

Small Scale Industries in India

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Introduction

SSI plays an eminent role in the development of an economy. Small Scale Industry is also known as micro, small and medium enterprises (MSME). In India it plays a vital role in the socio economic development of the country. The Micro, Small and Medium Enterprises (MSMEs) have emerged as a vibrant and dynamic sector of the Indian Economy. The positive aspect of this sector is that of employment generation related to positive income distribution, reducing regional imbalances, share in exports, contribution in GDP and industrial production and many more. SSIs are defined differently in different countries. The different criteria for SSIs are employment, investment in plant and machinery, sales turnover etc. In India we have taken the investment criteria in accordance with the provision of Micro, Small and Medium Enterprises development (MSMED) Act, 2006. Under this Act The Micro, Small and Medium Enterprises (MSME) are classified in two classes:

- **Manufacturing Industries** are defined in terms of investment in Plant and Machinery: These Enterprises are engaged in the manufacturing of goods pertaining to any industry specified in the first schedule to the industries (Development Regulation) Act, 1951 or employees. Plant and Machinery in the process of value addition to the final product are having distinct name and character or use.
- **Service Enterprises** are engaged in providing or rendering of services and are defined in terms of investment in equipment.

Manufacturing Sector

Limit for Investment in Plant and Machinery / Equipment

Enterprises	Investment in plant and machinery / equipment	
	Manufacturing Sector	Service Sector
Micro	Up to Rs. 25 lakh	upto Rs. 10 lakh
Small	above Rs. 25 lakh upto Rs.5 cr.	above Rs.10 lakh upto Rs.2 cr.
Medium	above Rs. 5 cr. uptoRs. 10 cr.	above Rs. 2 cr.uptoRs. 5 cr.

Source: MSME annual report

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MSME Redefined by the Government

The Micro, Small and Medium Enterprises development (amendment) bill, 2018 proposes to reclassify all MSMEs, whether they are manufacturing or service providing on the basis of their annual turnover. According to the definition – Business with sales up to Rs. 5 Cr. will be called Micro enterprises, those with sales of Rs. 5 Cr. to Rs.75 will be small enterprises and those with sale of Rs. 75 Cr. to Rs.250 Cr. will be called a medium sized enterprise. The bill was introduced in the Lok Sabha and was sent to the standing committee which presented its report on 28 Dec, 2018.

The new norms of MSMEs will remove ambiguity about the investments in plant and machinery. In its statement of objects and reason, the bill states, “It has been considered appropriate that if the annual turnover is taken as a criteria for classification, the information available with goods and services tax network and other sources can be used for the determination of the category of the enterprises. Overall the turnover based classification will promote the ease of doing business and will put in place a non-discretionary, transparent and objective classification system”.

The MSME bill was first introduced in the Lok Sabha in July 2018. As it was not passed by it the bill got terminated with the end of the 16th Lok Sabha. For the development and advancement of MSMEs, State Governments are primarily responsible. The Govt. of India through the Ministry of Micro, Small and Medium Enterprises decide policies and advance or facilitate developmental projects and schemes and thereby increase the competitiveness of MSMEs in the changed economic scenario. M/O MSME was formed in 2007 by merging the Ministry of Small-Scale Industries and the Ministry of Agro and Rural Industries.

Role of MSMEs in India

According to the National Sample Survey (NSS) 73th round during the period 2015-16, there were 633.88 lakh unincorporated non-agricultural MSMEs in the country engaged in different economic activities ,196.65 lakh in manufacturing (31% of the total), 0.03 lakh in non -captive Electricity Generation and Transmission (36%) to 30.35 lakh in trade and 206.85 (33%) lakh in other services. There were 324.88 lakh (51.25%) MSMEs in the rural areas and 309 lakh MSME (48.75%) in the urban areas.

The Micro sector reports for more than 99% (630.52 lakh) to the total number of MSMEs. Small sector was around 3.31 lakh (0.52%) and Medium sector enterprises were at 0.05 lakh (0.01%). In 1998-99 the number of units in MSME was 93.36 lakh. In 2008-09 the number increased to 285.16 lakh.

