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## UNDERSTANDING THE SME: ROLE AND DISTRIBUTION IN INDIA

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### ABSTRACT

India's SME sector is a key driver behind its economic growth story. Employing 40% of country's workforce, next only to the agricultural sector -the sector has the potential to spread industrial growth across the country and can be a major partner to help accelerate the process of inclusive growth. Micro, small and medium enterprises, have always served as a model of the socio-economic policies of the Government of India. These enterprises are interchangeably referred to as SMEs or MSEs or SMBs depending upon the category of enterprise and contribution. This sector undoubtedly plays a vital role in the growth and development of Indian economy. Further, this growth has to be sustained since it contributes substantial revenues to the central exchequer. The MSMEs also account for a major share of industrial production, creation of employment and contribution to the GDP. Therefore, it is understood that MSMEs play a crucial role in the growth of the country.

The present study discusses the structure of Micro, Small, and Medium Enterprises in India and deliberates about the role and distribution of elements of type, category, gender and employment in MSME Sector in India.

*Keywords: MSME, SME, Indian Small Business, Micro, Small, and Medium Enterprises*

### 1) INTRODUCTION

Indian Micro, Small, and Medium Enterprises (MSMEs) base are the largest in the world after China. This sector provides a wide range of services and products. It is engaged in the manufacturing of over 6,000 products ranging from traditional to hi-tech items. The government of India's latest 'Make in India' push, along with a significant jump in the FDI flows, the Indian MSMEs sector is poised for rapid growth and integration with major global value chains. In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two Classes.

- **Manufacturing Enterprises:** The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and Regulation Act, 1951) or employing plant and



machinery in the process of value addition to the final product having a distinct name or character or use. Manufacturing Enterprises are defined in terms of investment in plant & machinery.

- **Service Enterprises:** The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

The limit for investment in plant and machinery/equipment for manufacturing/service enterprises are as below (as notified, vide S.O. 1642(E) dtd.29-09-2006).

<b>Manufacturing Sector</b>	
Enterprises	Investment in Plant and Machinery
Micro Enterprises	Does not exceed twenty-five lakh rupees
Small Enterprises	More than twenty-five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
<b>Service Sector</b>	
Enterprises	Investment in Plant and Machinery
Micro Enterprises	Does not exceed ten lakh rupees
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

*Table 1: Limit of investment for manufacturing and service enterprises  
(Source: MSME Annual Report)*

### 1.1 MSME Sector:

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. It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating the largest employment opportunities at comparatively lower capital cost, next only to agriculture. MSMEs are complementary to large industries as ancillary units and this sector contributes significantly in the inclusive industrial development of the country. Micro, Small and Medium Enterprises constitute the backbone of an economy in maintaining an appreciable growth rate and in generating employment opportunities. This sector has been regarded as an engine of economic growth and social development in many developed and developing countries. Contribution of MSMEs to the Indian economy in terms of employment generation, containing regional disparities, fostering equitable economic growth and enhancing the export potential of the country has been quite phenomenal. Despite some infrastructural deficiencies and challenges like the flow of institutional credit and inadequate market linkages, this sector has registered remarkable success with regard to increase in number, the quantum of investment, the scale of production and overall contribution to national GDP. It has demonstrated considerable strength and resilience in maintaining a consistent rate of growth and employment generation during the global



recession and economic slowdown. Indian economy during the recent years has shown an appreciable growth performance by contributing to the creation of livelihood opportunities to millions of people, in enhancing the export potential and in increasing the overall economic growth of the country.

Ministry of Micro, Small & Medium Enterprises (MSME) envisions a progressive sector by promoting growth and development of the Sector, including Khadi, Village and Coir Industries, in cooperation with concerned Ministries, Departments, State Governments and other Stakeholders, through providing support to existing enterprises, adopting innovative technologies and encouraging creation of new enterprises. The government runs various schemes aimed at financial assistance, technology assistance and up-gradation, infrastructure development, skill development and training, enhancing competitiveness and market assistance to enterprises. The primary responsibility of promotion and development of MSMEs is of the State Governments. However, the Government of India supplements efforts of the State Governments through various initiatives.

## 2) REVIEW OF LITERATURE

Sankar, D (2009) in his article has viewed that SME's in India face many challenges, but perhaps none are as difficult as the challenge of financing, both short term and long term.

