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# GROWTH AND FUTURE PROSPECTS OF MICRO, SMALL & MEDIUM ENTERPRISES IN INDIA

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**ABSTRACT**

*In recent years, the significance of MSME has been recognized in the world's countries for its major contribution in various socio-economic objectives such as higher economic growth and employment, output, nurturing entrepreneurship and encouragement and support for exports. MSME play a vital role in the industrial development of any country. The MSME sector is a backbone of Indian economy for its contribution to growth of Indian economy. This sector is very much important for moves towards a faster and inclusive growth of country. The MSME sector can help for achieving the target of Nation Manufacturing Policy that manufacturing should contribute 25% in India's GDP by 2022. The government of India has taken a good initiative of "Make in India". This paper is to focus on performance of MSME & growth and opportunities. It is concluded that this sector significantly contributes in employment, exports and manufacturing output.*

**Key words**: MSMEs, Make in India, GDP, growth, investment, employment, opportunities

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## 1. INTRODUCTION

The Micro, Small and Medium Enterprises are the pillar of economic growth in many developed and developing countries in the world. They often rightly termed as "the engine of growth" for India. The MSME Sector has emerged as a vibrant and dynamic sector producing a vast range of products starting from basic agro products to high precision engineering tools and equipment (Usharani & Gopinath, 2020). MSMEs generate large scale employment. In India, capital is scarce and labor abundant. MSMEs are thought to have lower capital-output and capital-labour ratios than large-scale industries, and therefore, better serve growth and employment objectives. There are MSME Promote growth and development of khadi, village and coir industries so as to create new enterprises and more employment opportunities (Gopinath & Poornapriya, 2020). The long term goal of the ministry is to enhance manufacturing base in the country by improving performance of MSMEs through skill and entrepreneurship development.

The Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. The MSME also play an important role in the development of the economy with their effective, efficient, flexible and innovative entrepreneurial spirit (Gopinath, 2014). The MSME sector contributes notably to the country's overall industrial production output, employment and exports. It is recognized with generating the maximum employment growth as well as accounting for a major share of industrial production and exports (Gopinath, 2016a). They have distinctive advantages due to their size and they required low investment. They have relatively high capital-labor ratio and they require a minimum gestation period. They try to capture and focus smaller markets; they make sure a more fair distribution of national income. They make possible an effective utilization of capital and skill resources and they motivate the growth of industrial entrepreneurship. The MSME sector in India is vast heterogeneous in terms of the size, variety of product and services and level of technology. This sector is large contributes to the socioeconomic development of the country. 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 (Gopinath, 2016 b). 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. The objective of paper is to find current status of performance of MSMEs in India also to examine the major challenges faced by MSMEs for inclusive growth and to find the opportunities available for development of this sector.

## 2. REVIEW OF LITERATURE

The research is a continuous process. The review of literature seems to be indispensable, as it provides strong feedback to the present study to strengthen research activities. The some of the important provisional research literature covering various dimensions of SSI/MSMEs are presented.

**Singh et al. (2012)** analyzed the performance of medium small micro enterprises 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 SSI units, production and employment levels. This study recommended the emergency of technology development of strengthening financial infrastructure to boost SSI and to achieve growth target.

**Venkatesh and Muthiah (2012)** found that the role of small and medium enterprises (SMEs) in the industrial sector is growing rapidly and they have become a thrust area for future growth. This research emphasized that development of SME sector is necessary for the economic well-being of the nation. Also they focus on it is essential that the entrepreneurs along with government support take necessary steps for future development. The above literature highlights at the various aspects viz. performance, growth and challenges of MSMEs in Indian economy.

**Meeravali *et al.* (2017)** found that though MSME total working enterprises, employment and market value of fixed assets grown at CAGR of 4.39%, 4.75% and 6.64% respectively, the contribution from manufacturing and service sector MSME contribution to GDP is -1.53% and 1.82% respectively. Researchers also suggest that government has to adopt integrated policy, promote skill development to increase productivity and also providing accessible credit through government sponsored agency exclusively to MSME is essential to increase productivity and contribution to economic growth.

