

## **The Prospects and Problems of MSMEs sector in India an Analytical study**

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**ABSTRACT:** *The Micro, Small and Medium Enterprises (MSMEs) sector is a vital constituent of India's industrial sector. MSMEs including khadi and village/rural enterprises. It contribute significantly to India's Gross Domestic Product and export earnings besides meeting the social objectives including that of providing employment opportunities to millions of people across the country. With the introduction of reform measures in India since 1991, the Govt. has withdrawn many protective policies for the Micro, Small and Medium Enterprise (MSMEs) and introduced promotional policies to increase competitiveness of the sector. The Micro, Small and Medium Enterprises in India are acting as power and spirit of economic growth in the 21st century. This paper analyze the definition of MSMEs, the role and performance of MSMEs in Indian economy, Government policies towards MSMEs and problems of MSMEs*

**KEY WORDS:** *Micro small and medium enterprises, definition, role and performance, Government policies and problems.*

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### **I. INTRODUCTION**

Industrialization is SINE QUO NON of economic development. The objectives of industrialization are high GROWTH RATES, employment generation and equitable distribution of income and wealth. The third world countries are trying to solve their endemic problems of poverty, inequality and unemployment through systematic process of industrialization. thus there is a worldwide acceptance to have industrial development as legitimate objective to solve their economic and social problems. After attaining independence in 1947 India adopted mixed economic planning as a method to achieve economic development. Along with the Large Scale sector the thrust was on Small Scale sector because of its small size, indigenous technology, employment intensity and its suitability for rural area with limited techno-economic structure. Industrial policies are focused to promote SSIs through various incentives related to financial, fiscal and infrastructure measure; along with a heavy industrial base. The Government of India established the Ministry of Small Scale Industries and Agro & Rural Industries (SSI & ARI) in October, 1999 as the nodal Ministry for formulation of policies and Central sector programmes/schemes, their implementation and related coordination and for supplementing the efforts of the State Union Territories for promotion and development of small scale, agro and rural industries in the country. Subsequently, in September, 2001 the Ministry of SSI and ARI as bifurcated into two separate Ministries, namely, Ministry of Small Scale Industries and Ministry of Agro and Rural Industries. In 2006, "Micro, Small and Medium Enterprises Development Act (MSMED) 2006" was enacted by the parliament. Pursuant to this enactment, the Ministry of Agro and Rural Industries and the Ministry of Small Scale Industries were merged into a single Ministry, namely, "Ministry of Micro, Small and Medium Enterprises." Post liberalization economic conditions have created immense growth prospect for the small scale industries. The Micro, Small and Medium Enterprises in India are acting as power and spirit of economic growth in the 21st century.

### **OBJECTIVES OF THE STUDY**

- To understand the definition of MSMEs on the bases of investment limits.
- To understand the role and performance of MSMEs in Indian economy.
- To know about the government policies towards the MSMEs in India.
- To understand the problems of MSMEs in India.

### **II. RESEARCH METHODOLOGY :**

Only secondary data is taken into consideration for purpose of the study. The relevant secondary data is collected from the publication of 'Ministry of Micro, Small and Medium Enterprises, journals, Government of India' published by Reserve Bank of India and Handbook of Statistics on Indian Economy.

### III. REVIEW OF LITERATURE

**Sandesara (1993)** studied the performance of SSIs producing reserved items collecting data from the second census conducted by the Ministry of SSIs. The study examined the null hypothesis that the SSI firms producing reserved category items should perform better than the SSIs producing non-reserved items. The study result revealed that capacity utilization in 1987-88 and aggregate change in production in 1987-88 were both lower for reserved than for unreserved items. . The author observed that this could be due to the entrance of excess SSI firms into the protected areas.

**Sonia and Kansai Rajeev (2009)** studied the effects of globalization on Micro, Small and Medium Enterprises (MSMEs) during pre and post liberalization from 1973-74 to 2008-09. They used four economic parameters namely number of units, production, employment and export and interpreted study results based on Annual Average Growth Rate (AAGR) calculation. AAGR in pre liberalization period (1973-74 to 1989-90) was higher in all selected parameters than that of post liberalization period (1991-92 to 2007-08). They concluded that MSMEs failed to put up an impressive performance in post reform era.

**Bhavani T.A. (2010)** highlights the issue of quality employment generation by the SSIs and negates the short term attitude of increasing the volume of employment generation compromising with quality. The author argues that employment generation by the SSIs may be high in quantitative term but very low in quality. Technological up gradation would enable the small firms to create quality employment improving remuneration, duration and skill. This structural shift may reduce the rate of employment generation in the short run but would ensure high-income employment generation in the long run.

**Subrahmanya Bala (2011)** has probed the impact of globalization on the exports potentials of the small enterprises. The study shows that share of SSI export in total export has increased in protection period but remain more or less stagnated during the liberalization period. However, the correlation co-efficient in liberalization period is higher than that of protection period suggesting that the relationship between the total export and SSI export has become stronger in liberalization period. This may be due to the drastic change in composition of SSI export items from traditional to non-traditional and growth in its contribution to total export through trading houses, export houses and subcontracting relation with large enterprises. Thus, the current policy of increasing competitiveness through infusion of improved technology, finance, and marketing techniques should be emphasized.

