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## Tracking the growth story of MSMEs in India

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### Abstract

The MSMEs in India have been a very integral part of the economy. The sector employs a commendable population segment and the contribution to the GDP is very significant. The Government from time-to-time has revived the policy framework in respect of the MSME sector. The financial and non-financial assistance is provided to ease out the functioning of the MSME units. The present study tracks the growth story of the MSME in India.

**Keywords:** MSME, regulation, amendment

### Introduction

One of the key elements for the economic development of a country lies in the development of its commercial region. India has taken a long journey to being one of the fastest developing economies in the world since it is ruled by many countries. Although our country got her independence in 1947, India announced its first industrial policy in the year 1948 and additionally established the planning commission in 1951 with the introduction of the first five year Plan. The Industries Development and Regulation Act of 1951 furnished the primary framework of post-independence.

The industrial growth and development is not only indispensable but also an important part of the economy and our country witnessed it since then. In order to encourage the growth and development of MSME efficiency each new government taking more effort to frame policies and programs which not only nurture the development but also protect the entrepreneur risk. Acknowledging the above statement, MSME supports with many amendments from time to time in the form of reservation policy, technological upgradation, fiscal and marketing assistance and revision of investment ceiling and so on.

Most of the MSME have the potential to generate more employment with less capital and also can disperse its industries in all regions. Earlier the SSI divided into three categories namely small scale industry, cottage and tiny industry and agro-based industry. In order to regulate these industries two separate ministries were established, namely, the Ministry of small scale Industries and the Ministry of Agro and Rural industries which were constructed to handle all the affairs of these sectors. Over the time period, the operational definition of the MSME has passed through some of modifications. Faced with improved competition from it larger compatriots and additionally preserving in mind the dynamic nature of the sector, the investment ceiling has been revised from time to time. This change is depicted in detail in Table 1.

### MSME: Game changer in 12th five year plan

The Working Group on Micro Small and Medium Enterprises (MSMEs) growth for 12th Five Year proclaims the MSME sector as the foundation of overall manufacturing sector. It has identified six game changers or umbrellas schemes, implementation of which is crucial for boosting the MSME sector and makes it competitive in the global market. The following table provides for vertical wise proposed allocation for 12th Five Year Plan as well as the recommendations:

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**Table 1:** Changes in Definition of MSMEs in India

Year	Investment Limit	Employment Criterion
1955	Upto Rs.5 lakhs in fixed assets	Less than 50 if using power and up to 100 without power
1960	Upto Rs.5 lakhs in fixed assets	Nil Specification
1966	Upto Rs.7.5 lakhs in plant and machinery for SSI unit and Rs.10 lakhs for ancillary units	Nil Specification
1975	Upto Rs 7.5 lakhs for SSI units and Rs.15 lakh for ancillary units	Nil Specification
1980	Upto Rs.20 lakhs for SSI units and Rs.25 lakhs for ancillary units	Nil Specification
1985	Upto Rs.35 lakhs for SSI units and Rs.45 lakhs for ancillary units	Nil Specification
1991	Upto Rs.60 lakhs for SSI units and Rs.75 lakhs for ancillary units	Nil Specification
1997	Upto Rs 3 crore in plant and machinery for both SSI and ancillary units	Nil Specification
1999	Upto Rs.1 crore in plant and machinery for both SSI and ancillary units	Nil Specification
2003-04	Upto Rs. 1 crore to Rs.5 crore in plant and machinery	Nil Specification
2004-05	Upto Rs.5 crore in plant and machinery	Nil Specification

(Source: Industries (Development and Regulation) Act, 1951 and Reserve Bank of India A prime change came in 2006 with the enactment of MSME Development Act, 2006)

