; Machinery (Rs. in lakh)</td>
<td>6.72</td>
<td>0.48</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>8</td>
<td>Total fixed investment (Rs. in lakh)</td>
<td>44913840</td>
<td>24081646</td>
<td>-</td>
<td>68995486</td>
</tr>
<tr>
<td>9</td>
<td>Per Unit fixed investment (Rs. in lakh)</td>
<td>28.72</td>
<td>1.21</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10</td>
<td>Total Gross Output (Rs. in lakh)</td>
<td>70751027</td>
<td>36970259</td>
<td>-</td>
<td>107721286</td>
</tr>
</tbody>
</table>

Source: Economic Census 2005
The estimated numbers of enterprises and employment, as per Fourth All India Census of MSME, have increased at an annual compound growth rate of 28.02% and 26.42% respectively as compared to third All India Census of SSI, during the period 2001-02 to 2006-07.

9.2: Estimates of Registered Sector

Distribution of Working Enterprises by Area: Urban area with 8.57 lakh of working enterprises accounted for 54.77% of the total working enterprises in Registered MSME sector whereas rural area located 7.07 lakh working enterprises (45.23% of the working enterprises).

9.2 (a): Nature of activity

67.10% of the enterprises in the Registered MSME sector were engaged in manufacturing, whereas 32.90% of the enterprises were engaged in the services activities.

9.2(b): Type of organisations

![Organisations Distribution](image-url)
90.08% of the enterprises in the Registered MSME sector were proprietary enterprises. About 4.01% of the enterprises were run by partnerships and 2.78% of the enterprises were run by private companies.

**9.2(c): Ownership by Social Category**

According to social group category, 7.60% of the enterprises were owned by Scheduled Caste entrepreneurs, 2.87% by Scheduled Tribe entrepreneurs and 38.28% by entrepreneurs of Other Backward Classes.

**9.3: Estimates of Unregistered Sector**

**9.3(a) Distribution of Working Enterprises by Area**

Rural area with 193.12 lakh of working enterprises accounted for 55.79% of the total working enterprises in Unregistered MSME sector whereas urban areas located 153 lakh working enterprises (44.21% of the working enterprises).
9.3 (b) Nature of Activity

69.80% of the enterprises in the Unregistered MSME sector were engaged in services, whereas 30.20% of the enterprises were engaged in the manufacturing activities.

9.3 (C): Type Of Organization

94.61% of the enterprises in the Unregistered MSME sector were proprietary enterprises. About 1.06% of the enterprises were run by partnerships and 0.02% of the enterprises were run by private companies.
9.3 (d) Ownership by Social Category
According to social group category, 7.84% of the enterprises were owned by Scheduled Caste entrepreneurs, 5.89% by Scheduled Tribe entrepreneurs and 42.11% by entrepreneurs of Other Backward Classes.

9.4: Trends in MSME Growth
9.5 Annual Growth Rate
MSMEs has shown constant growth rate of more than 10% every year till 2010-11, whereas in year 2011-12 growth rate was 19% which is approximately twice of the growth rate recorded for previous years.

![Annual Growth Rate Chart]

10. Major Challenges For MSME Sector In India
In response to the interview of approximately 20 exporters belonging to textile sector, engineering sector, automobile sector and few more the following results are exhibited. Entrepreneurs highlights that they are facing both domestic and global challenges. No doubt opportunities are also there in terms of rising demand, increased sources of raw material the following problems do not enable them to take the advantage of these opportunities.

- **Knowledge-Based Economy**
  With globalization, there is an urgent need of a dynamic and self-sustaining culture of innovation and cluster based approach for the development of MSMEs. Today’s world economy has been characterized as a “Knowledge-Based Economy” with knowledge being the most important resource and learning being the most important process. Competitive advantage is less derived from access to physical resources and more from the ability of organizations and societies to generate ideas and to translate them into economic and social value. In the fast moving global order, knowledge and intellectual skills are critical to create and improve products and services, develop more efficient distribution and marketing methods and ensure customer satisfaction. New ways of information management and application are used to improve competitiveness. A knowledge economy is not about accumulating information, but using knowledge to improve
performance. And that performance can be enhanced with innovation. Innovation is thus regarded as one of the most important factor in the Knowledge-Based Economy. This has become the driving force behind expanding global commerce and the rise in living standards.