**Definition of Small-scale Industries Sector:** In 1977, units having investment of less than Rs. 10 lakh were defined as small-scale industrial undertakings, while for ancillary units, the investment limit was Rs. 15 lakh. Units with investment of less than Rs. 1 lakh are defined as tiny enterprises. In 1991 (the year in which economic reforms were initiated), the investment limit for small-scale industries was Rs. 60 lakh, for ancillary units Rs. 75 lakh, and for tiny enterprises Rs. 5 lakh. In 2000, the investment limit for SSI (small-scale industry) Was Rs. 1 crore, for ancillary unit Rs. 1 crore and for tiny enterprise Rs. 25 lakh. Consequent to the enactment of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, the small and medium sector has been defined as micro, small and medium enterprises with effect from October 2, 2006 ( the Act defined the medium enterprises for the first time). Further, separate investment limits have been prescribed for manufacturing and service enterprises. The new definition is as follows:

**A: Manufacturing Enterprises :** A micro enterprise, where the investment in plant and machinery does not exceed Rs. 25 lakh;

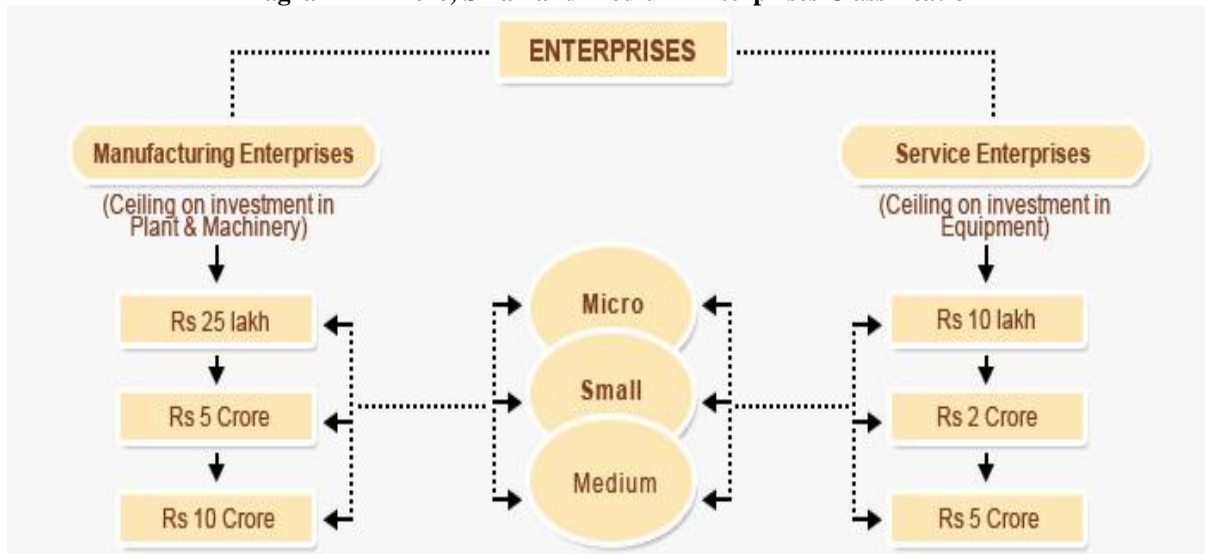
[1]. A small enterprise, where the investment in plant and machinery is more than Rs. 25 lakh but does not exceed Rs. 5 crore; and

[2]. A medium enterprise, where the investment in plant and machinery is more than Rs. 5 crore but does not exceed Rs. 10 crore.

#### **B: Service Enterprises**

- a. A micro enterprise, where the investment in equipment does not exceed Rs. 10 lakh;
- b. A small enterprise, where the investment in equipment is more than Rs, 10 lakh but does not exceed Rs. 2 crore; and
- c. A medium enterprise, where the investment in equipment is more than Rs. 2 crore but does not exceed Rs. 5 crore.