**Table 2:** 12th Five Year Plan

Vertical	Projected BE for 12 <sup>th</sup> plan (Rs in Bn)	Umbrella Schemes
Credit and Finance	195	Operationalisation of SME exchanges for enabling access to equity finance.
Technology up gradation	95	Scheme for acquisition and up- graduation of technology.
Infrastructure Development	114	Developing clusters of excellence. Setting up of 100 tool rooms and process and products development centers.
Marketing and Procurement	21	Business to business international portal Enabling global. Foot prints of MSMEs Leveraging defense offset policies in favor of MSMEs.
Skills development and Training	36	Revamped skill developments and capacity building programme. Encouraging young/ first generation entrepreneurs by up scaling PMEGP and other programmes.
Institutional Structure	31	Strengthening of institutions- MSMED is, EDIs and KVI Institutions. Application of E-tools in promotional and regulatory matters for facilitating easy entry. Real time statistical and policy analysis through strengthening of database.
Total	492	

(Source: Working Group of 12th Five Year Plan)

**Current definition of MSME**

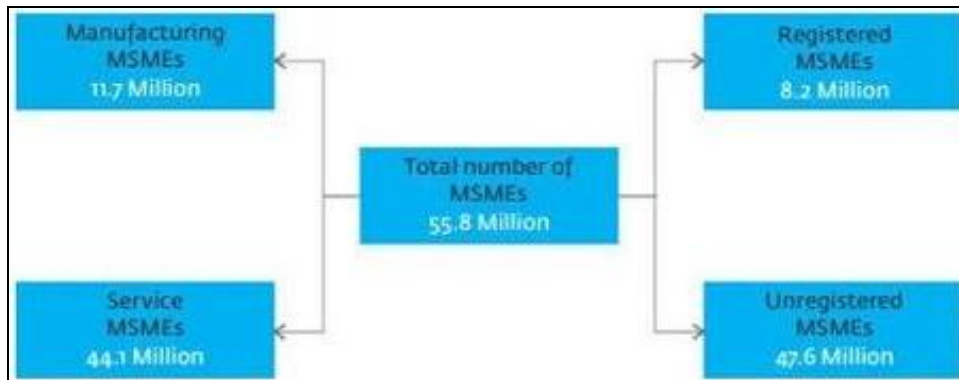
The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 in terms of which the definition of micro, small and medium enterprises is as under:

Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:

- A microenterprise is an enterprise where investment in plant and machinery does not exceed Rs. 25 lakh;

- A small enterprise is an enterprise where the investment in plant and machinery is more than Rs. 25 lakh but does not exceed Rs. 5 crore;
- A medium enterprise is an enterprise where the investment in plant and machinery is more than Rs.5 crore but does not exceed Rs.10 crore

**Classification of Msme Sector**



Source: MSME Annual report

**Fig 1:** Broad Classification of the MSMEs in India

**As per MSME Act-2006, The MSMEs are classified into two categories**

- **Manufacturing Enterprises:** The enterprises engaged in the manufacture or production of goods or employing plant and machinery in the process of value addition to

the final product having a distinct name or character or use.

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

**Revival of sick MSMES: Role of banks**

The evaluation of banks, while considering sick enterprises for revival, is very often influenced by a conflict of interest, as stakeholders. The number of units deemed potentially viable as a percent of the total number of sick enterprises is extremely low. The figure is 12.1 percent for March 2012 of which 7.8 percent were put under nursing, which came down

to 5.1 percent sick units in March 2013, and further only 1.8 percent were put under nursing. This might be a result of banks preferring not to extend aid towards the uncertain area of sick micro enterprises. This is in sharp contrast to the corporates whose loan portfolios are routinely rescheduled. The nursing process, largely similar for most banks, can be documented as follows:

**Table 3: Stages in the Nursing Process of Sick MSMES**

So. No.	Nature of concession	Medium enterprises	Micro and small Enterprises
		1.	Interest on fresh and existing (renewed) working capital
2.	Interest on existing Term Loan	Reduction by a maximum of 2% from the applicable rate	Reduction by a maximum of 2% (3% for Micro Enterprises) from the applicable rate.
3.	Interest on fresh Rehabilitation Term Loan (RTL). (For Small manufacturing units for startup expenses and margin for working capital).	Prevailing BPLR or 1% below the applicable rate whichever is lower.	1.5% below the prevailing BPLR or 1.5% below the applicable rate or as prescribed by SIDBI/NABARD where refinance is obtained, whichever is the least.
4.	Interest on Contingency Loan Assistance to meet escalations in capital expenditure under the rehabilitation scheme.	Not applicable.	At the concessional rate allowed for working capital assistance.
5.	Interest on Working Capital Term Loan (WCTL).	1% below the prevailing BPLR or 1% below the applicable rate whichever is lower.	1.5% to 3% below the prevailing BPLR or 1% to 2% below the applicable rate whichever is lower.
6.	Interest on Funded Interest Term Loan (FITL).	2% below the prevailing BPLR or 1% below the applicable rate whichever is lower.	NIL for a period of three years at the discretion of the bank.
7.	Repayment period for Funded Interest Term Loan.	Normally 3 to 5 years (Can be prolonged to 6 to 7 years in exceptional cases). As far as possible should get precedence over, or is spread over a shorter duration than the repayment of institutional loans.	To be repaid within 3 years from the date of commencement of implementation of rehabilitation Programme.
8.	Repayment period for Funded Term Loan (FTL).	The repayment period for restructured debts may extend up to a maximum period of 10 years, but the interest concession will be available only for a period of 7 years being the outer limit for rehabilitation.	Should not normally exceed 7 years from the date of restructuring and 15 years from the date of first disbursement of original loan. For Micro Enterprises, the said period may be 5 and 7 years respectively. Staggered or ballooning repayment may also be permitted so that the instalments are aligned to the cash flows.
9.	Repayment period for Working Capital Term Loan (WCTL).	- do -	- do -
10.	Waiver of Penal Interest	Waiver of Penal Interest from the beginning of the accounting year in which the unit started incurring cash losses continuously.	Waiver of Penal Interest from the date of account becoming NPA or started incurring cash losses whichever is earlier.

(Source: Amit Chandra & Vrinda Pareek (2014) Regulatory Barriers to Micro, Small and Medium Enterprises. Centre for Civil Society)

Regardless, since a low percentage of micro enterprises obtain loans through formal sources such as banks, the facilities extended towards the revival of such sick units very often do not impact the most vulnerable section of the segment.

The development of the government policy frame work and support measures can be broadly grouped into three periods which are as follows:

**1948-1991:** During this period recognition was given to the micro and small enterprises and they were considered as an effective tool to expand and generate employment opportunities, facilitate effective mobilization of skills and resources of private sector and help to ensure equitable distribution of national income, in all the policy resolutions of the government. The Micro, Small and Medium Enterprises (herein referred to as MSMES) Development Organisation earlier termed as Small Industries Development Organisation (SIDO) was set up in 1954 as an apex body for sustained and organised growth of micro, small and medium enterprises. Within the next two years, the National Small

Industries Corporation, the Khadi and Village Industries Commission and the Coir Board were also set up. The era provided supportive measures that were required to nurture MSEs, in the form of reservation of items for their exclusive manufacture, access to bank credit on priority through the Priority Sector Lending Programme of commercial bank, excise exemption, reservation under the Government Purchase Programme and price preference in purchases, infrastructure development and establishment of institute for entrepreneurial Service and Institute for entrepreneurial and skill development. MSME- Development Institute earlier known as Small Industries Service Institutes (SISI) were set up all over India to train youth in skill/ entrepreneurship and tool Rooms were established with German and Danish assistance for providing technical service essential to MSEs as also for skill-training. At the state level, District Industries Centers (DICs) were set up all over the country.