**Subrahmanya (2011)** has probed the impact of globalization on the exports potentials of the small enterprises. The study shows that share of SSI export in total export has increased in protection period but remain more or less stagnated during the liberalization period. However, the correlation co-efficient in liberalization period is higher than that of protection period suggesting that the relationship between the total export and SSI export has become stronger in liberalization period. This may be due to the drastic change in composition of SSI export items from traditional to non-traditional and growth in its contribution to total export through trading houses, export houses and subcontracting relation with large enterprises. Thus, the current policy of increasing competitiveness through infusion of improved technology, finance, and marketing techniques should be emphasized.

**Bhavani (2010)** highlights the issue of quality employment generation by the SSIs and negates the short term attitude of increasing the volume of employment generation compromising with quality. The author argues that employment generation by the SSIs may be high in quantitative term but very low in quality. Technological up gradation would enable the small firms to create quality employment improving remuneration, duration and skill. This structural shift may reduce the rate of employment generation in the short run but would ensure high-income employment generation in the long run.

**Bargal *et al.* (2009)** examined the casual relationship among the three variables GDP, SSI output and SSI export and also have compared the performance parameters of SSI's 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-reforms years. There is an absence of any lead-lag casual relationship between exports and production in small scale sector and GDP of Indian economy.

## 3. OBJECTIVES OF THE STUDY

- To evaluate the overall growth and developments in the Micro, Small & Medium Enterprises in India.
- To find key challenges faced by the Micro, Small & Medium Enterprises as well as also to study future prospects of Medium Small Micro Enterprises.
- To examine government initiative to regenerate the Micro, Small & Medium Enterprises.

## 4. RESEARCH METHODOLOGY

The period of the study is 2001-2020 and is based on secondary information. The secondary information's were collected from MSMEs Annual report, Government of India. Different articles and information available in different journals and magazines are also referred for compilation of this paper. This paper examined the importance, contribution and development potential of Micro, Small & Medium Enterprises in India.

## 5. DEFINITIONS OF MICRO, SMALL & MEDIUM ENTERPRISES

Small Scale Industrial Unit (SSIs): As per the Government of India (2000), the small scale undertakings are those which are engaged in manufacturing, processing or preservation of goods and in which the investment in fixed assets, whether held on ownership terms, or on lease or by hire purchase, does not exceeds Rs.1 crore.

Micro Small Medium Enterprise (MSME): Micro, small and medium enterprises as per MSMED Act, 2006 are defined based on their investment in plant and machinery (for manufacturing enterprise) and on equipment for enterprises providing or rendering services. The present ceilings on investment for enterprises to be classified as micro, small and medium enterprises are as follows:

**Table No: 1-**Classification of Manufacturing Enterprises and Service Enterprises

| Classification | Manufacturing Enterprises | Service Enterprises |
|---|---|---|
| Micro | Does not exceed Rs.25 lakh | Does not exceed Rs.10 lakh |
| Small | Rs.25 lakh to Rs.5 crore | Rs.10 lakh to Rs.2 crore |
| Medium | Rs.5 crore to Rs.10 crore | Rs.2 crore to Rs.5 crore |

