

## DEVELOPMENT OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN INDIA– AN OVERVIEW

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### Abstract

The MSMEs sector has been accepted as an engine of economic growth all over the world for promoting equitable development and has emerged as the single most important sector in generating employment next only to the agriculture sector. MSMEs play an important role in the economic and social development of the country, often acting as nurseries of entrepreneurship. Some of the measures to be implemented for effective functioning of MSMEs in India are: Appropriate Government policy for entrepreneurship development, consideration within the government machinery and the entrepreneurs, credit facility with easy mode access, encouragement of women entrepreneur, standardized money value, low burden of duties and the like. Both the Government of India and the Reserve Bank of India have been convinced of the contribution and of the enormous potential of the MSMEs sector to the economic growth, employment and income generation for vast masses of the country. MSMEs provide substitutes for various industrial products now being imported into the country and eliminate economic backwardness of rural and underdeveloped regions in the country.

**Key words:** MSMEs, Entrepreneurs, Entrepreneurship, Employment generation

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### **Introduction**

The Micro, Small and Medium Enterprises (MSMEs) sector has been accepted as an engine of economic growth for promoting equitable development and has emerged as the single most important sector in generating employment next only to the agriculture sector. MSMEs play a pivotal role in the economic and social development of the country, often acting as nurseries of entrepreneurship. MSME contributes significantly to the country's manufacturing output, employment and exports and is credited with generating the high

employment growth as well as accounting for a major share of industrial production. The labour intensity of MSME sector is much higher than that of large enterprises.

Rapid globalizations, economic liberalization, managerial innovations, technical advancements, financial and real sector reforms have created numerous opportunities for the growth of MSMEs sector. In the face of competition, small firms have showing impressive growth and in the process are creating value and additional employment opportunities. Because of the importance of micro small and medium enterprises in the economic development, Government has extended all possible support for promoting and developing micro small enterprises.

The MSMEs are generally established by one person or a small group of persons and these enterprises are generally managed and controlled by owner managers, who contribute the capital and are responsible for making important decisions. They also help to achieve the inclusive growth of the country. One of the unique features of MSMEs is that their capital-labour ratio is very small as compared to their large scale counter parts.

Some of the measures to be implemented for effective functioning of MSMEs in India are: Appropriate Government policy for entrepreneurship development, consideration within the government machinery and the entrepreneurs, credit facility with easy mode access, encouragement of women entrepreneur, standardized money value, low burden of duties and the like. Both the Government of India and the Reserve Bank of India have along been convinced of the contribution and of the enormous potential of the MSMEs sector to the economic growth, employment and income generation for vast masses of the country. Recent government pronouncements about “Make in India” are fundamentally based on these convictions.

### **Definition**

Recognizing the contribution and potential of MSME sector and imperative for upgrading technology, the government has revised the definition of MSME sector viz the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 on 2<sup>nd</sup> October 2006 which recognized the concept of enterprise to include both manufacturing and service sector. According to Micro, Small and Medium Enterprises act the enterprises are broadly classified as follows.

**Table. 1**  
**Classification of Micro, Small and Medium Enterprises (MSMEs)**

Category of MSMEs	Manufacturing Enterprises		Service Enterprises	
	Investment in Plant and Machinery		Investment in Equipment	
	INR	USD \$	INR	USD \$
Micro Enterprises	Up to Rs. 25 lakhs	Up to \$ 62500	Up to Rs. 10 lakhs	Up to \$ 25000
Small Enterprises	Above Rs.25 lakhs and up to Rs. 5 crore	Above \$ 62500 and up to \$1.25 million	Above Rs 10 lakhs and up to Rs. 2 crore	Above \$ 25000 and up to \$0.5 million
Medium Enterprises	Above Rs. 5 crores and up to Rs.10 crore	Above \$ 1.25 million and upto \$ 2.25 million	Above Rs 2 crores and up to Rs. 5 crore	Above \$ 0.5 million and up to 1.5 million

**Source:** Annual reports of Micro, Small and Medium Enterprises (MSMEs) 2014-15.

### **Significance of MSMEs**

The labour intensity of the MSME sector is much higher than that of large enterprises. MSMEs constitute more than 90 percent of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. In India too, MSMEs play an important role in the overall industrial economy of the country. In recent years, the MSME sector has consistently registered higher growth rate as compared with the overall industrial sector. With its agility and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession.

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. MSME sector helps 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.