**1991-1999:** From August 1991 under the new policy for small, Tiny and Village Enterprises framework for government support was laid in the context of liberalisation,

which sought to replace protection with competitiveness in order to bring about more vitality and growth to MSEs in the face of foreign competition and open market. Supportive measures concentrated on improving infrastructure, technology and quality. Testing Centers were set up for quality certification and new tool Rooms as well as Sub-Contracting Exchange were also established. The Small Industries Development and Modernisation Fund were created to accelerate finance and technical service to the sector. A Delayed Payment Act was enacted to facilitate prompt payment of dues to MSEs and an Industries Infrastructure Development (IID) scheme was launched to set-up a mini industrial estate for small industries.

**1999 onwards:** From the year 1999 onwards the ministry MSME earlier known as Ministry of Small Scale Industries and Agro & Rural Industries (SSI & ARI) came into being to provide specific attention to the promotion and development of the sector. The new Policy Package announced in August 2000 sought to address the persisting problems relating to credit, infrastructure, and technology and marketing more effectively. A Credit Linked Capital Subsidy Scheme was launched to encourage technology upgradation in the MSE sector and a Credit Guarantee Scheme was started to provide collateral free loans to micro and small entrepreneurs, particularly, the first generation entrepreneurs.

The exemption limit for relief from payment of Central Excise duty was also increased and a Market Development Assistance Scheme for MSEs was introduced. At the same time, consultations were on with stakeholders and the list of products reserved for production in the MSE sector was gradually reduced each year. In 2006, the long awaited enactment for this sector finally became a reality with the passage of the Micro, Small Medium Enterprises Act 2006. In March 2007, a third Package for the Promotion of Micro and Small Enterprises was announced which comprises the proposals/schemes having direct impact on the promotion and development of the micro and small enterprises, particularly in view of the fast changing economic environment, wherein to be competitive is the key to success.

### Review of Literature

Rakesh (2014) <sup>[3]</sup> opines that in the last decade many changes have taken place in the world economy and especially in the corporate environment. The business environment today is turbulent and laced with uncertainty which is continuously changing and is full of opportunities and challenges. Particularly Small and Medium Enterprises (SMEs) faces unique challenges in the business environment. SMEs are necessitating changing their practices, technologies and they have to identify the opportunities at the right time and face them with right strategy for the sustainment. In the current scenario, it becomes difficult to the SMEs to sustain and survive unless the costs are correctly accounted for,

controlled and reduced so as to sustain and remain in the competitive world. The business environment has gone through rapid transformation. The changes in the business environment can be analyzed from two dimensions viz, Internal and External. The external environmental factors are largely beyond the control of an organization its success will depend to a very large extent on its adaptability to the environment.

Rupali Sharma and Zia Afroz (2014) <sup>[4]</sup> finds that Micro, Small and Medium Enterprises (MSMEs) play a catalytic role in the development process of most economies of any country. Similarly, MSMEs form the backbone of the Indian economy and have become engine of economic growth in India. Today, MSME occupies a very important position in Indian Economy System due to its very significant and important contribution in terms of output, exports and employment. The MSMEs are the biggest employment provider after agriculture, providing employment to nearly 32 million people. This paper closely analyses the growth and development of the Indian MSME sector since opening of the economy in 1991. It also looks into the present scenario of MSMEs and the challenges they face like lending, marketing, and license raj issues.

### Overview of Indian MSME

Over last 5 decades MSME sector emerged as extremely effervescent and vigorous segment of Indian economy. MSME plays dual role of providing employment and industrialization of rural/backward areas, thereby reducing regional imbalance and equitable distribution of national income. MSME's are harmonizing to large industries as supplementary units, which adds to socio economic development. It consists of 36 million units, providing employment over 80 million persons with 8% contribution to GDP.