**Source:** MSME at a Glance, 2020

MSME AT A GLANCE

| S. No. | 2017-18 | | | | 2019-20* |
|---|---|---|---|---|---|
| | **Economic Parameter** | **Registered** | **Unregistered** | **Total** | |
| 1 | **No. of Enterprises (lakh)** | **15.53 (5.94% )** | **245.48 (94.06% )** | **261.01 (100.00% )** | **633.88** |
| | i) Manufacturing Enterprises | 10.35 | 64.18 | 74.53 | ---------- |
| | ii) Service Enterprises | 5.18 | 181.30 | 186.48 | ----------- |
| 2 | **Employment (lakh)** | **92.04** | **502.57** | **594.61** | **1109.89** |
| | i) Manufacturing Enterprises | 79.85 | 224.22 | 304.07 | ----------- |
| | ii) Service Enterprises | 12.19 | 278.35 | 290.54 | ----------- |
| | iii) Male | 73.40 | 412.75 | 486.15 | 844.68 |
| | iv) Female | 18.64 | 89.82 | 108.46 | 264.92 |
| 3 | **Average Employment per Unit (number)** | **5.93** | **2.05** | **2.28** | **1.75** |
| | i) Manufacturing | 7.71 | 3.49 | 4.08 | ------ |
| | ii) Service | 2.35 | 1.54 | 1.56 | -------- |
| 4 | Share in GDP (%) | | | 35.13% | 37.54 |
| 5 | Fixed Investment (Rs. Crore) | | | 5,00,758 | |
| 6 | Employment per Rs. 1 lakh investment in Fixed Investment | | | 0.19 | |
| 7 | **Source of Finance (No. in Lakh)** | **15.5 (6%)** | **245.5 (94%)** | **261 (100%)** | |
| | No Finance/Self Finance | 13.6 (88%) | 228.5 (93%) | 242.1 (93%) | |
| | Institutional Sources | 1.7 (11%) | 11.8 (5%) | 13.5 (5%) | |
| | Non-Institutional Sources | 0.2 (1%) | 5.2 (2%) | 5.4 (2%) | |

**Sources:** Quick Result of 4th All India Census of MSMEs, 2017-18

*Annual Report of Ministry of MSME 2019-20

## 6. GROWTH OF MICRO, SMALL & MEDIUM ENTERPRISES

India has approximately 6.3 crore MSMEs. The number of registered MSMEs grew 18.5% Y-o-Y to reach 25.13 lakh (2.5 million) units in 2020 from 21.21 lakh (2.1 million) units in 2019. The Indian MSMEs sector contributes about 29% towards the GDP through its national and international trade. According to data shared by the MSME Minister in the Rajya Sabha, the registered MSME is dominated by micro enterprises at 22.06 lakh (2.2 million) units in 2020 from 18.70 lakh (1.8 million) units in 2019, while small enterprise units went up from 2.41 lakh (0.24 million) units to 2.95 lakh (0.29 million) units. Midsized businesses only increased from 9,403 units to 10,981 units during this period. MSMEs are being encouraged to market their products on the e-commerce site, especially through Government e-Marketplace (GeM), owned and run by the government, wherefrom Ministries and PSUs (public sector undertakings) source their procurement (Gopinath, 2016 c). The platform has recorded transactions worth Rs. 55,048 crore (US$ 7.5 billion) until September 2020. Domestic business requires a strong financial stimulus with concessional working capital loans to ensure adequate liquidity is maintained in business operations from the government and financial institutes.

### Government Policies

- The Government of India has designed various policies for the growth of MSMEs in the country.
- To provide reliable measures and set benchmark to boost and strength the MSME sector in India, Trans Union CIBIL, in partnership with the Ministry of Statistics & Programme Implementation (MoSPI), launched the MSME Credit Health Index on November 2, 2020.
- In October 2020, the Ministry of MSME in a major initiative on boarded the latest IT tools of Artificial Intelligence (AI) and Machine Learning (ML) for providing assistance and solutions to the Micro, Small, and Medium Enterprises (MSMEs). The ministry has implemented AI & ML on its robust Single Window System 'Champions', which was launched by the Prime Minister Mr. Narendra Modi on June 1, 2020.
- In September 2020, the Government of India constituted five ministerial task forces to make India's MSMEs future-ready and formulate a concrete strategy towards making the country a leading exporter.
- Udyog Aadhaar Memorandum: Udyog Aadhaar Memorandum (UAM) is a one-page online registration system for MSMEs based on self-certification. The information sought is on a self-certification basis and no supporting documents are required at the time of online filing of UAM.
- MSME Data Bank: MSME Data Bank enables the Ministry of MSME to streamline and monitor the schemes and pass on the benefits directly to MSMEs. It is helpful for MSME units that can update their enterprise information as and when required without visiting any government office and updating information about their products/services. Until May 2019, more than 6.1 lakh MSMEs registered in the databank.
- My MSME: In order to facilitate the enterprises to enjoy benefits of various schemes, the MSME office launched a web-based application module in the form of a mobile app called My MSME. This allows enterprises to make their applications and check for schemes on their mobile phone using the app.
- MSME Sampark: Launched in 2018, the MSME Sampark portal is a digital platform wherein jobseekers and recruiters can register themselves for mutual beneficial interactions.