Global innovation Index
Innovation refers simply to the creation and application of a new idea to create value in a certain context. Some of these ideas and value creation applications may translate into incremental changes such as the introduction of additional features in a consumer product; while others may lead to radical or even revolutionary changes - such as the launch of the PC or the iPod. As global competition intensifies and information-based innovation becomes more important, the business sector has been internationalizing knowledge-intensive business functions, including R&D. At the same time, companies are increasingly opening their innovation processes and collaborating with external partners including suppliers, customers and universities. Creating effective collaborative innovation ecosystems is vital for enhancing access to knowledge from around the globe and speeding up the conversion of that knowledge into value adding products and services. Associated with this high growth rates, MSMEs in India are also facing a number of problems like 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. To survive with such issues and compete with large and global enterprises, MSMEs need to adopt innovative approaches in their working.

Availability of Finance
Entrepreneurs state that access to timely and adequate credit is the most critical problem for the MSME sector. One key reason is availing bank finance is difficult for the sector on account of high interest rates, high risk perception among the banks unreasonable demands for collateral, restrictive and conditional working capital limits and high procedural transaction cost. According to Fourth Census, only 7 percent of the total MSMEs use finance from institutional/non-institutional sources whereas a majority (92%) either do not use credit or self-finance their establishments. In addition to problem of availing easy credit from banks, MSME sector does not have alternative sources of finance viz. venture capital, equity capital, angel funds etc., moreover the entrepreneurs usually encounters the problem of delayed payments or delayed realization of receivables without having factoring as a backend support. This all ultimately creates financial crunch for the sector.

Current Account Deficit
A key challenge is to bring India’s Current Account Deficit (CAD) to sustainable levels. The deficit has widened to a record 4.8% of GDP in 2012-13; far above what the Reserve Bank of India considers to be a sustainable level viz. CAD between 2.4 to 2.8 % of GDP. The key reason for the large current account deficit lies in the trade deficit having ballooned; with the high dependence on oil and gold imports, which alone account for virtually half of the total imports. To understand the pressure that these two items have put on the BOP, it is instructive to note that net of oil and gold imports, CAD last year would have been in surplus of 3.8 % of GDP (in
contrast to the actual deficit of 4.8% of GDP). This year and perhaps next year too, India has to find over US $ 75 billion to finance the CAD. Boosting merchandise exports through greater diversification across destinations and products is absolutely essential to bridge the trade deficit; but this cannot be achieved without boosting productivity and exportable surplus, ensuring export credit at competitive rates, providing marketing support, and enhancing transportation & ports infrastructure

- **Availability of Infrastructure**  
  MSMEs in India are either located in industrial estates set up many decades ago or have come up in an unorganized manner in rural areas, moreover the state of infrastructure including power, roads, water etc. is inadequate and unreliable. This deficiency acts as a handicap in the emerging global market. Therefore, to ensure competitiveness of the MSMEs, it is essential that the availability of infrastructure, technology should be in tune with the global trends.

- **Availability of Skilled Manpower**  
  India though possesses the comparative advantage of „demographic dividend“ facing an acute problem of unskilled labor. Even the Prime Minister’s Task Force has identified lack of skilled work Force as a roadblock for the growth of the MSME Sector. The reason is majority of MSMEs are set up by the owners which are not educated, skilled and trained. Therefore, they lack managerial competence, which is highly required for the growth of the sector in this competitive environment. The Government of India and various State Governments have been implementing various schemes and programs for enhancing the techno and managerial skills of workforce viz. MSME-DIs are conducting various training programmes viz. Industrial Motivation Campaigns, Entrepreneurship Development Programmes (EDPs), Entrepreneurship Skill Development Programme (ESDPs) etc. for first generation potential entrepreneurs, existing industrial workers and managers. The ultimate aim is to promote the MSME sector of the country by inculcating entrepreneurial culture in the respective area as well as to enhance productivity of the existing industries of that State / Area. Still, aggressive implementation and monitoring of all these schemes and programmes is the need of an hour.

- **Marketing and Promotional Support**  
  MSME sector in India also faces the problem of marketing its products because of lack of sufficient finance and market intelligence amongst the entrepreneurs. In the global arena, MSMEs do not have the strategic tools and the means for their business development, unlike the large enterprises. Constant changes in the market dynamics due to technological changes and globalization have had a profound impact on the competitiveness of the MSMEs. The whole gamut of marketing strategy for any product is required to be addressed whether it is product differentiation, incremental feature of the product, branding issue, customized and tailor-made services, clientele building, post-sale servicing etc.

- **Technological Support**  
  In present scenario, where enhancing competitiveness has become indispensable for surviving in the global market place, infusing advance technology in various manufacturing processes which can lead to substantial reduction in cost of manufacturing by enhancing labour productivity, reducing material wastage and minimizing energy consumption is urgently required. In view of this reality, the Ministry of MSME is initiating a number of programmes and schemes for
technology development of the sector. It has recently introduced 10 innovative schemes under the National Manufacturing Competitiveness Programme (NMCP) including lean manufacturing competitive scheme, technology upgradation scheme, and promotion of ICT etc. Still, effective implementation of these schemes and more innovative measures are required to bridge the technological gap in MSME sector of India.