Diagram 1 - Micro, Small and Medium Enterprises Classification



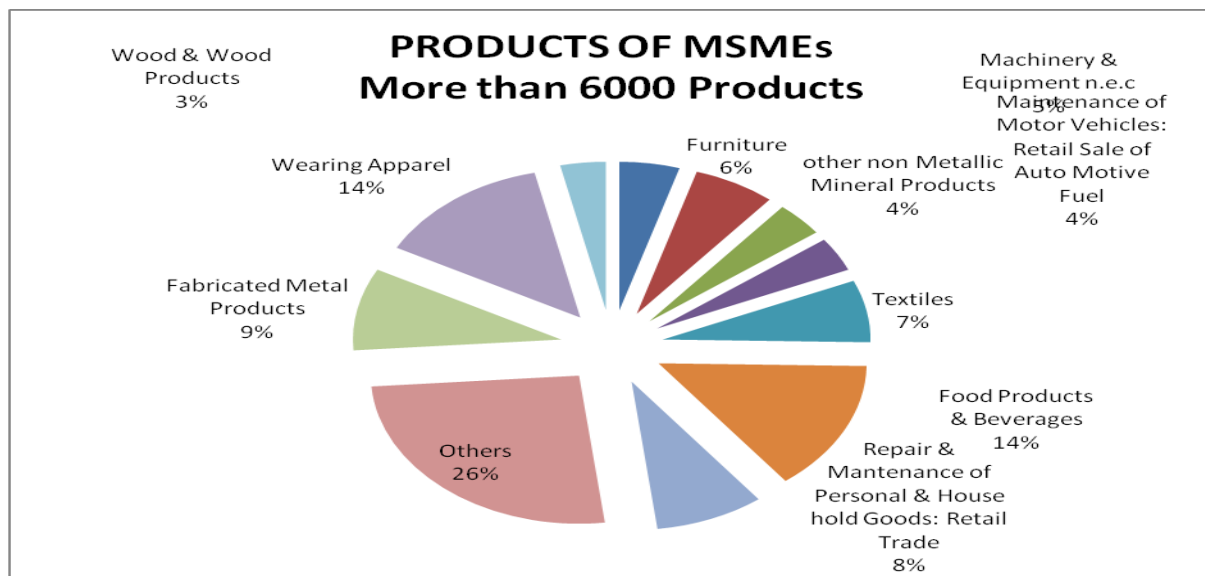
Source: Micro, Small and Medium Enterprises Development Act, 2006

**GROWTH AND PERFORMANCE OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN INDIA.**

The micro, small and medium enterprises (MSMEs) sector contributes significantly to the manufacturing output, employment and exports of the country. It is estimated that in terms of value, the sector accounts for about 45 per cent of the manufacturing output and 40 per cent of the total exports of the country. The sector is estimated to employ about 595 lakh persons in over 261 lakh enterprises throughout the country. Further, this sector has consistently registered a higher growth rate than the rest of the industrial sector. There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India. It is well known that the MSMEs provide good opportunities for both self-employment and wage employment.

**PRODUCTS OF MSMEs**

Chart 1



Source: - Final Report of the Fourth All India Census of Micro, Small & Medium Enterprises 2006-07: Registered Sector.

The Office of the DC (MSME) provides estimates in respect of various performance parameters relating to the sector. The time series data in respect of the sector on various economic parameters is given in the following Table 2.1.

**Table 1: MSMEs Performance: Units, Employment, Investments, Production & Exports.**

Year	Total MSMEs (lakh numbers)	Fixed Investment (Rs. Crore)			
		Fixed Investment (Rs. Crore)	Production (Rs. crore)	Employment (lakh person)	Exports (Rs. crore)
1992-93	73.51 -4.07	109623 -9.24	84413 -4.71	174.84 -5.33	17784 -28.1
1993-94	76.49 -4.07	115795 -5.63	98796 -17.04	182.64 -4.46	25307 -42.3
1994-95	79.6 -4.07	123790 (6.9)	122154 (23.64)	191.40 (4.79)	29068 (14.86)
1995-96	82.84 -4.07	125750 -1.58	147712 -20.92	197.93 -3.42	36470 -25.46
1996-97	86.21 -4.07	130560 -3.82	167805 -13.6	205.86 -4	39248 -7.62
1997-98	89.71 -4.07	133242 -2.05	187217 -11.57	213.16 -3.55	44442 -13.23
1998-99	93.36 -4.07	135482 -1.68	210454 -12.41	220.55 -3.46	48979 -10.21
1999-00	97.15 -4.07	139982 -3.32	233760 -11.07	229.1 -3.88	54200 -10.66
2001-02	105.21 -4.07	154349 -5.11	282270 -8.03	249.33 -4.44	71244 -2.07
2002-03	109.49 -4.07	162317 -5.16	314850 -11.54	260.21 -4.36	86013 -20.73
2003-04	113.95 -4.07	170219 -4.87	364547 -15.78	271.42 -4.31	97644 -13.52
2004-05	118.59 -4.07	178699 -4.98	429796 -17.9	282.57 -4.11	124417 -27.42
2005-06	123.42 -4.07	188113 -5.27	497842 -15.83	294.91 -4.37	150242 -20.76
2006-07	261.01 -111.48	500758 -166.2	709398 -42.49	594.61 -101.62	182538 -21.5
2007-08	272.79 -4.51	558190 -11.47	790759 -11.47	626.34 -5.34	202017 -10.67
2008-09	285.16 -4.53	621753 -11.39	880805 -11.39	659.35 -5.35	N. A.
2009-10	298.08 -4.53	693835 -11.59	982919 -11.59	695.38 -5.47	N. A.
2010-11	311.52 -4.51	773487 -11.48	1095758 -11.47	732.7 -5.29	N.A
Average growth rate	16.1	24.1	14.5	14.4	16.6

Source: Annual report, 2010-2011, Ministry of Micro, Small and Medium Enterprises.  
(The above table in brackets shows the percentage growth over the previous years.)