### **Objectives of MSMEs**

The following are the specific objectives of the MSMEs

- ❖ To create greater employment opportunities and increasing output, income and standards of living to the low-income groups in rural and urban areas of the country.
- ❖ To meet substantial part of the economy's requirements for consumer goods and simple producer goods.
- ❖ To provide substitutes for various industrial products now being imported into the country.
- ❖ To improve the quality of industrial products manufactured in the cottage industry sector and to enhance both production and exports.
- ❖ To encourage market forces through competition, to achieve higher operating standards.
- ❖ To eliminate economic backwardness of rural and underdeveloped regions in the country.

### **Role of MSMEs in Industrialisation**

MSMEs have evolved considerably since independence in India. Utilizing available domestic resources to deliver quality products and services, these firms have made their presence felt across India's key sectors as well as in prominent export markets. MSMEs have made an impact on a range of issues from industrial progress to entrepreneurship and from job creation to economic empowerment. The inclusiveness of the MSME sector is highlighted by the fact that around 50 percent of MSMEs in India are owned by underprivileged groups. Due to low capital structure, coupled with high labour absorbing power, the sector has played a noteworthy role in achieving rural industrialisation as well. The MSME sector remains a key driving force for India's complete transition from an agrarian economy to an industrialized one. Subsequently, MSMEs have been awarded a host of incentives by governments across India. A large number of other organizations in the private and non-profit domain have also been aiding MSMEs to remain competitive in a more globalised economic order.

**Table No.2**  
**The Outlay for the Development of SSI/MSMEs in the Successive Five Years Plans**  
**(Rs. in crores)**

Plan Period	Total Outlay	Allocation to MSME	Percentage Share of MSMEs to Total Outlay

First plan (1951-56)	1960	5.20	0.27
Second plan (1956-61)	4672	56.00	1.20
Third plan (1961-66)	8577	113.06	1.32
Annual plans (1966-69)	6625	53.48	0.81
Fourth plan (1969-74)	15779	96.19	0.61
Fifth plan (1974-79)	39462	221.74	0.56
Annual plans (1979-80)	12177	104.81	0.86
Sixth plan (1980-85)	109292	616.10	0.56
Seventh plan (1985-90)	180000	1120.51	0.62
Eight plan (1992-97)	434100	1629.55	0.37
Ninth plan (1997-02)	859200	4303.85	0.50
Tenth plan (2002-07)	1865700	5534.00	0.30
Eleventh plan (2007-12)	1096890	10168.00	0.93
Twelveth plan (2012-17)	1852639	26014.00	1.40

**Source:** Compiled from reports of Economic Survey published by Government of India

Table 2 shows the budget outlays of the government of India for each of the five years plan (1951-56) from first five year plan to twelfth five year plan (2012-17). The outlay over different plan periods has been increased substantially except for annual plan (1966-69 and 1979-80). The outlay for twelfth plan period (2012-17) was very huge. Same trend is observed even in the allocation mode to SSI/MSMEs out of the total outlays. The allocations share to SSI/MSMEs out of the outlays is less than one percent of total outlay except in 2<sup>nd</sup>, 3<sup>rd</sup> and twelfth five years plans.

From the foregoing analysis one can infer that the total outlays made for twelve plan periods is substantially increased but the allocations made out of these to MSMEs there is no such continuous increase is observed. The allocations made to MSMEs in the fourth plan are very meagre as compared the allocation made to MSMEs in fifth plan. From the fifth plan onwards the budget allocations made to MSMEs were substantially increased from plan to plan. This indicates that much of priority was given to MSMEs in all the plan periods except for fourth plan. MSMEs share in the total outlays.



## Development of MSMEs in India

Table No. 3

Performance of Small Scale Industries in Units, Investments, Production, Employment and Exports over a period of fifteen years from 1990-91 to 2004-05

Year	SSIs (in Lakh Number)	Growth in SSIs	Fixed Investment (Rs.in Crore)	Growth in Fixed Investment	Production (Rs. in Crore)	Growth in Production	Employment (Lakh Persons)	Growth in Employment	Exports (Rs.in Crore)	Growth in Exports
1990-91	67.90	-	93555	-	63518	-	158.30	-	9664	-
1991-92	70.60	3.98	100351	7.26	73072	15.04	166.00	4.86	13883	43.66
1992-93	73.50	4.11	109623	9.24	85581	17.12	174.80	5.30	17784	28.10
1993-94	76.50	4.08	115795	5.63	98804	15.45	182.60	4.46	25307	42.30
1994-95	79.60	4.05	123790	6.90	122210	23.69	191.40	4.82	29068	14.86
1995-96	82.80	4.02	125750	1.58	148290	21.34	197.90	3.40	36470	25.46
1996-97	86.20	4.11	130560	3.82	168413	13.57	205.90	4.04	39248	7.62

