

# MSMES in India Growth and Challenges

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## ABSTRACT

The most important component of the economy in any country is MSME sector and it also propels the economy towards the growth trajectory. MSME units in any economy are not only revenue producing entities but in this process they generate employment and simultaneously facilitate industrialization. MSME sector contributes immensely to the growth of the economy precision production in addition to this the most attractive aspect of this sector is that it requires less capital. In Indian context MSME sector plays a very instrumental role in the functioning of the economy besides agriculture, in terms of facts MSME forms 80 percent of the total number of industrial enterprises, 40 percent of total industrial output comes from MSME sector, generates 80 percent of all the employment opportunities in industrial sector and most importantly 40 percent of export comes from MSME sector. Through this paper we attempt to understand the role played by MSME in growth and contribution of economy and generation of employment opportunities in India. In addition to this hurdles faced by the MSMEs in this process, have also been discussed.

**Keywords:** MSMEs, Employment, Growth, Challenges of MSMEs.

## I. INTRODUCTION

Of late, a sector which has suddenly outpaced other sectors in terms of playing key role in economic development is MSME sector and emerged as most robust sector in the last five decades, it plays a very paramount role in the development of the economy by giving space to entrepreneurship and generating employment opportunities. The most attractive part of MSME sector is that it enjoys cost advantage over other sector and it ranks behind only agriculture sector on this count. They play a very meaningful and supportive role in relation to large industry and form ancillary industry for them. MSME sector are not only engaged in mass production but they are producing wide variety of products making them even more critical for the economic development.

With their interest lying in almost every sector they ultimately play a role in exports and earns forex for the nation. The most important aspect which deserves attention that MSME sector plays role in the production of 8000 products.

Keeping in mind the relative importance of the MSME sector, Govt. of India has launched many schemes for this sector to attract more and more people towards this sector. These schemes are aimed at providing cheaper credit to MSME sector, facilitating technology upgradation, getting best managerial help, Entrepreneurship Development Programme and expert advice for innovating and developing new products. In addition to all such steps Govt. of India also gives full assistance to them in order to make them competitive in the foreign market. Many dedicated institutes have been established by the Govt. of India for MSME sector like National Small Industries Corporation Ltd, Mahatma Gandhi Institute for Rural Development, National Institute for Micro, Small and Medium Enterprises.

## Definition of MSMEs

As per the provisions of the MSME Act, 2006, the Micro, Small and Medium Enterprises have been categorized as

1. Manufacturing Enterprises
2. Services Enterprises

## II. LITERATURE REVIEW

Shwetha, H. S. and Subrahmanya, B. S. (2019) the examination become to investigate the effect of bookkeeping framework on gain stage of SSI. The actual problem recognized became that most small-scale agencies don't have bookkeeping information framework on benefit degree of SSI. Bookkeeping assumes a essential part in our monetary and social framework specifically in its administration and extremely good paintings it does in encouraging management simple management process. SSI haven't any large bearing bookkeeping statistics framework in their business which result into terrible execution degree due to fortunes of business facts statistics keeping. In light of no appropriate information of businesses for

drawn out stretch of time therefore they feel that business isn't going extremely good. whilst information trade favorite, you will help the enterprise workforce with adding esteems to merchandise or administrations to devein to increase or thoroughly pass to numerous organizations that can carry more benefits. The paper says that SSI now not ready for raising the required capital or store to list their organizations at the inventory trade showcase.

Ghatak, Shambhu (2016) explains that small scale industries assume an important part in developing challenge for business age has made recharged enthusiasm for upgrading countries. As some distance as the enterprise and pay technology, in this way destitution decrease, deal with ability location in encouraging complete development is critical. The segment framework device focuses not just on growing gadgets, who are the prime appearing artists but additionally made out of various professionals like dating of makers, clients, input companies, monetary institutions, government. and controls. regardless of, the manner that the liveliness and dynamic foreseen under a duration of de-direction and de-reservation, it remained to a exceptional volume undiscovered. SSI's have to analyze the arrangement adjustments with the anticipate to decorate the competitive great of small companies.

