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Government support mechanism and MSME growth: an assessment of support mechanisms and their impact

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Abstract

Micro, Small, and Medium Enterprises (MSMEs) in India are pivotal to the nation's economic framework, accounting for a substantial share of industrial output and employment. MSMEs are classified into three categories: Micro enterprises, small enterprises, and medium enterprises, each defined by specific investment limits and turnover thresholds. These enterprises play a crucial role in promoting economic inclusivity and regional development, bridging gaps between large corporations and informal sectors. The present article is an analytical study of the performance of the MSMEs in the economic development and the support mechanism therefrom the Government.

Keywords: Small enterprises, schemes, alleviation

Introduction

Micro, Small and medium enterprises are an integral part of the economy. The Micro, Small and Medium Enterprises (MSMEs) have often been termed as 'engine of growth' for all developing countries including India. They provide employment opportunities to the weakest and poorest strata of the society, giving them a way out of the perpetual poverty that they seem doomed to. MSMEs are providing immediate large-scale employment, with lower investments and prove to be a second largest manpower employer, after agriculture and occupy a position of prominence in the economy. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural and backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth.

As per the Report of the Working Group on Micro, Small and Medium Enterprises (MSMEs) Growth for 12th Five Year Plan (2012-2017), the sector accounts 45 percent of the manufacturing output and 40 percent of total exports of the country. The sector provides employment to about 80 million persons through 36 million enterprises throughout the country. Over 6000 products ranging from traditional to high-tech items are being manufactured by the MSMEs in the country. The labour to capital ratio in MSMEs and the overall growth in the sector is much higher than in the large industries. The geographic distribution of the MSMEs is also more even. Thus, MSMEs are important for the national objectives of growth with equity and inclusion.

Overview of the Sector

The Indian economy thrives through the process of creation of enterprises. The MSMEs have been contributing to expansion of entrepreneurial culture through business innovations. The MSMEs are widely dispersed across sectors of the economy, producing diverse range of products and services to meet demands of local as well as global markets. The contribution of MSMEs in GDP is 6%, 33% in manufacturing sector and 45% in exports. It shows the valuable contribution that the MSME sector is making in the economy, both in terms of manufacturing and services.

Table 1: Share of MSME sector in GDP and total Manufacturing Output

Manufacturing Output at current price			Share of MSME GVA\GDP at constant price for base year 2011-12 (%)					
Year	MSME Manufacturing Output (Rs. In crore)	Share of MSME Manufacturing Output in total manufacturing Output (%)	MSME Manufacturing Sector		MSME Services Sector		Total	
			In GVA	In GDP	In GVA	In GDP	In GVA	In GDP
2011-12	2167110	33.12	6.64	6.16	25.66	23.81	32.29	29.97
2012-13	2385248	33.22	6.77	6.27	26.05	24.13	32.89	30.40
2013-14	2653329	33.27	6.79	6.27	26.40	24.37	33.19	30.64
2014-15	2783433	33.40	6.63	6.11	26.72	24.63	33.34	30.74

(Source: Annual Report 2016-17, Ministry of MSMEs, Government of India)

Current Definition of MSME

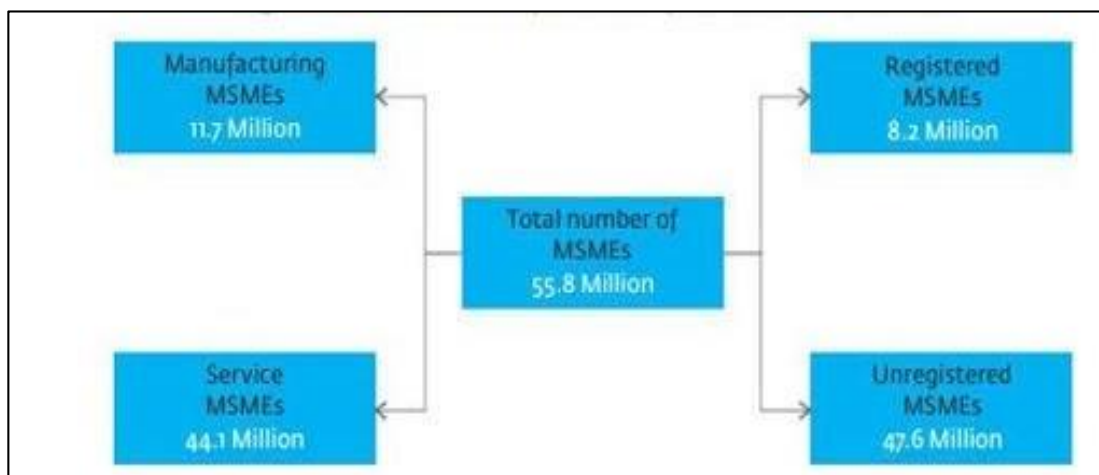
The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 in terms of which the definition of micro, small and medium enterprises is as under:

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

Original Definition of MSMES (As Per Msmmed Act 2006)

The guidelines with regard to investment in plant and machinery or equipment as defined in the MSMED Act, 2006 are:

Table 1: The guidelines with regard to investment in plant and machinery or equipment as defined in the MSMED Act, 2006 are:

Nature of activity of the Enterprise	Investment in plant and machinery excluding land and building for enterprises engaged in manufacturing or production, processing or preservation of goods	Investment in equipment excluding land and building for enterprises engaged in providing or rendering of services (loans up to Rs 1 crore)
Micro	Not exceeding Rs.25.00 Lakhs	Not exceeding Rs.10.00 Lakhs
Small	More than Rs.25.00 lakhs but does not exceed Rs.500.00 lakhs	More than Rs.10.00 lakhs but does not exceed Rs.200.00 lakhs
Medium	More than Rs.500.00 lakhs but does not exceed Rs.1000.00 lakhs	More than Rs.200.00 lakhs but does not exceed Rs.500.00 lakhs

(Note: The investment in plant and machinery is the original cost excluding land and building and other items specified by the Ministry of Small Scale Industries vide its notification no. S.O. 1722 (E) dated 05.10.2006.)

The micro, small and medium enterprises sector in India, just like the population, is second only to China. In financial year 2016, the total number of MSMEs in the country was more than 63 million. The majority comprised of micro enterprises, with a higher number in rural areas than urban parts of the country. More often than not, these were run by the owners with little or no support and revenue earnings as a priority.

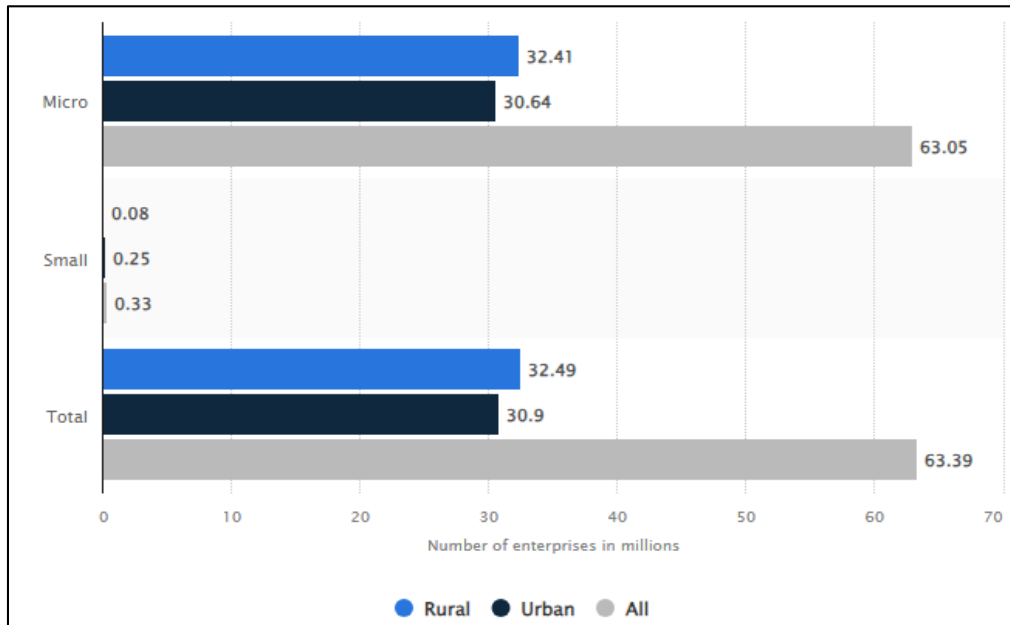
Significance of MSMEs

MSMEs are vital for the economy in terms of their contribution to the market and generation of employment in the country. The manufacturing output of MSMEs was close to 30 trillion Indian rupees during financial year 2015. The output from the enterprises also accounted for an almost 31 percent contribution to the GDP in the same financial year.