**COMPARISON OF THE MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) SECTOR WITH THE OVERALL INDUSTRIAL SECTOR**

The MSME sector has maintained a higher rate of growth *vis-à-vis* the overall industrial sector. Comparative growth rates of production for both the sectors are given in the Table below.

**TABLE 2: Comparative Data on Growth Rates of MSE Sector**

Year	Growth rates of MSMEs Sector [2001-02 base IIP (%age)]	Over all Industrial Sector Growth rates (%age) #
2004-05	10.88	8.4
2005-06	12.32	8
2006-07	12.6	11.9
2007-08	13.00*	8.7
2008-09	**	3.2
2009-10	**	10.5
2010-11	**	7.8

\* : Projected, IIP – Index of Industrial Production.

# : Source- M/o Statistics and PI website- <http://www.mospi.nic.in>

\*\* : Due to revised definition of MSMEs Sector, methodological revisions are under progress.

**EMPLOYMENT IN MSME SECTOR :** The total employment in the MSMEs sector in the country as per the Final Report of the Fourth Census of MSMEs 2006-07: Registered Sector was 93.09 lakh persons. As per the estimates compiled for the year 2010-11, the employment was 732.17 lakh persons in the MSMEs sector.

**Employment in MSMEs Sector**

**Chart 2**

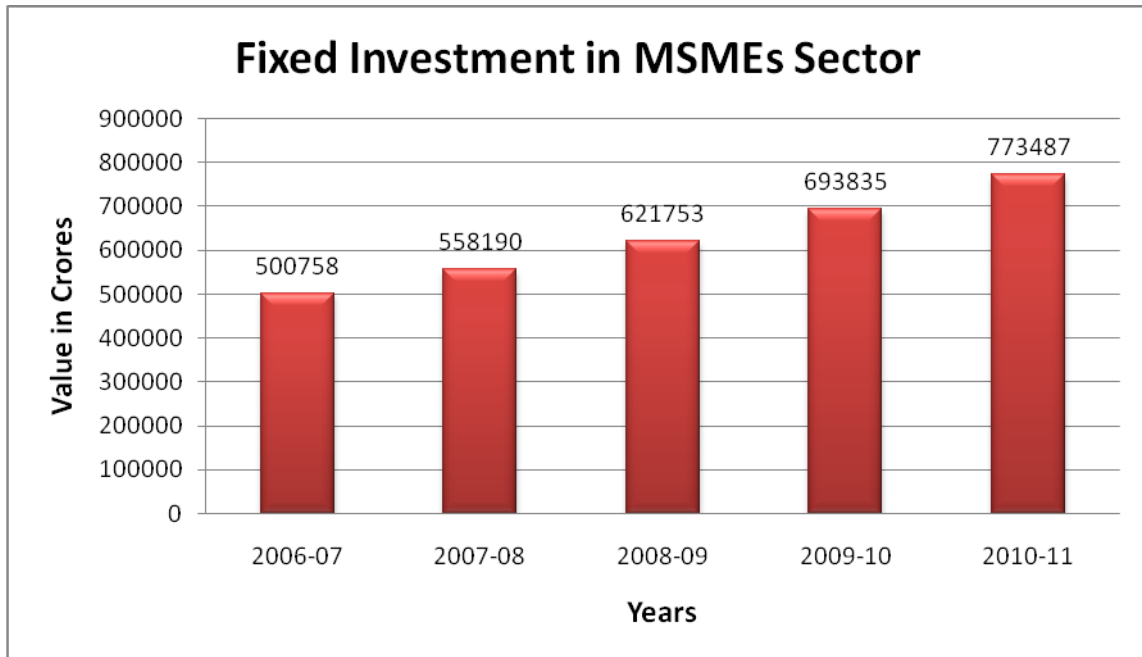


\* Projected data for the year 2009-10 to 2010-11.