Majumdar V and K. Krishna (2012) in their paper have stated that since several successful models of the sustainable SME are gradually evolving, networks of SMEs would become essential for addressing the systemic problems underlying the industrial ecology, enterprise resilience, and global supply chain sustainability.

Export-Import Bank of India, (2012) has critically analyzed the present situation of MSMEs and support systems available in India as well as in the global context. It has suggested that MSMEs in India should have access to alternative sources of capital like angel funds/risk capital etc. and that existing laws should effectively address issues like insolvencies/bankruptcies; need to redefine the ceiling limits to encourage MSMEs to move up the value chain and need for cluster development approach to increase the level of competitiveness.

Srinivas K T, (2013) has studied the performance of micro, small and medium enterprises, and their contribution in India's economic growth and concluded that MSMEs play a significant role in inclusive growth of Indian economy.

## 3) METHODOLOGY

- The study involves an analysis of the functioning of micro, small and medium scale enterprises in India. It includes the analysis for Role and Distribution of MSME Sector in India.
- The data is also collected from the published annual reports of Ministry of Micro, Small and Medium Enterprises of India, All India Census of MSME, National Accounts Statistics and Annual Survey of Industries





- The data collection for the study is mostly from secondary sources by way of access to various Government policies/programs including published Annual Reports, Journals, Books and available official websites.

## 4) ANALYSIS AND FINDINGS

### 4.1 Role of MSMEs in Indian Economy:

Micro, Small and Medium Enterprises in India offer a heterogeneous and varied nature of fabric in terms of the size and structure of the units, variety of products and services, the scale of production and application of technology. These enterprises are quite complementary to large-scale industries as ancillary units. They contribute to the socio-economic development of the country quite significantly. The MSMEs in India constitutes about 80% of the total number of industries and produce about 8,000 value-added products.

The Micro, Small & Medium Enterprises (MSMEs) have been contributing significantly to the expansion of entrepreneurial endeavours through business innovations. The MSMEs are widening their domain across sectors of the economy, producing a diverse range of products and services to meet demands of domestic as well as global markets. As per the data available with Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation, the contribution of MSME Sector in country's Gross Value Added (GVA) and Gross Domestic Product (GDP), at current prices for the last five years is as below:

Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (in %)
2011-12	2583263	11.21	8106946	31.86	8736329	29.57
2012-13	2977623	15.27	9202692	32.36	9944013	29.94
2013-14	3343009	12.27	10363153	32.26	11233522	29.76
2014-15	3658196	9.43	11481794	31.86	12445128	29.39
2015-16	3936788	7.62	12458642	31.61	13682035	28.77

(Figures in Rs. Crores adjusted for FISIM3 at current prices)

*Table 2: Contribution of MSMEs in Country's Economy at Current Price  
(Source: Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation)*

The contribution of Manufacturing MSMEs in the country's total Manufacturing GVO (Gross Value of Output) at current prices has also remained consistent at about 33%, i.e. one third during the last five years.

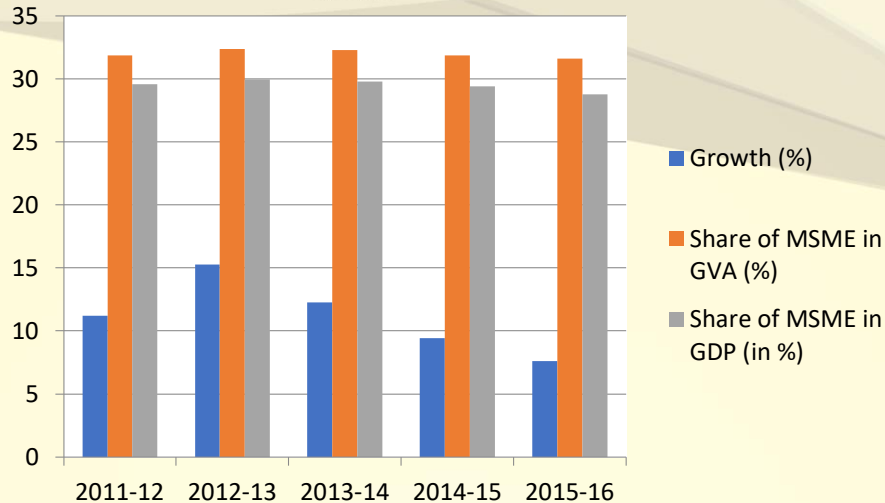


Chart 1: Contribution of SME

The above information indicates that there is a decline in the growth percentage of MSME but the share of MSME in GVA and share of MSME in GDP is almost the same. This is due to the better performance of MSME during the last four years in India.