A Glance at the Enterprises

Between the two sectors, the dominant hand is laid by the service sector, which had an employment figure of approximately 50 million, whereas the manufacturing sector could only pull off half that number. Most of the employment comes from unregistered enterprises, with hesitations and avoidance of the difficult registration

process quite evident. The saying “small things make the largest impact” holds true for MSMEs in India where small enterprises had a fixed asset value of over two trillion Indian rupees. With more infrastructural input and a simplified process of registration and receiving benefits from the government, MSMEs in the country are destined to go a long way.



(Source: www.statistica.com)

Fig 2: Number of micro, small and medium enterprises across India in financial year 2016, by type (in millions)

Table 2: Distribution of Micro, Small & Medium in Rural and Urban Areas (in Lakhs)

Sector	Micro	Small	Medium	Total	Share (%)
Rural	324.09	0.78	0.01	324.88	51
Urban	(99.76) 324.88	(0.24) 2.53	0.01 0.04	(100.00) 309	49
Total	(99.17) 630.52 (99.47)	(0.82) 3.31 (0.52)	(0.12) 0.05 (0.01)	(100.00) 633.88 (100.00)	100

Source: MSMEs Annual Report 2017-18

The total number of Micro units in both rural and urban areas is 630 lakh units, followed by small units 3.31 lakh units and Medium units 0.05 lakh units respectively with 51 percent share in rural area and 49 percent share in urban area.

Review of Literature

Jyoti Sharma *et al.* (2016) [11] opines that the Micro, Small, and Medium Enterprise (MSME) sector is globally acknowledged as a key driver of economic growth. MSMEs significantly contribute to economic development, balanced regional progress, job creation, and poverty reduction through the mobilization of capital and entrepreneurial skills. In India, the MSME sector is a crucial pillar of the economy, playing a vital role in its growth and serving as a key mechanism for achieving inclusive development. This paper examines the impact of MSMEs on the growth of the Indian economy and assesses their current status in the country.

Rupali Sharma *et al.* (2014) [12] contend that Micro, Small, and Medium Enterprises (MSMEs) are essential to economic development worldwide and serve as a foundational element of the Indian economy. In India, MSMEs are pivotal, significantly impacting output, exports, and employment. They are the largest employment sector after agriculture, supporting around 32 million individuals.

This paper explores the evolution of the Indian MSME sector since the 1991 economic reforms, assessing its growth and current status. It also delves into the challenges faced by MSMEs, including difficulties in financing, marketing, and navigating regulatory obstacles.

Sudarsana Murthy (2016) [2] propound that While India gained political independence on August 15, 1947, it encountered considerable challenges in achieving economic freedom, particularly in addressing poverty and unemployment. In the early 1960s, the Small-Scale Sector was identified as a crucial tool for generating employment. By the end of the decade, views on this sector evolved to recognize it not just as an employment source, but also as a potent way to tap into previously untapped entrepreneurial potential. Over the past fifty years, the Micro, Small, and Medium Enterprises (MSME) sector has grown into a dynamic and essential part of the Indian economy (D.Sudarsana Murthy, 2016) [2].

Sources of Data

The present study relies primarily on secondary data sourced from the Annual Reports published by the Ministry of Micro, Small, and Medium Enterprises. Additionally, data have been gathered from various articles and journals, aligning with the study's objectives.

An Overview of the Progress of MSMEs in India

Table 3: Number of Entrepreneurs Memorandum-II filed by MSMEs at DICs under Various State/UT Commission rates/Directorates of Industries during 2007-08 to 2014-15

Year	No. of Entrepreneurs (in Lacs)
2007-08	1.73
2008-09	1.93
2009-10	2.13
2010-11	2.38
2011-12	2.82
2012-13	3.23
2013-14	3.63
2014-15	4.25

There is a clear upward trend in the number of entrepreneurs filing Memorandum-II over the years. The number increased from 1.73 lakh in 2007-08 to 4.25 lakh in 2014-15. This indicates a steady growth in the entrepreneurial activity during this period. The number of entrepreneurs increased each year, although the rate of increase varied. For instance, from 2007-08 to 2008-09, the increase was 0.20 lakh, from 2008-09 to 2009-10, the increase was 0.20 lakh., the increase became more pronounced in later years, such as from 2012-13 to 2013-14 (0.40 lakh) and from 2013-14 to 2014-15 (0.62 lakh). The percentage increase from year to year also reflects an accelerating growth rate. For example: The growth from 2007-08 to 2008-09 was about 11.5% and the growth from 2013-14 to 2014-15 was about 17.2%, which is significantly higher than earlier years.