### Leading industries of MSME sector (as per 2014-15 MSME report)

- Retail trade (except of motor vehicle & motor cycles) and Repairs of personal and household goods – 39.85%
- Manufacturing of wearing apparels- 8.75%
- Manufacturers of foods and beverages-6.94%
- Other services activities -6.2%, other business activities – 3.77%
- Hotels and restuarents-3.64%
- Sales maintenance of motor vehicles and cycles – 3.57%
- Furniture manufacturing -3.21%, Textile -2.33%
- Fabricated metals except machinery and equipment- 2.33% and others 19.4%. According to India MSME report 2014, three sub sectors demonstrates promising picture: food processing- high potential because of agro linkage, textiles-innovation, and electronics- linkage with ITES.

**Table 4:** Contribution of MSMEs in Country's Economy at Current Price

Year	MSME Gross Value Added	Growth (%)	Total Gross Value Added	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (in %)
2011-12	2622574	–	8106946	32.35	8736329	30
2012-13	3020528	15.17	9202692	32.82	9944013	30.40
2013-14	3389922	12.23	10363153	32.71	11233522	30.20
2014-15	3704956	9.29	11504279	32.21	12467959	29.70

(Source: Central Statistics Office (CSO), Ministry of Statistics & Program Implementation)

**Problems faced by MSMEs in Indian economy**

The small and medium scale enterprises are suffered with many severe problems, which are mainly depending on the

level of economic and social development of the country. India as a developing country is not an exceptional one to the above condition.

**Table 5:** Internal and External Problems of MSMEs

Problems	External	Internal
Finance	Non availability of finance Excessive collateral security	High cost of borrowings Inadequate finance promoters contribution Recovery from debtors Low
Managerial	Locational disadvantage Government price controls.	Lack of technical know-how Absence of long term planning Lack of management skills
Marketing	Market saturation. Weak market demand Competitive environment of market	Lack of sales promotion Limited local market Price of the product is high Dependency on large scale industries Lack of marketing research
Raw material	Raw material not available Imports are difficult	Raw material not available Imports are difficult
Technological	Delay in delivery of machines	Obsolete Plant and Machinery Poor capacity utilization. Inadequate maintenance Transport bottleneck
Labour	Unavailability of skilled Labour	Labour Absenteeism / turnover High rates of wages / salaries Inefficient handling of labour problems

(Source: Dr. Mateen Ahmed Siddiqui. (April 2015). Engines of Growth - A Study of the Growth and Performance of Indian MSMEs in the Present Scenario. International Journal Of Core Engineering & Management (IJCEM), Volume 2, Issue 1 pp 44-59.)

In addition to the above mentioned problems connected with MSMEs, the following are an inclusive list of the problems faced by them.

- Difficulties in obtaining credit, competing with imported products, identifying appropriate technology & technical assistance, investment promotion and maladjusted project preparation and evaluation.
- Inability to offer liberal credit terms in the sale of their products, obscene of management expertise, under capitalization and bureaucratic red tapism and regulations.
- Lack of industrial training & skill formation, quality control & testing facilities, proper market promotion both domestic & export, scientific & industrial research, lack of management & reorganization of small & medium scale enterprises through various schemes and productivity increase through modernization. Thus, MSMEs are facing multi-dimensional problems. However, this sector in India has been confronted with an increasingly competitive environment due to:
  1. Liberalization Of The Investment Regime In The 1990s, Favoring Foreign Direct Investment At The International Level, Particularly In Socialistic And Developing Countries;
  2. The formation of the World Trade Organizations (WTO) in 1995, forcing its member- countries (including India) to drastically scale down quantitative and on quantitative restrictions on imports, and
  3. Domestic economic reforms.

The cumulative impact of all these developments is a remarkable transformation of the economic environment in which MSMEs operate, implying that this sector has no option but to 'compete'

**Conclusion**

MSMEs are the backbone of a resilient national economy. Prioritising their development is critical to the future of the country. The government has come out with a variety of enabling mechanisms over the last few years. India needs more such measures, especially in the current environment. The next decade will be the metamorphosis of India from an emerging power to an established economic powerhouse and

MSMEs will be an important cog in the wheel on this journey.

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