The below table shows the share of MSME sector in GDP and total Manufacturing output.

Table 1: Share of MSME Sector in GDP and Total Manufacturing Output

Manufacturing output at current price			Share of MSME GVA to GVA / GDP at constant price for base year 2011-12		
Year	MSME manufacturing output Rs. in cr.	Share of MSME manufacturing output in total manufacturing output (%)	MSME manufacturing sector in GDP	MSME services sector GDP	Total in GDP
2011-12	2187110	33.12	6.16	23.81	29.97
2012-13	2385248	33.22	6.27	24.13	30.40
2013-14	2653329	33.27	6.27	24.37	30.64
2014-15	2783433	33.40	6.11	24.63	30.74
2018-19		45.00	7.0		30.

Share of MSME sector in the country's GDP is around 30% and 45% in total manufacturing output or 40% industrial production. Its contribution in export earning is around 40% in value terms. This sector produces more than 7000 products varying from simple and traditional consumer goods to sophisticated finished products. Few examples of industries under this sector are food products, paper and paper products, handloom industries, plastic and plastic products, cotton textiles, basic metal industries, jute industries, electronic goods, etc. In the year 2016-17 share of MSME in GVA (%) was 31.83 which is 4405753 Cr. at current prices.

Employment Generation

MSME is a labour-intensive sector in comparison with large scale enterprises. This is the second most employment generation sector after agriculture in India. With minimum capital investment one can be employed in this sector. It gives employment to around 11.10 Cr. people in India. In the year 2001-02 there were 249.3 lakh people employed in this sector and this number has increased to 1171.3 lakh in 2014-15. According to the NSS 73rd conducted in 2015-16, this sector has been creating 11.10 Cr. jobs employment. Of 11.10 Cr. jobs 32% people were engaged in manufacturing, 35% in trade and 33% in other services. This sector gives 497.78 (45%) lakh employment in rural areas and 612.10 lakh (55%) employment in the urban areas.

Equitable Distribution of National Income

One of the positive points for establishing MSME in India is that it ensures a more equitable distribution of large National Income. This can be seen in the ownership of MSME enterprises in comparison to the large scale enterprises and its much larger employment potential in comparison to the large industries.

State wise Distribution of MSMEs

One of the benefits of establishing and promoting MSMEs in their widespread distribution is as compared to large industries, which are generally located to few states only. State of Uttar Pradesh has the largest number of estimated MSMEs with 14% share of MSMEs in India. The top ten states are U.P, West Bengal, Tamil Nadu, Maharashtra, Karnataka, Bihar, Andra Pradesh, Gujarat, Rajasthan and Madhya Pradesh. The upper ten states combined accounted for the share of 74.05 % of the total estimated number of MSMEs in the country.

Contribution to Export

Share of MSMEs in the export stood at 48.10% during the year 2018-19. Its share was around 43% in 2011-12. SSI sector plays a major role in India's present export performance. The aim of the government is to increase its contribution from current 40-50% to 60%. Major exported items from MSMEs are leather goods, processed foods, engineering items, gems and jewelry, handicrafts, woolen garments, sports goods etc.

Government Scheme for MSME

The Govt. has implemented various schemes for the upliftment MSME sector under various heads like (a) providing credit and financial assistant, (b) skill development training, (c) infrastructure development, (d) marketing assistance, (e) technological and quality up gradation and other services.

List of the Schemes of MSMEs

Credit and Financial Assistance to MSMEs

- **Prime Minister's Employment Generation Programme (PMEGP)**

This scheme aims to create employment opportunities in rural as well as urban areas of the country by setting up of new self-employment projects for Micro Enterprises. It also provides continuous and viable employment to all age segments of traditional and prospective artisans and rural / urban unemployed youth in the country, so as to help assist migration of rural youth to urban areas. The maximum cost of the project / unit admissible under manufacturing sector is Rs. 25 lakh and under business / service is Rs. 10 lakh.