**CHARTS SHOWING OTHER STATISTICS OF THE SECTOR**

**Fixed Investment in MSMEs Sector**

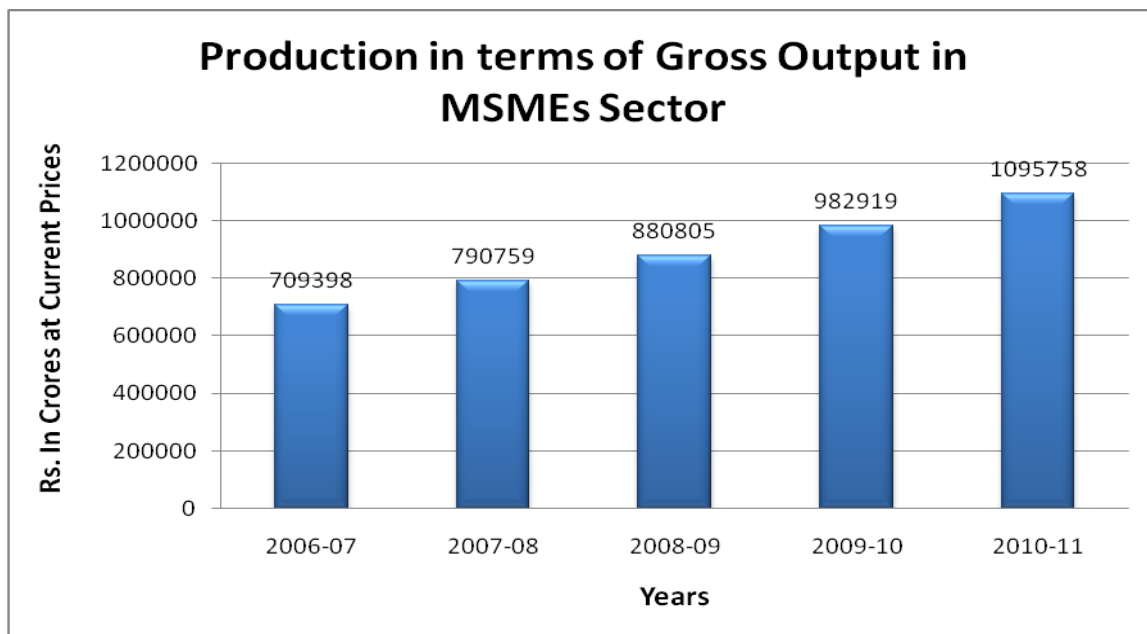
Chart 3



\*: Projected data for the year 2009-10 to 2010-11.

**Production in terms of Gross Output in MSMEs Sector**

Chart 4



\*: Projected data for the year 2009-10 to 2010-11.

**The government policies towards the MSMEs in India :** The formulation and implementation of policies and programmes/projects/schemes for MSME sector is undertaken by the Ministry with the assistance of its attached and autonomous organizations, namely, Micro, Small and Medium Enterprises Development Organization (MSMEDO) or Development Commissioner (MSME), the National Small Industries Corporation Limited

(NSIC), the Khadi and Village Industries Commission (KVIC), the Coir Board and three National Level Entrepreneurship Development Institutes, viz., National Institute for Entrepreneurship and Small Business Development (NIESBUD), NOIDA (V.P.), National Institute for Micro, Small and Medium Enterprises (NI-MSME), Hyderabad and the Indian Institute of Entrepreneurship (IIE), Guwahati. The Prime Minister's Employment Generation Programme (PMEGP) is being implemented by the Ministry through KVIC. The Ministry of MSME is having two Divisions called Small & Medium Enterprises (SME) Division and Agro & Rural Industry (ARI) Division. The SME Division is allocated the work, *inter-alia*, of administration, vigilance and administrative supervision of the National Small Industries Corporation (NSIC) Ltd., a public sector enterprise and the three autonomous national level entrepreneurship development/training organisations. The Division is also responsible for implementation of the schemes relating to marketing and export promotion. SME Division is also responsible for preparation and monitoring of Results-Framework Document (RFD) as has been introduced from last two years by Cabinet Secretariat under Performance Monitoring and Evaluation System (PMES). The ARI Division looks after the administration of two statutory bodies called the Khadi and Village Industries Commission (KVIC), Coir Board and a newly created organization called Mahatma Gandhi Institute of Rural Industrialization (MGIRI). They are also supervising the implementation of the Prime Minister's Employment Generation Programme (PMEGP). Industrial policies are focused to promote MSMEs through various incentives related to financial, fiscal and infrastructure measure; along with a heavy industrial base

The policies of the Government of India towards the MSMEs. This discussion are divided into the following sub-sections:

- [1]. Policy prior to 1991
- [2]. New small Enterprise Policy 1991
- [3]. Comprehensive policy package 2000 and recent policy measures
- [4]. Critical evaluation of the policy for small-scale and cottage industries.

**Policy prior to 1991** :A large number of steps were initiated by the Government of India after Independence for the development of small-scale and cottage industries. These included the building up of organizational structure, increase in the outlay for the development of small-scale and cottage industries, reservations for production, credit and marketing facilities, concessions, exemptions etc.

**Organisational Structure:**

- a. A Cottage Industries Board was set up in 1947 itself. This was split into the following three boards during the First Five Year Plan – All India Handloom Board, All India Handicrafts Board, and All India Khadi and Village Industries Board. In addition, three more boards were set up. These were the Small Scale Industries Board, Coir Board and Central Silk Board. Thus at the end of the First Five Year Plan, there were a total of six boards covering the entire field of small-scale and cottage industries. Together, they constituted the organizational structure through which the promotional and developmental efforts of the state were to be carried out.
- b. National small Industries Corporation Ltd. (NSIC) was set up in 1955 to provide machinery to small-scale units on hire-purchase basis and to assist these units in procuring orders from government departments and offices.
- c. Four Regional Small Industries Service Institutes, with a number of branches, were set up to provide technical assistance to the small-scale industries.
- d. Small Industries Development Organisation (SIDO) was set up in 1954. It functions as an apex body in the formulation of policies and co-ordination of institutional activities for sustained and organized growth of small-scale industries. It has a large network of small industries service institutes, branch institutes, tool rooms etc. SIDO has now renamed as Micro, Small and Medium Enterprises Development Organisation.
- e. The programme of Industrial Estates was initiated in 1955. The programme aims at providing factory accommodation and a number of common facilities like power, water, transport etc., at one place.
- f. The programme of District Industries Centre (DICs) was introduced in May 1979. The idea was to establish one agency in each district called the District Industries Centre to provide and arrange a package for assistance and facilities for credit guidance, raw materials, training, marketing etc. including the necessary

help to unemployed educated young entrepreneurs in general and custom services. At present, there are 422 DICs operating in the country covering 431 districts (except Mumbai, Kolkata, Delhi and Chennai).