1997-98	89.70	4.06	133242	2.05	189178	12.33	213.20	3.55	44442	13.23
1998-99	93.40	4.12	135482	1.69	212901	12.54	220.60	3.47	48979	10.21
1999-00	97.20	4.07	139982	3.32	234255	10.03	229.10	3.85	54200	10.66
2000-01	101.10	4.01	146845	4.90	261289	11.54	239.10	4.36	69797	28.78
2001-02	105.20	4.06	154349	5.11	282270	8.02	249.10	4.18	71244	2.07
2002-03	109.50	4.09	162317	5.16	311993	10.53	260.10	4.42	86013	26.73
2003-04	114.40	4.47	170219	4.87	351427	12.64	271.40	4.34	97644	13.52
2004-05	118.59	13.66	178699	4.98	497842	41.66	294.91	8.66	124417	27.42

Source: Annual Reports of MSMEs from 1990-91 to 2004-05

Table 3 shows the progressive performance of small scale industries in India in terms of number of units, investment, increase rupees employment in lakh persons and exports in crore rupees over fifteen year study period from 1990-91 to 2004-05 i.e., prior to the introduction of MSMEs Act, 2006. It is understood from the table above that the growth in the number of SSI units in India is fair from 1990-91 to 2000-01. However the growth in the number of SSI units from 2001-02 to 2004-05 is very much significant. Rather it can be said that the growth in the number of SSI units from 2001-02 to 2004-05 is progressive and impressive. The growth in the investment MSMEs units fluctuated from 1990-91 to 1997-98. The growth in the investment of SSI progressively increased from 1999-2000 to 2002-03 is and fluctuated from 2003-04 to 2004-05. The growth in the employment generation of SSI from 1990-91 to 2004-05 is highly fluctuated. The growth of the exports of SSI sector from 1999-2000 to 2001-02 and from 2003-04 to 2004-05 is significantly increased.

From the foregoing analysis one can infer that development of MSMEs in India indicates that there is much development in the MSME sector in absolute terms in respect of SSI/MSMEs number production in value, employment and exports over one and half decade.