Aruna (2015) studied about the different type of problem face by the Small firms in Vishakhapatnam. During the study primary data was used , which collect from the 50 MSMEs through the structure questionnaire method. The result of the study depict that main cause problem was related to size of the firm and under capitalization which lead to a firm for bankruptcy. Some other five reason were unskilled labour shortage of adequate and affordable finance, ineffective marketing, unavailability of skill labour, Non available of latest technology and problem in acquiring adequate raw material. It is a common thumb rule that the entrepreneur should have access to a sum of money at least equal to the projected revenue for the first year of business in addition to his anticipated expenses.

Srinivas, k. T. (2013) the author stated that SSI has dependably been reinforced with unique assessments, for example, work, fairness, inert asset and so on. the other for this making arrangement for self-employment & capital development. The exam tosses light at the converting measurements in SSI like exclusive polices & schemes through the govt. to advance the mechanical section. Instructive angle of open in show alternate management of all the part like

fund, buy offers, selling publicizing is all of the greater succesful in evaluation with the beyond. SSI potential has lots more desirable one of a kind new and propelled advancements have been acquired via the enterprises for the general improvement of our united states.

Srinivas, K.T (2013) observed that MSME sector is acting as an engine for the economy of India to attain economic development. Outlook of National and State Govts. have changed a lot and are working together to improve the infrastructural situation in this sector. Poor Marketing and lack of technology played a key role in under performance of this sector in Indian context. The study concluded not only Govt. but private capital and ideas are needed to bail out this sector.

Kapoor A. (2012) examines the boom and performance of SMEs and finds out the financing strategies currently utilized by them via carrying out a survey of 200 SMEs. observe concluded that various monetary options are to be had for Small and medium establishments inside the contemporary scenario however getting access to those financing options have been difficult even with several authorities initiatives. most of the SMEs select informal supply to investment for his or her enterprise because it's far more bendy and easy to access. additionally, credit from formal sources includes lot of formalities for sanctioning of loan. The observe additionally reveals that with regards to getting access to funds for in case of recent firms, the entrepreneurs do no longer get sufficient financial guide for preliminary investment.

Ghatak, Shambhu (2010) examined the status of MSME sector in India in his study titled "Micro, Small and Medium Enterprises in India". His study brought forward some startling facts in which researcher found Indian MSMEs in a much better position than their counterparts in Bangladesh and Pakistan. In Pakistan only 36 percent MSME units have access to banking facilities and in Bangladesh 46 percent of them have access to banking facilities, but this figure stands at 95 percent in Indian case. The research concluded further steps are needed to augment MSME sector.

#### Objectives of the Study:

To study the current status and growth of MSMEs in India.

To study the impact of MEMEs on employment generation in India.

To explore the problems faced by MSMEs in India.

To study the impact of MSMEs act 2006 on these sector.

To study the trend of MSMEs registration in since 2001 to 2015.

To study the relation between employment generation growth and production level.

**Research Methodology:**

This study empirical in nature and secondary data was used for the study. Secondary data has been collected from various sources such as magazines, government annual reports, reports of statistical survey of Indian, MSMEs department annual reports and other data which is public in other sources. This data was analysed with the help of SPSS 20 and presented with the help of tables, charts. During the data analysis percentage and

correlation method was used to measure the relation between two factors.

**Hypothesis:**

Ho: There is no association between level of Employment and Level of Production.

Ha: There is an association between level of Employment and Level of Production.

**Analysis of Data:**

**1. Growth and development of MSMEs**

The 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.

Table 1: Number of MSMEs Data

MSMEs Category	Number of Enterprises ( In Lakh)			Share
	Rural	Urban	Total	Percentage
Manufacturing	114.14	82.50	196.65	31
Trading	108.71	121.64	230.35	36
Other services	102	104.85	206.85	33
Electricity	0.03	0.01	.003	0
Total	324.88	309.00	633.88	100

Source: Ministry of MSMEs annual report 2018-19

**Interpretation**

As per the data of National Sample Survey, Ministry of Statistics and Program Implementation total number of MSME units stands at 633.88 lakh. In this, 196 lakh units were

engaged in manufacturing activities, 230.35 lakh units were involved in trade related activities, 0.03 lakh were in the industry of non-captive electricity generation and remaining units were providing other services.