#### 4.2 Distribution of MSME

As per the survey conducted by the National Sample Survey Office, Ministry of Statistics & Programme Implementation during the period 2015-16, MSMEs in India are engaged in different economic activities as below.

Activity	Number of Enterprises (in lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	114.14	82.50	196.65	31
Trade	108.71	121.64	230.35	36
Services	102.00	104.85	206.85	33
Electricity	0.03	0.01	0.03	0
All	324.88	309.00	633.88	100

Table 3: Type-wise Distribution of MSME

It is observed that 31% of MSMEs were found to be engaged in manufacturing activities, while 36% were in Trade and 33% in Other Services. Again out of 633.88 estimated number of MSMEs, 324.88 lakh MSMEs (51.25%) were in a rural area and 309 lakh MSMEs (48.75%) were in the urban areas.

Sector	Micro	Small	Medium	Total	Share (%)
Rural	324.09	0.78	0.01	324.88	51.00
Urban	306.43	2.53	0.04	309.00	49.00
All	630.52	3.31	0.05	633.88	100.00

Table 4: Category-wise Distribution of MSME

The Micro sector with 630.52 lakh estimated enterprises accounts for more than 99% of the total estimated number of MSMEs. The small sector with 3.31 lakh and Medium sector with 0.05 lakh estimated MSMEs accounts for 0.52% and 0.01% of total estimated MSMEs, respectively.

Sector	Male	Female	All
Rural	77.76	22.24	100
Urban	81.58	18.42	100
All	79.63	20.37	100

Table 5: Gender-wise Distribution of MSME

The male dominance in ownership has been more pronounced for small and medium enterprises with 95% or more enterprises being owned by them, as compared to micro-enterprises where 77.76% were owned by males.

Activity	Employment (in lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	186.56	173.86	360.41	32
Trade	160.64	226.54	387.18	35
Services	150.53	211.69	362.22	33
Electricity	0.06	0.02	0.07	0
All	497.78	612.1	1109.89	100

Table 6: Employment-wise Distribution of MSME

MSME sector has been creating 11.10 crore jobs (360.41 lakh in Manufacturing, 387.18 lakh in Trade and 362.82 lakh in Other Services and 0.07 lakh) in the rural and the urban areas across the country.

State	Number of MSMEs (In lakhs)	Share (In %)
Uttar Pradesh	89.99	14
West Bengal	88.67	14
Tamil Nadu	49.48	8
Maharashtra	47.78	8
Karnataka	38.34	6
Bihar	34.46	5
Andhra Pradesh	33.87	5
Gujarat	33.16	5
Rajasthan	26.87	4
Madhya Pradesh	26.74	4
Other States	164.52	27
All	633.88	100

Table 7: State-wise Distribution of MSME



State of Uttar Pradesh had the largest number of estimated MSMEs with a share of 14.20% of MSMEs in the country. West Bengal comes an as close second with a share of 14% again. The top 10 States together accounted for a share of 74.05% of the total estimated number of MSMEs in the country.

#### 4.3 Bodies in Indian MSME:

- Khadi Village Industries Commission (KVIC):** Khadi & Village Industries Commission (KVIC) established under the Khadi and Village Industries Commission Act, 1956 (61 of 1956), is a statutory organization under the aegis of the Ministry of MSME. The wider objective of creating self-reliance amongst people and building up a strong rural community spirit. Khadi activity is considered as a potential tool for the creation of employment opportunities at the doorstep of rural artisans at very low capital investment. Immediately after independence, Khadi and Village productivity became the grand symbol of nationalism.

Sale of Khadi Products			
Type	2015-16	2016-17	2017-18
Cotton	936.2	1159.2	1258.21
Woolen	256.7	332.1	389.12
Silk	317.1	516.31	703.66

Table 8: Sale of Khadi Products

- Coir Board:** The Coir Board is a statutory body established under the Coir Industry Act, 1953 for promoting the overall development of the coir industry and improvement of the living conditions of the workers engaged in this traditional industry. India is the largest coir producer in the world accounting for more than 80 per cent of the total world production of coir fibre. The coir sector in India is very diverse and involves households, co-operatives, NGOs, manufacturers and exporters.