**Manufacturing Sector Growth**

The fourth challenge is to boost the manufacturing sector: Being a primarily services driven economy, the share of manufacturing has been stagnant at a mere 16 percent of total GDP. India’s Asian peers, such as China, South Korea and Taiwan, have immensely benefited from a strong manufacturing sector, which enables greater employment creation, attracts higher and stable foreign direct investment and bolsters infrastructure development. The government has approved a National Manufacturing Policy aimed to increase the share of manufacturing in GDP from the current 16 percent to 22 percent in a decade, and in turn to create millions of jobs and add capacity to sustain the pace of economic growth. However the progress on implementation of the NMP has been somewhat slow.

### 11. Opportunity Framework For MSME Growth in India

Globally the MSME segment development has shown mixed results depending on various policies and initiatives undertaken by developing and developed economies during their critical economic lifecycle. Many developed and developing economies have demonstrated that the MSME segment constitutes the backbone for maintaining growth rates as well employment generation rate and provides stability during economic downturns. It is therefore very crucial that as India embarks on a new wave economy, it adopts an MSME opportunity framework that will provide the necessary impetus to seize the opportunities created by:

• Emergence of domestic demand led by significant increases in spending and consumerism;
• Increase in spending in infrastructure and defense sectors;
• Increase in foreign direct investments in existing and emerging businesses in India;
• Foreign companies investing in India for their global market requirements (Make in India); and
• The double digit growth expected in numerous business sectors.

In order to be globally competitive it will be essential for India’s entrepreneurial skills to be global in their outlook and adopt innovation, develop world class technologies and to skill the nation’s favorable age profile of human resources.

India will have to develop stronger support in providing an enabling business environment. The business environment should aim to enable greater number of companies to sustain from a startup stage to the next level of growth and maturity and should nurture these businesses into billion dollar plus enterprises over the next decade. This can be made possible with a new wave opportunity framework for the new wave India MSME. Any new framework will have to consider domestic imperatives, evolution in key business sectors of the economy and evaluate global MSME policies across developing and developed economies. Further the framework will have to shift from regulatory compliance approach for stakeholders, to a performance incentive-based approach. This could channelize and reward growth and performance in relevant areas, support innovation and enhance higher productivity.
A catalyst for socio-economic transformation of the country, the sector is critical in meeting the national objectives of generating employment and discouraging rural-urban migration. Of the many challenges impeding the growth and development of MSMEs, limited access to financial resources, lack of infrastructure support and inadequate linkages to domestic and global markets, etc. are few of the bottlenecks that make these enterprises vulnerable, particularly in the period of economic downturn. In India, MSME are very large in numbers, diverse in type of business and are spread across remote geographies of a vast country. A large portion of the MSMEs are informal and not registered with the formal eco system of MSME. It will require significant changes in philosophy and approach to be able to develop and deliver a new wave eco system which facilitates their development and seize the emerging domestic and global opportunities. At a minimum, any hindrances and hurdles in doing business are to be removed. This will help unveil a young and dynamic entrepreneurial talent in India who will be willing to make self-entrepreneurship the first career choice and develop growth companies. Seizing the emerging opportunities to develop a robust MSME sector as a strong backbone for a growing economy will require efforts by the government to bring the various stakeholders i.e. equity funds, banks and financial institutions, industry sector majors and MNCs, regulators across various Ministries at the centre and state level and trade associations and global economies having trade flows with India and others stakeholders, etc. together and create a forward looking framework and eco system. Further, a holistic approach can be considered in developing new wave MSME in view of the emerging opportunity areas in the India economy. Such an approach will be necessary to deliver the potential.

A policy framework can be developed for a seed fund which can contribute to 25% of the venture and special purpose private equity funds ranging from INR 100 – 500 Cr and focusing specific areas - adopting innovation and technology, digital India, global competitiveness and so on. Relevant authorities and stakeholders can work together to channelize the funds. At different stages of growth, enterprises need support and assistance in various aspects. Opportunity framework should be designed based on maturity stage and scale of enterprise i.e. start-up, growth, developing and should encompass all aspects of support for MSMEs.