Table 4: Share of Gross Value Added (GVA) of MSME in all India GDP

Year	MSME GVA (in Crores)	MSME GVA Growth (%)	Total GVA (in Crores)	Share of MSME in GVA (%)	Total GDP (in Crores)	Share of MSME in GDP (%)
2014-15	36,581.96	-	1,15,042.79	31.8	12,46,79.59	29.34
2015-16	40,596.60	10.97	1,25,744.99	32.28	13,77,18.74	29.48
2016-17	45,021.29	10.9	1,39,652.00	32.24	15,39,16.69	29.25

(Source: Annual Reports of MSMEs)

The data demonstrates a consistent and substantial growth in the Gross Value Added (GVA) by MSMEs from 2014-15 to 2016-17. MSME GVA increased from ₹36,581.96 crores in 2014-15 to ₹45,021.29 crores in 2016-17, reflecting an annual growth rate of around 10.97% and 10.9% respectively in the subsequent years. This growth in MSME GVA is accompanied by a stable share of MSMEs in the total GVA, hovering around 31.8% to 32.28%, indicating that MSMEs have maintained their contribution to the overall GVA despite the expanding economic landscape.

In terms of their contribution to the Gross Domestic Product (GDP), MSMEs’ share remained relatively steady at approximately 29% across the years. Specifically, the share was 29.34% in 2014-15, slightly increasing to 29.48% in 2015-16, and then marginally decreasing to 29.25% in 2016-

17. This stability in MSMEs' share of GDP, despite the rise in both total GDP and MSME GVA, underscores the critical and consistent role that MSMEs play in the Indian economy, contributing significantly to economic activity and growth.

Growth Rate of MSME Sector in Comparison With The Overall Industrial Sector

MSMEs provide employment opportunities at comparatively lower capital cost and act as ancillary units for large enterprises to support the system in growth. Figure below depicts the growth rate of MSME sector in comparison with the overall industrial sector during last sixteen years. The MSME sector has in many years registered a higher growth rate than the overall growth of industrial sector.



(Source: Annual Reports of Ministry of MSME)

Fig 3: Comparison of MSME sector vis-à-vis Overall Industry

During 2000 to 2006, India witnessed industrial growth in the range of 5-8% annually. Subsequently, it recorded double digit growth for 4-5 years, before slowing down to around 6% growth during 2015-2016. The MSME sector improved its growth performance during 2003 - 2009 and

recorded a growth of over 10% during 2008-09. Introduction of MSMED Act, 2006 apparently played a role here. However, post 2008 global financial crisis, MSME growth fell sharply and hovered around 4-7%.

Table 5: Estimated Employment in MSME Sector (Broad Activity Category Wise)

Broad Activity Category	Employment (in lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	186.56	173.86	360.41	32
Trade	160.64	226.54	387.18	35
Other Services	150.53	211.69	362.22	33
Electricity*	0.06	0.02	0.07	0
All	497.78	612.10	1109.89	100

(Source: National Sample Survey (NSS) 73rd round 2015-16)

The data suggests that while the MSME sector provides substantial employment in both rural and urban areas, certain sectors like trade and manufacturing dominate,

highlighting their critical role in the MSME landscape. The minimal employment in the electricity sector suggests limited MSME involvement in this area.

Table 6: Internal and External Problems of MSMEs

Problems	External	Internal
Finance	Non availability of finance Access to 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.

Government Policies and Support Measures for MSMEs: Brief History

The evolution of the policy framework and support measures of the government can be broadly grouped into following three periods:

1948-1991 - In the policy resolutions from 1948 to 1991, recognition was given to the tiny and small enterprises. They were termed as an effective tool to expand employment opportunities, help ensure equitable distribution of the national income and facilitate effective mobilization of private sector resources of capital and skill. The Small Industries Development Organization (SIDO) was setup in 1954 as an apex body for sustained and organized growth of small enterprises. This is now known as the Micro, Small and Medium Enterprises Development Organization. In 1956, the National Small Industries Corporation, The Khadi and Village Industries Commission and the Coir Board were also setup. The era provided the supportive measures that were required to nurture the small enterprises in the form of reservation of items for their exclusive manufacture, access to bank credit on priority through the priority sector lending program of commercial banks, excise exemption, reservation under the government purchase program. The Small Industries Service Institute (SISI) now known as MSME Development Institute was setup all over India to train youth in skills, and the tool rooms were established with German and Danish assistance for providing technical services essential to small enterprises for skilled training. At the state level, District Industry Centers (DIC) are setup all over the country.