- Digital Payment: As part of the Digital India initiative, the Ministry of MSME has taken numerous initiatives to digitally enable the entire MSME ecosystem all MSME offices have been digitally empowered, efforts have been taken to spread awareness on the benefits of digital mode of payment such as BHIM, UPI and Bharat QR Code.
- To encourage local production, the government is working on policies to increase MSME exports and lower imports. In addition, Rs. 200 crore (US$ 28.4 million) scheme has been sanctioned to set up 12 technology centres, which are expected to be completed by 2021.

## 7. INTRODUCTION TO ENTREPRENEURS

### 7.1 Memorandum (Part II)

As per the provision of the Micro, Small and Medium Development Act (2006), MSMEs file Entrepreneurs Memorandum (Part I) at DICs. After commencement of the project, the entrepreneur concerned files Entrepreneurs Memorandum (Part-II) / [EM-II]. Prior to enactment of the Micro, Small & Medium Enterprises Development Act-2006 there was a system of registration by small scale industrial units to the DICs. Now, filing of EM-II is discretionary for micro, small and medium enterprise engaged in both manufacturing and services. However, it is mandatory for medium scale enterprise engaged in manufacture or production of goods pertaining to any industry specified in the First Schedule of the ID&R Act, 1951.

### 7.2 Distribution of EM-II by Type of Enterprise

Out of the total EM-II filed, distribution among micro, small and medium segments are as mentioned in the following table.

**Table No: 2-**Distribution of EM-II Filed MSMES by Type Of Enterprises

| Year | Micro | Small | Medium | Total |
|---|---|---|---|---|
| 2012-13 | 153110 | 16730 | 467 | 170307 |
| 2013-14 | 170262 | 18792 | 702 | 189756 |
| 2014-15 | 185180 | 23870 | 1409 | 210459 |
| 2015-16 | 205112 | 29125 | 1263 | 235500 |
| 2016-17 | 242539 | 34225 | 2949 | 279713 |
| 2017-18 | 275867 | 41502 | 5449 | 322818 |
| 2018-19 | 296526 | 59127 | 7338 | 362991 |
| 2019-20 | 346206 | 70933 | 8219 | 425358 |
| **Average** | **234350** | **36788** | **3475** | **274613** |
| **CAGR** | **10.74%** | **19.79%** | **43.12%** | **12.12%** |

**Source:** Annual Report, 2019-20 (Ministry of MSME, GoI)

The average growths of Micro, Small and Medium enterprises are 234350, 36788 and 3475 respectively with overall average growth rate of 12.12%. The maximum growth was witnessed by medium scale enterprises is 43.12%. At the year ending 2019-20, there were 234350 micro enterprises with annual growth rate is 10.74%.

When the Micro, Small and Medium Enterprise Act were introduced in 2006, MSME in India always has shown a progressive and positive growth (Gopinath & Kalpana, 2019). If we look in the above graph the total number of Entrepreneur Memorandum – II filed from 2007 to 2015, it's very clear that it is an upward moving trend.