Table 2: Percentage Share of Rural and Urban MSMEs in The Country

Area	Rural(In Lakhs)	Urban(In Lakhs)	Total
No. of MSMEs	324.88	309	633.88
% of MSMEs Interpretation	51.25%	48.75%	100%

Source: Ministry of MSMEs annual report 2018-19

**Interpretation**

Segment wise if we look at the break-up of MSME units in India, out of total 633.88 lakh

units 324.88 lakh units were present in rural areas, whereas 309 lakh units were doing business in urban areas, growing at a fast pace in rural areas.

**Table 3: Distribution of Enterprises Category Wise (numbers in Lakhs)**

Sector	Micro	Small	Medium	Total
Rural	324.09	0.78	0.01	324.88
Urban	306.43	2.53	0.04	309.00
All	630.52	3.31	0.05	633.88

Source: Ministry of MSMEs annual report 2018-19

**Interpretation**

In the MSME sector 324.09 lakh units in rural areas and 306.43 lakh units in urban areas come under the category of Micro segment, whereas

small and medium scale units are 3.31 lakh and 0.05 lakh units respectively. Micro segment in the MSME sector is the most dominant segment with 630.52 lakh of total 633.88 units.

**Table5: Percentage distribution of Enterprises by Male/Female Owners**

Category	Male	Female	All
Micro	79.56	20.44	100
Small	94.74	5.26	100
Medium	97.33	2.67	100

Source: Ministry of MSMEs annual report 2018-19

**Interpretation**

As per the facts of annual report of Ministry of MSME, 2018-19, gender-wise participation tells a very interesting but one sided story, in which male owners are dominating all the segments of MSME

sector. In the medium class segment of MSME sector male owners constitute 97.33 percent of total owners, 94.74 percent of total owners in small segment and 79.56 percent in the case of micro segment.

**2. Employment in MSME Sector**

**Table6: Estimated Employment in MSME Sector (Broad Activity Category Wise)**

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

Source: Ministry of MSMEs annual report 2018-19

**Interpretation**

In terms of employment generation, MSME sector has played a very crucial role in both rural and urban areas. In urban areas where it

generated 497.78 lakh opportunities, in rural areas it generated 612.10 lakh employment opportunities, indicating towards its pivotal role in the development of rural areas.

Table7:Sector wise distribution of workers in Male and Female Category (inLakh)

Sector	Female	Male	Total	Share(%)
Rural	137.50	360.15	497.78	45
Urban	127.42	484.54	612.10	55
Total	264.92	844.68	1109.89	100

Source: Ministry of MSMEs annual report 2018-19

Interpretation

As per the data the gender-wise break-up of employees also paints the similar picture in which male employees forming the backbone of all the

MSME units in terms of workforce. Of the total workforce in the MSME sector (rural or urban) 76 percent employees are male. It indicates to serious problems in terms of gender inequality.

Table8:Distribution of Employment in Rural and Urban Areas (Number 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

Source: Ministry of MSMEs annual report 2018-19

Interpretation

According to the data of Ministry of MSME, employment distribution across all the segments of MSME sector, in rural and urban points towards a clear picture. In rural areas Micro

segment (98 percent) has generated all the employment opportunities whereas in the urban areas also micro segment (95.75 percent) is playing the leading role.

Table 9: Share of UAM- manufacturing and service MSMEs registered

Sector	Total	Percentage
Manufacturing	1749818	45
Service	2144111	55

Source: Ministry of MSMEs annual report 2018-19

Interpretation

Since September, 2015, in view of promoting ease of business, an online filing system under Udyog Aadhar Memorandum(UAM) based

on self-declared information has been put in place. Till end of May, 2019, 68.25 lakh MSMEs have already registered on UAM

Table10: Performance of SSI/MSME Units, Employment, Investments and Gross Output

S. No	Year	No. of. MSMEs Working(in Lakhs)	Employment (in lakhs)	Market value ofFA (in crores)	Gross output (in crores)
1.	2001-02	105.21	249.33	154349.00	282270.00

