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## A study on role and prospects of micro, small and medium enterprises in India

**Rakesh Rathore and Aditi Mathur**

**Abstract**

Micro, Small and Medium (MSME) enterprises are the valuable industries in India and they are second largest contributor after agriculture in Indian economy. Micro, Small and Medium enterprises play a significant role in Indian economy through creating huge employment opportunities for skilled and semi-skilled people. Approximately they employ 40 per cent work force of the country. The paper focuses on recent policy initiatives and schemes for the MSME in India and role of micro, small and medium enterprises in boosting nation economy. Lack of proper credit or finance, lack of technological knowledge, lack of infrastructure are the major barriers of these industries. This paper helps in identifying constraints faced by industries in recent past and initiative taken by government of India. The sector is classified mainly in three categories, micro investment of below 25 lakh, small investment of 25 lakh to 5 crore and medium investment of 5 to 10 crore as per MSME act, 2006. It is highly vibrant and dynamic sector for youth to start their venture and also helps in balancing the regional imbalance of the country through significant contribution in manufacturing, production and export of the goods. The paper also highlights, how to minimize the hurdles for better performance of MSME industries. The paper is based on the secondary data collected from annual reports of ministry of MSME, different websites, newspapers, various published research papers etc.

**Keywords:** Micro, small and medium enterprises (MSME), Indian economy, entrepreneurship

**Introduction**

The Micro, Small and Medium enterprises in India are catalyst for economic growth of the country. The micro, small and medium enterprises play a key role in the economic development and employment generation in the country. The MSME sector emerged as extremely vibrant segment of the country and play important role in economic regional balance in the country (Kumar *et.al.* 2017) [5]. The number of employment generated by MSME sector was 80.52 million in 2006-07 which is increased to 117.13 million in 2014-15. The annual growth registered in the year 2016-17 was 4.5 to 5.11 per cent. (Garge & Agarwal, 2017) [3]. Micro, Small and Medium enterprises in the country are acting as power and spirit of economic growth for the country (Chandaiah & Vani, 2014) [2]. The small and medium enterprises manufacturing various range of product and also trading diverse range of the product. The MSME provide huge employment to the nation and contribute to the country economy. The most of the enterprises in the country are micro and small growth and expansion of these enterprises increasing in the country because government also providing work related training and skill through the various schemes to funding the micro, small, and medium enterprises in the country. The diversification and expansion of the MSME open the new avenue for the exports of the quality products to the different nation and these will create opportunities for foreign exchange for the boosting country economy.

**Table 1:** Classification of Micro, Small and Medium enterprises in the manufacturing sector

Enterprises	Investment on Plant and Machinery (Manufacturing)
Micro	Does not exceed 25 lakh rupees.
Small	More than 25 lakh rupees but does not go beyond 5 crore rupees.
Medium	More than 5 crore rupees but does not go beyond 10 crore rupees.

(Source: MSME Act, 2006) 0.5 per cent mineral matter. The mineral matter reported to be present in fair amount of calcium, phosphorus, iron, potassium, sodium and iodine.

**Objectives of the study**

1. To study the present status of Micro, Small and Medium enterprises in India
2. To highlight the role, prospects and constraints of Micro, Small and Medium enterprises

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**Review of Literature**

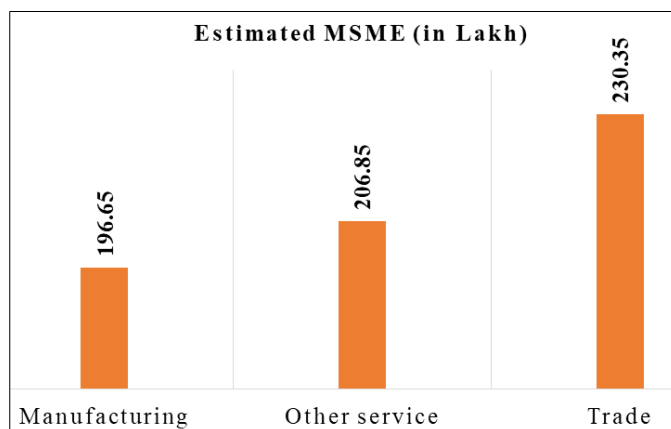
Sonia and Kansai (2009) [10] studied the global effect on Micro, Small, and Medium enterprises of with other country economy from the year 1947 to 2009. The average annual growth rate in pre-liberalization era was higher than post liberalization era. They used economic parameter namely number of unit, employment, production and export performance. A plunge in the growth rate of number of units and employment generation in post liberalization era is a matter of serious concern for the policy-makers and organization. Chandraiah and Vani (2014) [2] concluded that the Micro, Small, Medium enterprises (MSMEs) development act (2006) is the most crucial of the current policy change. The era of liberalization and MSME sector constitute an important segment of the country and these sector grow has quickly over the years. Garge and Agarwal (2017) [3] concluded many factor which influence the performance of the Micro, Small, and medium enterprises in the country includes finance, marketing, human resource, Infrastructure and Technology etc. Katyal and Xaviour (2015) [4] concluded lack of formal human resource training is the constraint in the growth of the MSME in the country. There is need for formal human resource function for making MSME profit oriented unit. Skill training is required for initial handle the human resource function in the MSME. Human resource is one of the most vital growth indicators for organizations today. Saini (2014) [8] concluded that finance is a major problem in the development of micro, small and medium enterprises. In detail many other issues slowing down growth arise due to shortage of finance. Technological up progression becomes a problem only because firms lack enough capital to install new machines, skilled labor can be hired and engaged by giving them higher wages etc. Another problems affects most of the enterprises is marketing. The MSME owner’s initial year struggle to make an image of their entrepreneurial life to gain quality contacts and make their dwelling in the market. Das (2017) [9] revealed non-availability of skilled workforce and better managerial and entrepreneurial capability an affordable cost near the location of enterprises is another such huge challenge for the MSMEs in the country. The major challenges which spoil the growth of MSMEs in our country relate to lack of capital and credit conveniences. Formal and timely access to credit is a vital factor to development and growth of enterprises.