**Table No: 3**-Status of Working MSMES, Employment, Investments and Gross Output in India

| Year | No. of working Enterprise | Employment (in Lakh) | Market Value of FAs (in Crore) | Gross Output (in Crore) |
|---|---|---|---|---|
| 2001-02 | 105.21 | 249.33 | 154349 | 282270 |
| 2002-03 | 109.49 | 260.21 | 162317 | 314850 |
| 2003-04 | 113.95 | 271.42 | 170219 | 364547 |
| 2004-05 | 118.59 | 282.57 | 178699 | 429796 |
| 2005-06 | 123.42 | 294.91 | 188113 | 497842 |
| 2006-07 | 361.76 | 805.23 | 868543.79 | 1351383.45 |
| 2007-08 | 377.37 | 842.23 | 917437.46 | 1435179.26 |
| 2008-09 | 393.7 | 881.14 | 971407.49 | 1524234.83 |
| 2009-10 | 410.82 | 922.19 | 1029331.46 | 1619355.53 |
| 2010-11 | 428.77 | 965.69 | 1094893.42 | 1721553.42 |
| 2011-12 | 447.73 | 1012.59 | 1176939.36 | 1834332.05 |
| 2012-13 | 467.54 | 1,061.40 | 1,268,763.67 | ** |
| 2013-14 | 488.46 | 1,114.29 | 1,363,700.54 | ** |
| 2014-15 | 510.57 | 1,171.32 | 1,471,912.94 | ** |
| **Average** | **318.3842857** | **723.8942857** | **786901.9379** | **1034122.14** |
| **CAGR** | **11.94%** | **11.68%** | **17.48%** | **14.30%** |

**Source:** Annual Report, 2019-20 (Ministry of MSME, GoI)

** Data Not Available

Performance of Micro, Small and Medium (MSME) sector is assessed by conduct of periodic All India Census of the sector. As per the results of Fourth All India Census of MSME, the sector contributes significantly to the number of enterprises, employment and output of the country. Based on the data sets of Fourth All India Census of MSME, augmented with data sets of EC, 2005 and growth rate observed during Fourth (1998) and Fifth (2005) Economic Census, the performance of MSME Sector is summarized as below. It may be noted that the Fourth All India Census of MSME, unregistered sector was assessed by conduct of sample survey of the sector (Gopinath & Meenakshi, 2019). It is clear from the table No. 3 that number of enterprises, employment, investment in fixed assets and gross out of MSME units in India show an increasing trend over the fourteen years. From FY 2006-07, figures includes activities of wholesale/retail trade, legal, education & social services, hotel & restaurants, transports and storage & warehousing (except cold storage) for which data were extracted Economic Census 2005, Central Statistics Office, MOSPI. - Estimated on the basis of per enterprises value obtained from sample survey of unregistered sector for activities wholesale/retail trade, legal, education & social services, hotel & restaurants, transports and storage & warehousing (except cold storage) which were excluded from Fourth All India Census of MSME, unregistered sector. Number of enterprises and employment registered an annual growth rate of 12% approximately Where as the value of fixed assets growth rate of 17% approximately. The last 3 years gross output data is not available so growth rate from 2001 to 2012 is 14% approximately.

**Table No: 4-**Comparative Growth Rate of MSME Sector and Industrial Sector

| Year | Growth Rate of Overall Industry Sector (%) | Growth rate of MSME Sector (%) |
|---|---|---|
| 2000-01 | 5.00 | 8.00 |
| 2001-02 | 2.70 | 6.10 |
| 2002-03 | 5.70 | 8.68 |
| 2003-04 | 7.00 | 9.64 |
| 2004-05 | 8.40 | 10.80 |
| 2005-06 | 8.20 | 12.32 |
| 2006-07 | 11.60 | 12.60 |
| 2007-08 | 8.50 | 13.00 |
| 2008-09 | 12.80 | 10.30 |
| 2009-10 | 10.40 | 6.70 |
| 2010-11 | 7.40 | 4.40 |
| 2011-12 | 7.80 | 4.40 |
| 2012-13 | 6.85 | 5.60 |
| 2013-14 | 6.76 | 9.10 |
| 2014-15 | 6.54 | 8.56 |
| 2015-16 | 6.60 | 7.62 |
| **CAGR** | **1.81%** | **0.45%** |

**Source:** Annual Report of Ministry of MSME

In Table 4 shows that the overall growth of industrial sector and the growth of MSMEs sector during sixteen years. This two sectors shoes moderate to high growth rate during early phase of this period. But early period of last six years growth rate of MSMEs was greater than that of the overall industry growth rate (Gopinath, 2019). And later on it is decreasing. In 2000-01, the growth rate of MSMEs was 8.00 and it declined to 6.10 next year, then it increasing to reach up to 13.00 of period 2007-08. Later, it decreased and fell to a down of 4.4% in 2010-11 then increased up to 9.10.