2	2002-03	109.49	260.21	162317.00	314850.00
3	2003-04	113.95	271.42	170219.00	364547.00
4	2004-05	118.59	282.57	178699.00	429796.00
5	2005-06	123.42	294.91	188113.00	497842.00
6	2006-07	361.76	805.23	868543.79	868,543.79
7	2007-08	377.36	842.00	868543.79	920,459.84
8	2008-09	393.70	880.84	920459.84	977,114.72
9	2009-10	410.80	921.79	977114.72	1,038,546.08
10	2010-11	428.73	965.15	1038546.08	1,105,934.09
11	2011-12	447.66	1011.80	1105934.09	1,182,757.64
12	2012-13	467.56	1061.52	1182757.64	1,268,763.67
13	2013-14	488.29	1114.29	1268763.67	1,363,700.54
14	2014-15	510.57	1171.32	1363700.54	1,471,912.94
15	2015-16	553.65	805.24	1363700.32	107721286

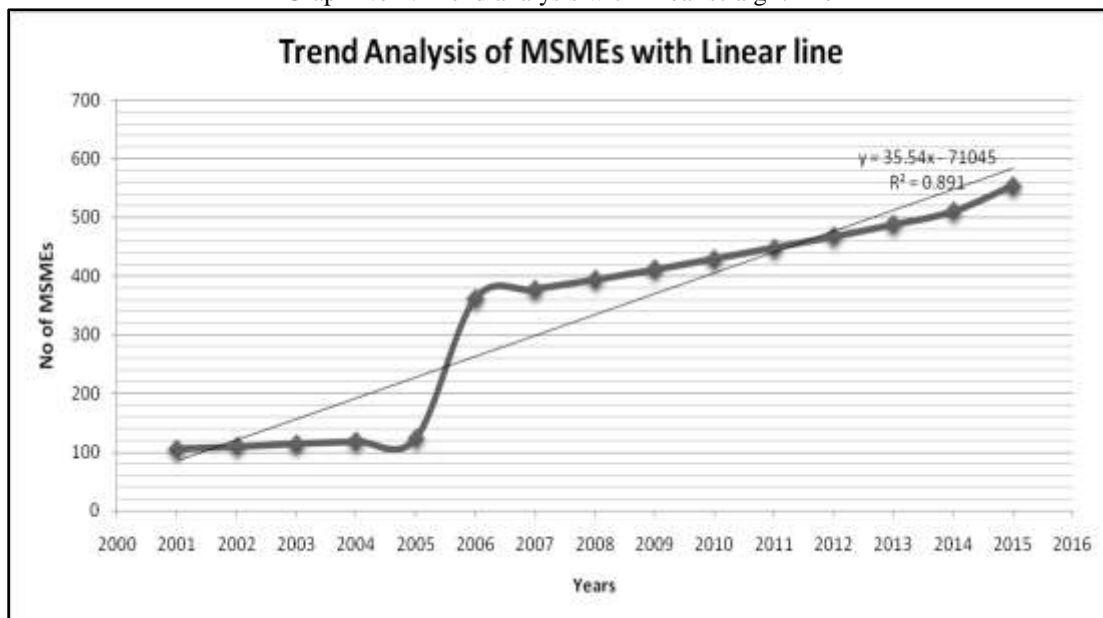
Source: Ministry of MSMEs annual report 2018-19

#### Interpretation

The above table shows number of MSMEs are working, the increase of employment opportunities, market value of fixed assets and gross output from 2001-2002 to 2014-2016. There is an increase in no. of MSMEs 361.76 lakhs,

employment 805.23 lakhs, investment in fixed assets (868543.79), gross output (868,543.79) in the year 2006-2007. There is a decrease in employment 805.24 lakhs in the year 2015-2016 from 1171.32 lakhs in the year 2014-2015. At present in the year 2018-2019 it is 1109.89 lakhs.

Graph No 1: Trend analysis with linear straight line



**Interpretation**

As per the trend analysis of MSME sector, with the passage of time number of MSMEs increased over the years and with it market value, employment opportunities and gross output have also gone up. The value of R<sup>2</sup> hints that 89.10 percent of the total variation are contributed by the

independent variable and remaining 11 percent related to variation are inexplicable. It could be seen that in 2005 number of MSMEs were decreasing, add the impact of MSME act 2005 it means its effect were seen on market value, employment opportunities and gross output.

**Table 11: Correlation Table of Employment and Level of Production**

Correlations			
		Employment level	Production level
Employment level	Pearson Correlation	1	.960**
	Sig. (2-tailed)		.000
	N	15	15
Production level	Pearson Correlation	.960**	1
	Sig. (2-tailed)	.000	
	N	15	15

\*\* . Correlation is significant at the 0.01 level (2-tailed).