• Other Action Plan activities assigned by the Headquarters In the 11th five year plan would aim at raising the rate of growth of the industrial sector to 10 per cent and manufacturing growth to 12 per cent per annum. Continuing commitment to priority lending for MSMEs remains an essential feature of development banking. The 11th plan must ensure that the policies are sufficiently flexible to support the development of micro finance. In the 11th plan, the strategy for manufacturing proposed by the National Manufacturing Competitive Council (NMCC), which includes the following initiatives, should be operationalized

- Taxes and duties should be made non-distortionary and internationally competitive. Internally, the tax system must promote and be consistent with the unified national market, so that the Indian Industry can reap the benefit of economies of scale and scope.
- While initiatives to provide infrastructure in general are important, they should be supplemented by efforts to promote infrastructure development in local areas such as Special Economic Zones (SEZ) and Special Economic Regions.
- Technological modernization will be the key to high industrial growth.
- State Governments should take steps to create an investor friendly climate, providing a Single Window Clearance of applications for establishment of industrial units.
Labour-intensive mass manufacturing based on relatively lower skill levels provides an opportunity to expand employment in the industrial sector.

- The policy of progressive de-reservation of industries for small scale, production has reduced the list of reserved industries from about 800 to 239. This policy should continue in the 11th Plan at an accelerated pace.
- Industrial licensing should be progressively eliminated. Equally important is the need to amend the Companies Act, 1956.
- The existing incentive programmes such those available for the North-East, J&K, Himachal Pradesh and Uttaranchal need to reviewed with a view to assessing their impact on industrialization in these areas.
- The industrial growth strategy would be incomplete if it does not recognize the critical role and the special needs of the micro, small and medium enterprises (MSMEs).

The Micro, Small and Medium Enterprises (MSMEs) continue to be a vibrant sector of the Indian economy. As per fourth census of 2006-07 that there are about 26 million units (over 90 per cent of total industrial units) in this sector employing nearly 59 million people in India. They not only create job opportunities at lower capital cost comparing to other sectors, but also require lower capital investment and play a vital role for proper utilization of local resources and talent. Organized industrial sector require an investment of Rs.6.66 lakh to generate employment of one person, whereas MSMEs sector generate employment of 1.27 persons with the same investment. This sector contributes nearly 45 percent manufactured output and 40 percent of the total export, it is estimated that MSMEs contribute around 15 percent of exports indirectly. In a span of over three decades, from financial year 1973-74 to financial year 2006-07, export from MSMEs has increased by more than 514 times. MSMEs sector has consistently registered a higher growth rate than the rest of the industrial sectors. There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs. In India, after agriculture, the MSMEs sector provides the maximum opportunities for both self-employment and jobs in the country. The MSMEs sector in India holds great potential for further expansion and growth in the future. In fact, the employment potential of the sector is un-matched by any other sector of the economy.

12. Conclusion

MSME’s provide job and employment and ultimately self-dependency. In country like India, only self-dependency is the way, which can be a cure for devaluation of Indian Rupees. Therefore, MSME’s can be boon and a hope for Indian economy in near future. The MSME’S are providing the uniform development to the society and can be a strong mean to utilize the natural resources of the India. The MSME’s are very helpful to remove the regional imbalances if it is establish in the underdeveloped areas. The MSME’s are providing more employment per unit. In 2006-07, there were 2.23 employees per MSME while in 2011-12 it is 2.26 per MSME. Numerous possibilities exist in this field. For the of 2007-08 to 2011- 12 there is 28.29% growth in the market value of fixed assets while 27.81% growth in gross output produced by MSME’S The law of marginal returns is not being apply on this area. So, the foreign investment can easily be attracted. However, presently, Indian MSME’S are facing the various problems at different levels. The MSME owners are not innovative and their entrepreneurial skills are very low. Ultimately, the government is not providing any types of satisfactory
training or skill development schemes. A number of appropriate technologies for the MSME sector have developed in various sectors. While each MSME has its areas of strengths and weaknesses, therefore, it would be mutually valuable if already developed technologies made available to each other. Our banking system does not provide sufficient amount of credit to fulfill their requirement of establishment of MSME and as well as not for the operational activities. Therefore, there must be availability of credit according to the requirement at cheaper rate. As per the All India Census of MSMEs for the years 2001-02 and 2006-07, the growth (Annual Compound Growth) in unregistered segment is much higher compared to the registered segment. The number of registered enterprises grew at the rate of 2.61 per cent while the unregistered enterprises grew at 30.50 per cent. The growth rate of the number of registered manufacturing was 3.76 per cent as compared to the growth rate of 25.90 per cent for the unregistered enterprises. Evidence from across the world suggests that successful start-ups can contribute significantly in accelerating growth of manufacturing output as well as catalyzing a shift towards better technologies and productivity. It is, therefore, important to work towards increasing the growth of Start-ups. The responsibility for creating an enabling environment conducive for start-ups rests primarily with the government. It would cover broad areas of the legal and regulatory framework, and ease of compliance thereof, infrastructure availability, mentoring and guidance, and finance.

References