**Plan Expenditure:** Expenditure on small-scale and cottage industries has increased considerably over the plans. It was Rs. 42 crore in the first plan, Rs. 187 crore in the Second Plan, Rs. 1,945 crore in the Sixth Plan (1980-85), Rs. 3,249 crore in the Seventh Plan (1985-90) and Rs. 7,266 crore in the Eighth Plan (1992-97). Expenditure on small-scale and cottage industries in the Ninth plan (1997-2002) is estimated at Rs. 8,384 crore. Rs. 10,247 Crore in the 11th Plan. It has been increased by 153.87 per cent in the 12th Plan. The Budgetary support during last Five Year Plan was Rs. 9,175 Crore which is being raised by 162.93 per cent during the current Plan which stands to Rs. 24,124 Crore. This allocation, needless to say, do emphasizes wish of the policy Makers to support by heart the MSME Class.

**RESERVATION FOR SSIS:** To protect small-scale units from competition from large-scale units, government has reserved the production of a large number of items for the small-scale sector. The list of reserved items was expanded from 77 to 124 in the Fourth Plan to 500 in 1977 and further to 873 items on October 18, 1984 (on July 31, 1989 the number of reserved items stood at 836). 1998 to 1999 821 items and 2001 to 2002 799 items.

**Financial assistance for SSIs:** Several schemes were introduced to provide financial assistance to small-scale industries. These include – the Small Industries Development Fund (SIDF) in 1986, National Equity Fund (NEF) in 1987 and the Single Window Scheme (SWS) in 1988. SIDF provides re-finance assistance for development, expansion, diversification and rehabilitation of small-scale, cottage and village industries and tiny sector in rural areas. NEF provides equity type support to small entrepreneurs for setting up new projects in tiny/small scale sector and also assistance for rehabilitation of viable sick units in the small-scale sector. SWS provides working capital loans along with term loans for fixed capital to new tiny and small-scale units. In addition, commercial banks were asked to provide priority to small-scale and cottage industries in granting credit facilities. For this purpose, procedures and conditions of financial assistance from commercial banks and other institutions have been liberalized.

**Setting up of SIDBI.** For meeting the long standing demand of small-scale industries for a separate Apex Bank to provide financial assistance to them, the government set up the Small Industries Development Bank of India (SIDBI) in 1989. With a view to ensuring larger flow of assistance to the small-scale units, the immediate thrust of SIDBI was on

- (i) Initiating steps for technological up gradation and modernization of existing units;
- (ii) Expanding the channels for marketing the products of the small-scale sector; and
- (iii) Promotion of employment-oriented industries especially in semi-urban areas to create more employment opportunities. SIDBI provides assistance to the small-scale units through the existing credit delivery system comprising State Financial Corporations, State Industrial Development Corporations, Commercial Banks, Co-operative Banks and Regional Rural Banks.

The major activities of SIDBI are:

- [1]. refinance of loans and advances;
- [2]. discounting and re-discounting of bills;
- [3]. extension of seed capital/soft loans;
- [4]. granting direct assistance and refinancing of loans;
- [5]. providing services like factoring, leasing etc; and
- [6]. Extending financial support to State Small Industrial Development Corporations.

**Other measures.** A number of other measures were introduced from time to time to promote the growth of small-scale and cottage industries. Some of these measures were as follows:

- [1]. A Council for Advancement of Rural Technology (CART) was set up in October 1982 to provide the necessary technical input to the rural industries.
- [2]. Price and Purchase preference was granted to products manufactured in the small-scale sector in government purchase programme.



- [3]. Excise concessions were granted to both registered and unregistered units on a graded scale depending on turnover up to Rs. 300 lakh.
- [4]. Full exemption was granted up to a turnover of Rs. 30 lakh and concessional rate of excise duty was levied for a turnover exceeding Rs. 30 lakh but not exceeding Rs. 75 lakh.

**New Small Enterprise Policy, 1991 :** The competition has become intense in every field. Nations fight with game plan to sustain their economy, by introducing new policies and announcing incentives to support mainly their economic- indicators. After the world economy was open to attack, the Indian economy has taken initiative to concentrate on the development of small industrial base, which had contributed positively to the India's GDP. India's GDP growth is better than other developing countries with the developed small industrial sector. In order to impart more vitality and growth to small scale sector, a separate policy statement is announced for small, tiny and village enterprises on 6th August, 1991. This policy statement was a leap-forward because it was the first time that Government had issued a separate policy statement for the small and decentralized sector. In the past, small scale sector merited only two or three paragraphs in the more general industrial policy statements. The fact that Government considered it necessary to make a separate policy statement for small enterprises was a welcome recognition to the dynamic and vibrant nature of the sector. This policy statement proposed some path-breaking measures to mitigate the handicaps that were faced up by small enterprises in respect. Government of India introduced a large number of innovative promotional measures to uplift the growth of small scale sector. Major features of the Small Industrial policy of 1991:

- 1. Emphasis to shift from cheap credit to adequate credit.
- 2. Equity participation by other undertakings (both domestic and foreign) up to 24 percent.
- 3. Introducing of factoring services by banks.
- 4. Marketing of mass consumption goods under common brand name.
- 5. Setting up of sub- contracting exchanges.
- 6. Establishment of technology development cell.
- 7. Opening of quality counselling and technology information centers.
- 8. New technology up gradation programmes.
- 9. The scope of the National Equity Fund scheme and Single Window Scheme was enlarged.
- 10. The policy provided for according priority to the tiny sector in the government purchase programme.
- 11. The small and tiny sector was to be accorded priority in allocation of indigenous raw materials.
- 12. The policy envisaged marked promotion of small and tiny sectors products to be undertaken by cooperatives, public sector institutions and other professional agencies.

**Comprehensive Policy Package 2000 and Recent Policy Measures :** A comprehensive policy package for the small-scale sector was announced by the Prime Minister on August 30, 2000. The main elements of this package were:

- a. Conducting the third census of small-scale industries;
- b. Raising the exemption for excise duty limit from Rs. 50 lakh to Rs. 1 crore to improve the competitiveness of small-scale sector;
- c. Providing credit linked capital subsidy of 12 percent against loans for technology up gradation in specified industries;
- d. Raising the limit of investment in industry related service and business enterprises from Rs. 5 lakh to Rs. 10 lakh;
- e. Raising the limit of composite loans from Rs. 10 lakh to Rs. 25 lakh;
- f. Encouraging SSI associations to develop and operate testing laboratories;
- g. Constitution of group under the Cabinet Secretary to suggest/recommend streamlining of inspection and repeal of redundant laws and regulations applicable to the sector;
- h. Increasing the coverage of Integrated Infrastructure Development (IID) scheme to progressively cover all areas in the country with 50 percent reservation for rural areas and 50 percent of plots – earmarked for tiny sector, etc.

The Third Census of the small-scale sector (covering both registered and unregistered units) was conducted during the year 2001-02. This has provided valuable information regarding the SSI sector. Other important steps undertaken in recent years as follows:

**1. Raising of investment limit.** The investment limit for the SSI sector which was Rs. 1 crore prior to 2006 has been raised to Rs. 5 crore in MSMED Act, 2006. This has been done to facilitate technological up gradation of this sector so that it is able to compete effectively in the new global competitive industrial environment.

**2. Enhancing the excise exemption limit:** As announced in the Budget 2005-06, the turnover eligibility limit under the general SSI Excise Exemption Scheme has been raised from Rs. 3 crore to Rs. 4 crore.

**3. Scheme to address the problem of collaterals:** To address the problem of collaterals faced by the SSI units, a Credit Guarantee Fund (scheme), has been launched to provide guarantee for loans up to Rs. 25 lakh. To make this scheme more attractive, the government made the following modifications in 2006-07;

(i) Enhancing eligible loan limit from Rs. 25 lakh to Rs. 50 lakh;

(ii) Raising the extent of guarantee cover from 75 per cent to 80 per cent for (a) micro enterprises for loans up to Rs. 5 lakh, (b) MSEs (medium and small enterprises) operated or owned by women, and (c) reducing one-time guarantee fee from 1.5 per cent to 0.75 per cent for all loans in North-East region.

**4. Scheme for technology up gradation:** To encourage technology up gradation, a credit linked capital subsidy scheme for technology up gradation has been launched. Under this scheme, 15 percent capital subsidy is admissible on loans up to Rs. 1 crore, advanced by scheduled commercial banks/ State Finance Corporations/ National Small Industries Corporation to small-scale industries for technology up gradation.

**5. Extension of IID:** The Integrated Infrastructure Development (IID) scheme has been extended to cover the entire country with 50 per cent reservation for rural areas.

**6. Market Development Assistance:** A new scheme named Market Development Assistance (MDA) was launched exclusively for the SSI sector.

**7. Dereservation:** In recent years, the government has been following the policy of dereservation as it believes that this will help the SSIs units to upgrade their technology and improve the quality of their products. As a result of this policy, the number of items reserved for the SSI sector came down from 836 in July 1989 to 114 in March 2007. At present, only 14 items are reserved for the small-scale sector.

**8. Credit delivery to SSI Sector.** To ensure credit delivery to the SSI sector, a number of steps have been undertaken in recent years:

(i) The composite loan limit has been raised from Rs. 50 lakh to Rs. 1 crore;

(ii) The limit of collateral free loans has been raised from Rs. 15 lakh to Rs. 25 lakh in case of SSI units with a good track record;

(iii) Laugh Udyami Credit Card (LUCC) scheme has been liberalized by enhancing the credit limit from Rs. 2 lakh to Rs. 10 lakh, for the borrowers having a satisfactory track record;

(iv) The Small and Medium Enterprises (SME) Fund of Rs. 10, 000 crore was operationalised by the SIDBI (small industries development bank of India) since April 2004. Eighty per cent of the lending from this Fund will be for SSI units, at interest rate of 2 per cent below the prevailing PLR (prime lending rate) of the SIDBI. The government has also announced a policy for doubling of credit flow to the small and medium enterprises sector in a period of five years.