- **Credit Linked Capital Subsidy Scheme (CLCSS)**

This scheme facilitates technology up gradation in Micro and Small Enterprises (MSEs) by providing capital subsidy of 15% (limited to maximum of Rs. 15.00 lakh) on institutional finance availed by them for induction of well-established and improved technology. A total of 62827 MSES have utilized a subsidy of Rs. 3888.12 Cr. till 31 March, 2019.

- **Credit Guarantee Trust Fund for MSEs was Introduced in Aug, 2000**

Guarantees are provided for extending collateral free lending to Micro and Small enterprises through banks and financial institutions (including NBFCs).

Skill Development and Training

- **A Scheme for Promotion of Innovation Rural Industry and Entrepreneurship (ASPIRE)**

The scheme aims to generate new jobs and reduce unemployment, promote entrepreneurship culture, grass root economic development, promote innovative business solutions for unmet social needs and facilitate innovation to strengthen the competitiveness of the MSME sector.

Infrastructure

- **Scheme of Fund for Regeneration of Traditional Industries (SFURTI)**

The ministry of MSME through Khadi and Village Industries Commission (KVIC) and the Coir board has been implementing a cluster-based scheme name called SFURTI since 2005 under this scheme khadi, village industries and coir clusters have been taken up for development by providing them with improved equipments, common facilities centers, business development services, training, capacity building and design and marketing support etc.

- **Scheme for Micro and Small Enterprises Cluster Development Programme (MSE-CDP)**

This scheme was introduced to enhance the productivity and competitiveness as well as capacity building of Micro and Small Enterprises. Its main aim is to support the sustainability and growth of MSEs by addressing common issues such as improvement of technology, skills and quality, market access, access to capital etc. It also helps in competency of MSEs for common supportive action through formation of self-help groups, associations, up gradation of association etc. It also helps in setting up common facility centers. MSME SAMADHAN is the policy to address the delayed payments to MSEs. MSME-SAMBANDH is the public procurement policy for micro and small enterprises. It authorizes 20% annual procurement for MSEs.

Challenges Faced by MSMEs in India

MSMEs contribute a lot for the economic development of the country. Presently MSMEs are facing different challenges like poor or non-availability of loan finance, low level or lack of advanced technology, in adequate physical and economic infrastructure, lack of skilled manpower for manufacturing, services, marketing, etc, and multiplicity of labour laws and complicated procedures associated with compliance of such laws. These challenges affects the growth capabilities and smooth functioning of the MSMEs.

- **Finance and Credit:** The shortage of finance and credit is the main obstacle in the development of MSMEs. There is a lack of availability of adequate and timely credit. The cost of credit is also high. Since few entrepreneurs are either illiterate or semi illiterate they are mostly unaware of the government schemes. There is lack of financial literacy and consulting help for the small entrepreneurs.
- **Infrastructural Constraints:** MSMEs in India are facing physical infrastructural problems like lack of power. Lack of electricity infrastructure negatively affects the productivity and profitability of manufacturing SMEs. To ensure competitiveness of the MSMEs, it is vital that these sectors have availability of infrastructure (power, water, road, etc.), technology and skilled manpower which are in time with the global trends.

- **Absence of Exclusive Marketing Platforms and Distribution Networks**

In the era of globalization and hard competition in the market it is very difficult for MSEs to maintain commodity's demand. Enhancing customer involvement is not a matter of choice anymore and to overcome it, SMEs need market intelligence, tools and well trained work forces to respond to these pressures.

MSMEs in India are unable to tackle these marketing strategies because of:

- Limited knowledge about digital marketing
- Not enough trade fares and buyer-seller meets
- Lack of monetary support
- lack of marketing research
- Unduly delayed payments especially from the large scale buyers. This distracts the cash flows and lowers their morale too.
- One of the major challenges is the complex labor laws which are practically very difficult to comply with by the small enterprises.

Conclusion

The MSME sector is the true engine of growth of our economy. Its contribution in GDP, employment, export earnings and regional development make this sector the most dynamic and vibrant one. This sector is facing challenges from the fronts of finance, technology, exports related, human resource, marketing and operational difficulties. The government should address these problems in conducive and supportive manner so that the growth potential of MSME can be materialized

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