**Methodology**

The paper helps in identifying constraints faced by industries in recent past and initiative taken by government of India for the growth of the enterprises. The paper focuses on recent policy initiatives and schemes of the Micro, Small and Medium enterprise in India and role of micro, small and medium enterprises in boosting nation economy. The paper is based on the secondary data collected from annual reports of ministry of Micro, Small, and Medium enterprises, different websites, newspapers, various published research papers etc.

**Result and Discussion**

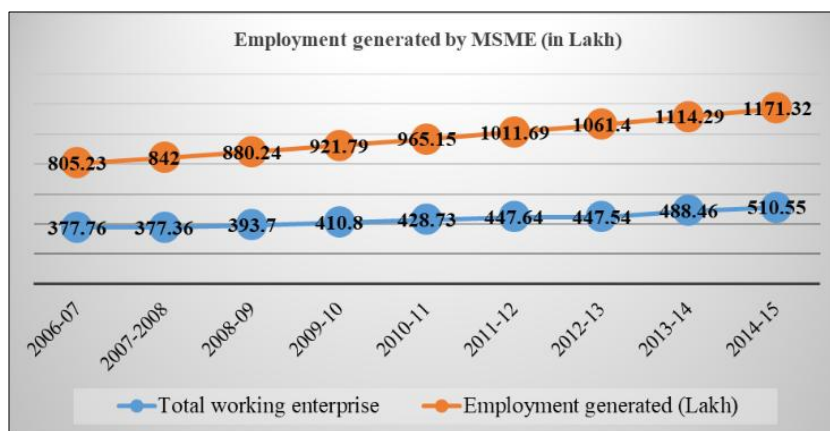
The micro, small and medium enterprises are playing an important role in the nation economy. Highest number of enterprises are micro enterprises in the country in the manufacturing sector. The sector wise estimated number of enterprises are shown in the figure below.



(Source: Anonymous 2017-18)

**Fig 1:** Estimated number of Micro, Small and Medium enterprises in the country

The total number of estimated enterprises in the country is 633.85 lakhs, it includes manufacturing, trade, and other services sector. The figure depict that highest number of enterprises is in trade sector which is 230.35 lakhs followed by 206.86 lakhs in other services sector and 196.65 lakhs in manufacturing sector.

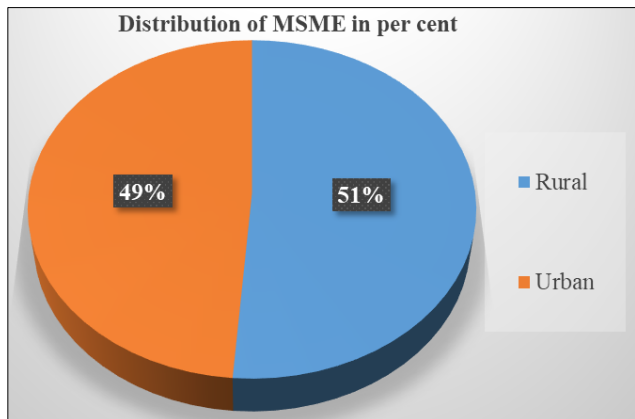


(Source: Annual Report of MSME, Government of India, 2015-16 and Das, 2017)

**Fig 2:** Performance of Micro, Small and Medium enterprises in India

Total MSME was 361.76 lakh in the year 2006-07 and it has increased to 633.88 lakh in the year 2015-16 with the annual compound growth rate 6.43 per cent and total employment