India needs to create 10 to 15 million job opportunities per annum till 2030 to provide useful employment to its population. In budget 2018-19, the government largely focused on MSMEs as the preferred route for rapid job creation and self-employment. The MSME sector employs over 111 million people and contributes nearly 31% of India's GDP. The total number of enterprises in MSME sector was 46 million with total employment of 106 million. Current MSME employment rate is at 28% of the overall employment. 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.

## 8. PROBLEMS FACED BY MSMES

### 8.1 Absence of Adequate Credit from Banks

The MSMEs are faced more problem of credit from the banks. The loan process of the banks is very lengthy, so much documentation required with high cost processing fee. The banks are not providing adequate amount of loan to the MSME's.

### 8.2 Competition from MNC's

The MSME's is facing the huge competition from the multinational companies. Because of multinational companies are providing quality goods at low price.

### 8.3 Poor Infrastructure

MSME's are developing so rapidly but there is lack of infrastructure facilities. Because of poor infrastructure, their production capacity is very low with production cost is very high.

### 8.4 Unavailability Resources

They are due to non availability of raw materials, work force and other inputs in the market. Therefore it is very difficult to produce the products at affordable prices.

### 8.5 Lack of Advanced Technology

In the MSME's sector, there is a lack of awareness of advanced technologies of production. They are using traditional methods for producing goods.

### 8.6 Lack of Distribution of Marketing Channels

MSME's not adopting innovative ideas for promotion of the products distribution and advertisements. Because of ineffective advertisement and poor marketing channels leads to a very poor selling.

## 9. FUTURE PROSPECTS OF MSMES

### 9.1 Employment Generation

There are large opportunities in the field of manufacturing and service rendering of MSME's. In the field of retail and manufacturing sector, MSMEs are generating different and ample amount of employment.

### 9.2 Focus on Customer Satisfaction

Primarily, MSMEs manufacturing goods focus on test and preferences, liking and disliking of the consumer. But now a day they produce goods according to the needs or expectations of the customers. So the MSMEs can be more customer satisfaction oriented.

### 9.3 Minimization of Regional Imbalance

The MSMEs will utilize the manpower of rural areas so such areas of the nation can equally developed through the running of MSME units in rural areas. So this is helpful to minimize or remove the regional imbalance.

### 9.4 Development of Export

In the international market, there will be a large demand of Indian product like wooden items, other handmade articles etc. So MSMEs have the potential to improve the export of India.

### 9.5 Attraction of Foreign Investment

The Indian MSMEs are the growing sectors and their growth rate and return on investment is satisfactory. This sector can attract foreign investment in India, so their growth rate increasing drastically.

## 10. CONCLUSION

Micro, Small and Medium Enterprises contributes to economic development of India in various ways such as employment generation in rural and urban areas, providing goods and services at affordable costs (Kavitha & Gopinath, 2020). The current Market value of Indian MSMEs is $5 billion. It is estimated that in terms of Market value, the sector accounts for about 45% of the industrial output, 40% of total exports of the country, 45% industrial units, 42 million employment and more than 8000 products in Indian economy. Government of India has taken various initiatives to make this sector more vibrant and significant player in development of the Indian economy. The definition and coverage of the MSME sector was broadened MSME Development Act 2006 which recognized concept of 'enterprise' to include both manufacturing and service sector besides defining medium enterprises setting up a Board for developing policy frameworks and indicating procurement policy. MSMEs are complementary to large industries as ancillary units and this sector contributes significantly in the inclusive industrial development of the country. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets. The setback caused to the MSMEs due to the lockdown initiated as a precautionary measure against COVID-19 and the resultant grievances are to a certain extent being compensated by the COVID-19 Special Package announced by the Honorable FM in May 2020. With the increase in limits of turnover, several MSMEs which were not able to take the benefit will now are able to take advantage of the same.

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