(Source- Generated by SPSS)

Interpretation-The above table showing that there is positive correlation between Employment and Production level of MSMEs ,calculated (P) is less than 0.01, Hence proving the alternative hypothesis that there is a highly significance association between the Employment level and Production level .

**3. Challenges of MSMEs in India**

Lack of credit from banks- there are rigidity on the part of banking system in terms of giving financial support to the MSME sector and they charge high interest rate in the range of 8.65-16.25 percent, which suffocates the development of MSME sector.

Competition from multinational companies- Highly professional and deep pocketed companies from other countries are posing a threat to the business of the manufacturing companies of India and they need Govt. support to face such competition.

Poor infrastructure- MSME sector and its development is hampered by late adoption of new technology, due to this productivity suffers and they fail to provide stiff competition to their rivals.

Unavailability of raw material and other inputs- In today's scenario as resources are scarce, raw materials have also become costly due to industrialization all over the world. As a result of this cost of raw materials is sky rocketing and creating hurdles for MSME sector in their operations.

Lack of advanced technology- Higher production and latest technology go hand in hand, one cannot ignore the importance of latest technology in relation to stiff competition from other companies on the back of innovative products and mass production.

Lack of distribution of marketing channels- Marketing is essential to promote products so that they can grab limelight but for using every medium of marketing, one needs to have deep pocket. Most of the times MSMEs lag behind as they are unable to exploit the potential of marketing due to financial constraints. Lack of training and skill development program- Unawareness about the new and innovative methods of production has only added to the problems of the MSME sector. In the absence of proper training they fail to understand the dynamics of the environment.

**III. FINDINGS:**

- Growth of MSMEs in rural areas i.e.51 % are more when compared to urban areas i.e.,49%.
- Growth of Medium enterprises i.e.,0.05 lakhs are very low when compared to Micro and Small enterprises i.e.,630.52 lakhs and 3.31 lakhs.
- Male owned MSMEs i.e.,79.63 % as compared to female owned MSMEs i.e. ,20.37%.
- Male owned enterprises are more in case of small and medium enterprises i.e.,95 % and in case of micro enterprises their dominance is 80%.

- Employment generation is more in Urban areas i.e., 55 % when compared to rural areas i.e., 45%.
- Male employees are 76 % and female employees are only 24 % in MSMEs sector. Out of 1109.89 lakhs no. of MSMEs, the growth of medium enterprises are only 1.75 lakhs.
- In case of service sector, registration of MSMEs under UAM is 55 %, where as manufacturing sector it is 45 %. Till May 2019, 68.25 lakh MSME have been registered under UAM.
- Production level is directly associated with Employment which is good indicator of enough contribution in GDP with Employment.
- Employment is showing in growing trend which means these sector providing enough employment and working as remedies on unemployment problem.

#### IV. SUGGESTIONS:

- ✓ MSMEs in urban areas need to be improved to create more employment opportunities for the development of economy.
- ✓ Opportunities must be provided to women in terms of employment and business both in urban and rural areas through proper training.
- ✓ Government of India must take necessary steps to encourage medium enterprises too.
- ✓ Bank credit and interest rates must be flexible according to the requirements of MSMEs.
- ✓ Proper training must be provided to the MSMEs both in rural and urban areas in terms of technology and innovation.

#### V. CONCLUSION:

In Indian economy MSME sector is playing a very important and constructive role in terms of generating revenue but also it is developing at a very fast pace. It is making valuable contribution to the overall GDP of the country. Govt. of India is also paying attention to the importance of the MSME sector and also taken range of steps to consolidate the position of MSME sector in India.

For the consolidation of the MSME sector in India Govt. enters into agreement with other countries to facilitate market access for the product of the MSME sector. But still after so much of Government, MSME sector is facing a lot of difficulties and challenges in standing up to the competition posed by multinationals. The most important disadvantage MSME sector face is the lack of cheap credit, lack of skill development

programs, lack of vision and managerial acumen. This problem has also been exacerbated by the fact that even foreign banks are not sensitive to the concerns of the MSME sector and access to cheap finance will result in technology upgradation and overall enhancement of the productivity. A panel of experts should be formed urgently to assess the needs and wants of this sector and will lead to bright future of this sector.

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