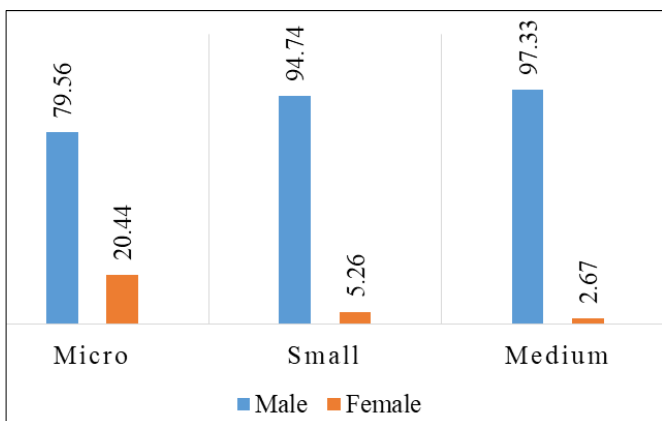
generated by MSME was 805.24 lakh in the year 2006-07 which is increased to more than 1109.89 lakh in the year 2015-16 with the annual compound growth rate 3.63 per cent.



(Source: Annual Report of MSME, Government of India, 2017-18)

Fig 3: Per cent wise share and distribution of SMSE in Rural and Urban in India

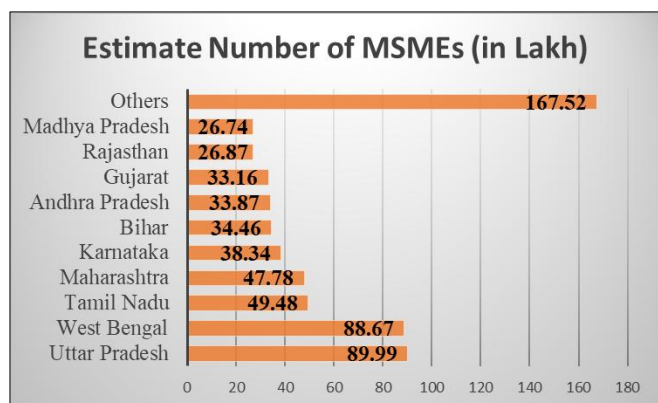
The micro, small and medium enterprises play a significant role in employment generation in the country. Most of the medium enterprises owned by the male owner and micro enterprises by the female owner in the country. The comparative percentage by male and female owners of MSME in the country depicted in the figure below.



(Source: Anonymous 2017-18)

Fig 4: Percentage distribution of Enterprises by Male and Female Owners

Figure 4 depict that 79.56 per cent male and 20.44 per cent female engaged in the micro enterprises, 94.74 per cent male and 5.26 female engaged in the small enterprises, highest number of male which is 97.33 per cent and 2.67 per cent female engaged in the medium enterprises in the country.



(Source: Ministry of Micro, Small, and Medium enterprises report, Government of India)

Fig 5: State-wise distribution of enterprises in the country

Figure 5 depict that states Uttar Pradesh has highest number 89.90 lakh, micro, small and medium enterprises in the country followed by West Bengal 88.67 lakh, Tamil Nadu 49.78 lakh, Maharashtra 47.78 lakh, Karnataka 38.34, Bihar 34.46 lakh, Andhra Pradesh 33.87 lakh, Gujarat 33.16 lakh, Rajasthan 26.87 lakh, Madhya Pradesh 26.74 lakh and others states has 167.52 total number of micro, small and medium enterprises in the country.

**Constraints of MSME sector**

The constraints of MSMEs are limited interaction with technology providers, minimal knowledge about future technologies (Grant Thornton & FICCI, 2011) [7]. Lack of finance and timely non availability of the credit are major obstacle in the growth of the MSME sector. Infrastructural and technological problem emerging as major constraints for the micro and small enterprises. Most of the MSME facing marketing problem for their products. The problem of raw material has assumed an absolute scarcity and poor quality at high cost is causing problem for the MSME sector (Aruna, 2015) [1]. Capital and finance needed for the innovative marketing strategies and packaging of the products. Direct and indirect taxes also affects the working of micro and small enterprises. Lack of skilled labor also major challenge for the sector.

**Prospects of MSME sector in India**

The MSME sector create huge employment in the country, the sector employ around 73 million people in more than 31 million unites. The micro small and medium enterprises sector is key pillar of Indian economy and documented net worth contribution in the Indian economy the sector also reduces the economic regional disparity. The MSME sector contributes around 40 per cent of India’s exports.

**Government initiatives and various schemes for MSME sector**

1. Capital subsidy schemes
2. Cluster development programme
3. National equity fund scheme
4. Laghu Udhmi Credit Card Scheme
5. Credit guarantee fund scheme (Lama, 2013) [6]

**Conclusion**

Micro, Small and Medium enterprises play a significant role in Indian economy through creating huge employment opportunities for skilled and semi-skilled peoples. Approximately they employee 40 per cent work force of the country. The highest number of enterprises is in trade sector which is 230.35 lakhs. The government of India has launched various schemes for the growth and development of the MSME sector. Lack of finance, infrastructural and lack of technology are still challenges for the MSME sectors. It is highly vibrant and dynamic sector for youth to start their venture and also helps in balancing the regional imbalance of the country through significant contribution in manufacturing, production and export of the goods.

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