1991-1999 - The new policy for small, tiny and village enterprises of August 1991 laid the framework for government support in the context of liberalization which sought to replace the protection with competitiveness to

infuse more vitality and growth to small enterprises in the face of foreign competition and open market. Supportive measures concentrated on improving infrastructure, technology and quality. Testing centers and new tool rooms were setup. The Small Industry Development Bank of India (SIDBI) and a technology development modernization fund were created to accelerate technical and financial services to the small-scale sector.

1999 onwards - The ministry of MSME (earlier known as ministry of SSI and Agro and Rural Industries) came into being from 1999 to provide focused attention to the development and promotion of the sector. The new policy package announced in Aug 2000 sought to address the problems of credit, infrastructure, technology and marketing. A credit linked capital subsidy scheme was launched to encourage technology up gradation in the MSE sector and 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 raised to Rs 1 crore (\$0.25 million) and a Market Development Assistance Scheme for MSEs was introduced. At the same time, consultations were held 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 and Medium Enterprises Act. 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.

Initiatives of Ministry of MSME

Technology Excellence

- An initiative to create an ecosystem to support MSMEs to provide world class technology as a common facility, consultancy and best in class skill trainings, 15 new technology centres with World Bank assistance being established in different parts of country with an investment of \$ 400 million.
- 18 existing technology centres are being promoted as Centre of Excellence.
- “Udyog Aadhaar” in place of EMI & EM II is launched as part of ease of doing business.
- Draft consultation paper on MSME policy launched & comments received. Finalisation of Draft policy is in process.

This policy will be in alignment with policies of Department of Commerce & Industry, Corporate Affairs, L&E, Finance, Textile, Electronics & IT, Food Processing, HE&PE, Pharmaceuticals etc. To enhance the manufacturing competitiveness, Ministry is providing schemes like Lean, IPR, Design Clinic, Bar code, Incubation, QMS&QTT, ICT, TEQUP, MATU, CLCSS, CGTMSE, MSE-CDP etc. (visit www.dcmsme.gov.in).

Ministry has done 'Skill mapping' and prepared a complete catalogue on skill requirements and skill providers across the country. To rate MSMEs, a new initiative by this Ministry is taken up in the name of 'ZED' (zero effect & zero defect) in manufacturing.

Preparedness by Ministry of Skill Development

To meet the challenge of skilling at scale with speed and standard (quality), this Ministry has come out with 'National Policy on skill Development and Entrepreneurship 2015' (visit : www.skilldevelopment.gov.in).

Ministry of Heavy Industry and Public Enterprises

This Ministry has launched a scheme 'Enhancement of Competitiveness of Indian Capital Goods Sector', with an outlay of Rs.930.96 crore. Technology Acquisition Fund under this Scheme is meant for MSMEs. (visit www.dhi.nic.in). for more details visit www.makeinIndia.Com.

Start-up India Schemes - Make in India

Government has announced two schemes:

- Self-Employment and Talent Utilisation (SETU)
- Atal Innovation Mission (AIM)

AIM focuses on supporting aspiring entrepreneurs to solve India's contemporary socio-economic problems via “Grand Challenges” that offer substantial awards to incubate and scale up winning ideas. SETU is devoted to strengthening incubators and setting up ‘tinkering labs’ where ideas can be shaped into prototype before they are ripe for funding. The funds for SETU is 1000 crores and for AIM is 150 crores. The supervisory body for these schemes is chaired by NITI Ayog Vice Chairman and would include Secretaries from Department of Science and Technology, Biotechnology, Industrial Policy and Promotion as well as MSME.

Half of the funds under SETU would be earmarked for strengthening existing incubators in the country, backed by different departments so that the support mechanism for budding entrepreneurs is more robust. The rest, Rs.500 crore would be used for setting up of ‘Tinkering labs’ where

students can literally potter about and create prototypes and models of their ideas with the ability to demonstrate basic functions. The idea of posing essential problems as a “Grand Challenge” for aspiring startups under AIM, is to engage graduates eyeing the startup space into thinking beyond the internet, e-commerce and mobile application space.

Conclusion

According to the information provided by the Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation (MOSPI), the Share of MSME (Micro, Small, and Medium Enterprises) Gross Value Added (GVA) in total GVA during the 2016-17 period was 31.8%. This statistic highlights the significant contribution of MSMEs to the overall economic output in that fiscal year. Recognizing the potential of MSMEs and providing support to overcome these barriers is essential. This includes improving access to finance and resources, enhancing infrastructure, and offering skills and training programs. Understanding and addressing these challenges can help in harnessing the full potential of MSMEs for local and national economic development.

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