Export of Coir Products		
Year	Quantity (MTs)	Value (Rs. In Lakh)
2014-15	626666	163033.77
2015-16	752020	190142.52
2016-17	957045	228164.82

Table 9: Export of Coir Products

- National Small Industries Corporation (NSIC):** It is an ISO 9001-2008 certified Government of India Enterprise under Ministry of Micro, Small and Medium Enterprises (MSME). NSIC has been working to promote aid and foster the growth of micro, small and medium enterprises in the country. NSIC is a profit making, dividend-paying company.

Performance of NSIC			
Particulars	2014-15	2015-16	2016-17
Gross Profit Margin	33,577	37,710	36,744





Net Profit before Tax	13,256	15,695	16,507
Net Profit after tax	8,860	10,146	10,640

Table 10: Financial Performance of NSIC

- **Mahatma Gandhi Institute for Rural Industrialization (MGIRD):** The main objectives of the institute are to accelerate rural industrialization for sustainable village economy so that KVI sector and co-exists with the mainstream and empower traditional artisans.
- **National Institute for MSMEs (NIMSME):** It was originally set up as Central Industrial Extension Training Institute (CIETI) in New Delhi in 1960 under the then Ministry of Industry and Commerce, Government of India. The Institute was shifted to Hyderabad in 1962 as a registered society in the name of Small Industry Extension Training Institute (SIET). After the enactment of the MSMED Act, 2006, the Institute expanded the focus of its objectives and re-designed its organization structure. In line with the new Act, the Institute was rechristened as National Institute for Micro, Small and Medium Enterprises (NIMSME). It is currently an organization under the aegis of the Ministry of Micro, Small and Medium Enterprises (formerly Ministry of SSI & ARI), Government of India. The primary objective of NIMSME was to be the trainer of trainers. Today, with the technological development and ever-changing market scenario, the organization's involvement has undergone changes too. From being merely trainers, NIMSME has widened its scope of activities of consultancy, research, extension and information services.

## 5) SUGGESTIONS

- Institutional finance and credit from banks and other financing institutions should be promptly available without long and cumbersome procedures.
- Deficiencies in basic infrastructural facilities like water, power supply, road/rail and telephone connectivity, etc. should be addressed on a priority basis.
- A cluster-centric or cluster development approach should be adopted for a number of enterprises working in closer proximity.
- Government is already providing different types of concessions and subsidies to women entrepreneurs. The potential women entrepreneurs should be identified and steps should be taken to commence viable units by female entrepreneurs.
- Regular trade fairs and exhibitions etc. should be conducted for the creation of a larger platform for better marketing facilities. There should be an enhancement of budget and increased scope under MDA/MAI schemes. SMEs should be given greater assistance to focus on brand building and provide opportunities to display their products at trade fairs.
- Initiatives should be taken for skills and competency development of human resources.
- MSMEs today need to adopt and adhere to quality parameters of international standards in the context of a globalized market.
- There should be an effective amendment of labour laws to enable more overtime hours for employees. It should also offer opportunities for more women employment and ensure safety for women to work in night shifts.



- Industry-friendly policies should be initiated by the government for promoting infrastructural support facilities and for easy availability of finance by the scheduled banks.
- There should be a new corporate/income tax regime for MSME exporters, incorporate a different ECGC policy for MSMEs to reduce costs. Bring in efforts to remove service tax on the conversion of export proceeds remittances and other issues, which will reduce transaction costs in exports.

## 6) CONCLUSION

MSME is the backbone of any economy and It offers good employment opportunities, nurture the locally available entrepreneurial skills, help in balanced growth and improve overall economic conditions. The performance of the MSME sector has shown steady growth during the past few years. A major threat before MSMEs is globalization. Among service units, marketing and environmental problems play a crucial role. Availability of vast natural resources and labour is a great boon for the promotion of entrepreneurs in India. MSMEs in the developing and needs support and handholding from the government with policies, schemes and funding.

MSMEs over the years have assumed greater significance in our burgeoning national economy by contributing to employment generation and rural industrialization. This sector possesses enough potential and possibilities to pushbutton accelerated industrial growth in our developing economy and well poised to support a national programme like 'Make in India'. This sector has exhibited enough resilience to sustain itself on the strength of our traditional skills and expertise and by infusion of new technologies, capital and innovative marketing strategies. Appropriate strategies should be evolved for creation of an enabling ecosystem where these enterprises are able to access the benefits meant for them under a formal and friendly ecosystem and are further capable of meeting the emerging challenges of a globally competitive order.

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