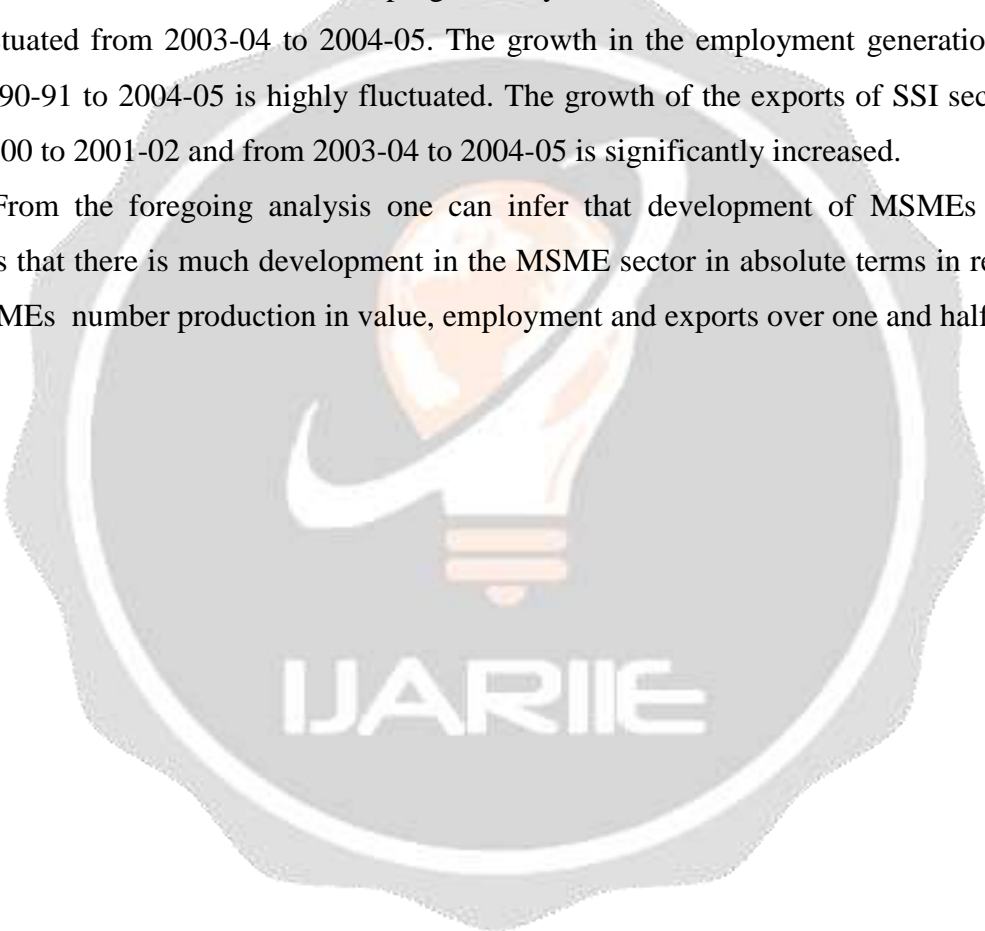




Table No.4

## Performance of MSMEs Units, Investments, Production, Employment and Exports over a period of ten years from 2005-06 to 2014-15

Year	MSMEs (in lakh Number)	Growth in MSMEs	Fixed Investment (Rs. Crore)	Growth in Fixed Investment	Production (Rs. Crore)	Growth in Production	Employment (Lakh Persons)	Growth in Employment	Exports (Rs. Crore)	Growth in Exports
2005-06	123.42	4.07	188113	5.27	497842	15.83	294.91	4.37	150242	20.76
2006-07	361.76	193.11	868544	361.71	709398	42.49	805.23	173.04	177600	15.40
2007-08	377.36	4.31	920460	5.98	790759	11.47	842.00	4.57	182538	2.78
2008-09	393.70	4.33	977115	6.16	880805	11.39	880.84	4.61	202017	10.67
2009-10	410.80	4.34	1038546	6.29	982919	11.59	921.79	4.65	223572	10.67
2010-11	428.73	4.36	1105934	6.49	1095758	11.48	965.15	4.70	245127	9.64
2011-12	447.64	4.41	1183332	6.99	1834332	67.40	1011.80	4.83	269125	9.79
2012-13	447.54	4.45	1269338	7.27	NA	NA	1061.52	4.91	NA	NA
2013-14	448.46	4.47	1363700	7.48	NA	NA	1114.29	4.98	NA	NA
2014-15	510.57	13.85	1471913	7.94	NA	NA	1171.32	5.12	NA	NA

Source: Annual Reports of MSMEs from 2005-06 to 2014-15

Table 4 depicts the performance of MSMEs in terms of their number, fixed investment in crore rupees, production in crore rupees employment in lakh persons and exports in crore rupees, over ten year period from 2005-06 to 2014-15. MSMEs number has been increased from 123.42 lakh numbers in 2005-06 to 510.57 lakh number in 2014-15 except in 2013-14 in the fraction of number of persons. The fixed investment in the MSMEs has been increased over a ten year period from 1888.13 crore in 2005-06 to Rs.1471913 crore in 2014-15. Based on the data receivable on production in the MSMEs one can say that there is significant increase in the value of production for seven years from 2005-06 (Rs. 497842 crore) to 2011-12 (Rs.1834332 crore) the data pertaining to employment in lakh persons in MSMEs reveals that there is a significant increase in the provision of employment in the MSMEs over ten year period from 2005-06 to 2014-15. The employment in MSMEs in 2005-06 was 294.91 lakh persons and has been increased to 1171.32 lakh persons in 2014-15. There is a significant increase in the value of exports of in MSMEs over seven years period since data are not available for the rest of three years or ten years study period.

The growth in the number of units, fixed investment and employment from 2005-06-2014-15 is so study whereas the growth in the production and exports from 2005-06 to 2014-15 is not significant more over the statistical data relating to production and exports of MSMEs are not available from 2012-13 to 2014-15.

From the foregoing analysis one can infer that the growth in respect of MSMEs number, investment, production, employment and exports in numerical terms is impression whereas the same in percent terms reveals that there is some fluctuation is observed for a period of more than a decade prior to passing of MSMEs Act, 2006.

### **Conclusion**

The total outlay for twelve of the plan period is substantially increased but the allocations made out of these to MSMEs no such continuous increase is observed. The allocations made to MSMEs in the seventh plan are very meagre. From the fifth plan onwards the budget allocations were substantially increased from plan period to plan period. This indicates that much of priority was given to MSMEs in all the plan periods except in fourth plan. The outstanding credit finance to MSMEs in the total outlay is less than 1 percent in many of the years of ten year study period. The growth in respect of MSMEs number, investment, production, employment and exports in numerical terms is impressive whereas the same in percentage in terms reveals that there is some fluctuation for a period of more than a decade prior to passing of MSMEs Act, 2006.

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