As a result of all these efforts, there has been a considerable expansion of bank credit to the small-scale in recent years. As at the end of March-2007, the amount of bank credit outstanding against small-scale industries stood at Rs. 1.02.550 crore which was 7.8 per cent of gross bank credit and 19.7 per cent (i.e., one-fifth) of total priority sector advances by banks.

**9. Enactment of MSMED Act, 2006.** Micro, Small and Medium Enterprises Development (MSMED) Act was enacted in 2006. It provides the first-ever legal framework for recognition of the concept of “enterprises” (comprising both manufacturing and services) and integrating the three tiers of these enterprises, viz., micro, small and medium. It also provides for a statutory consultative mechanism at the national level with wide representation of all sections of stakeholders, particularly the three classes of enterprises. Other important provisions of the Act are,

- (i) Establishment of specific funds for the promotion, development and enhancement of competitiveness of these enterprises;
- (ii) Notification of schemes/programmes for the purpose;
- (iii) Progressive credit policies and practices;
- (iv) Preference in Government procurements to products and services of the micro and small enterprises;
- (v) More effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises; and
- (vi) Simplification of the process of closure of business by all three categories of enterprises.

**10. Package for Promotion of Micro and Small Enterprises.**

A ‘package for Promotion of Micro and Small Enterprises’ was announced in February 2007. This includes measures addressing concerns of credit, fiscal support, cluster-based development, infrastructure, technology and marketing. Capacity building of micro, small and medium enterprises associations and support to women entrepreneurs are the other important features of this package.

Eleventh Five Year Plan provides an outlay of Rs. 11,500 crore for MSME sector. The production of micro and small enterprises sector is targeted to increase from Rs. 6,82,613 crore in 2007-08 to Rs. 13,98,803 crore in 2011-12 at current prices (compound annual growth rate being 15.4 per cent ) while employment is targeted to increase from 322.28 lakh persons to 391.73 lakh persons over this period.

**PROBLEMS OF SMALL-SCALE AND COTTAGE INDUSTRIES :** The small-scale and cottage industries face a number of problems. As a result, many small-scale units turn sick and a large number have to close down. The following are the main problems that the small-scale units have to face.

**1. Finance and Credit:** The scarcity of finance and credit is the main obstacle in the development of MSMEs. The position of cottage and village industries in this regard is even worse. The capital base of the small industrial units is usually very weak since they generally have partnership or single ownership. The artisans or craftsmen running cottage industries either run their business with whatever little capital they possess or take credit from the mahajans or the traders who supply raw material to them. In many cases, such credit is obtained on a very high rate of interest and is thus exploitative in character.

**2. Infrastructural constraints:** In their survey of 1,063 firms, Keshav Das and Sebastian Morris found that as many as 716 firms (or more than 67 percent) said that they faced significant infrastructural problems. This is very large and confirms the well recognized and popular conceptualization that many productive activities are being constrained by inadequate physical infrastructure. The most severe constraint is power. Captive generation at reasonable cost is out of question for small firms. Therefore they have to depend on State electricity boards for meeting their requirement which do not supply regular and adequate power. Moreover, because of rampant corruption, many small-scale industrialists are forced to make private deals with the electricity officials; otherwise they face a danger of tampering with their meters by the electricians. Transportation and communication infrastructures are also universal constraints. In many SSI units (particularly those relating to beverages, tobacco and related products, printing and publishing, basic chemicals, paints and varnishes, and drugs and medicines), water supply is fast emerging as an important infrastructural constraint.

**3. Inverted tariff structure and raw material availability:** As noted earlier, small-scale industries contribute significantly to the export earnings of the country. Many of these industries use imported raw material and intermediate goods. According to Sebastian Morris, despite import liberalization during 1990s, the tariffs on materials like steel, copper, and many non-ferrous metals, plastics, many chemicals, paper etc.

remain high in comparison to tariffs on manufactured goods (other than consumer goods). This has created the problem of a significant inversion in tariff structure, which specifically hurts small firms since they are more labour using and have high material-to-output ratios. Small-scale industries that use local raw material also face a number of problems. For instance, the handloom industry depends for its requirement of cotton on local traders. These traders often supply cotton on the condition that the weavers sell the cloth only to them when it is ready. Thus, the weavers are subjected to double exploitation at the hands of the traders. The traders sell cotton to them at high prices and purchase the ready cloth at low prices.

**4. Machines and other equipment:** Machinery and other equipment in many small industries have grown obsolescent. On account of this reason while their costs of production are high, the quality is inferior as compared to the large-scale units. Moreover, the small-scale units often do not care about the changing tastes and fashions of the people. Accordingly, modernization and rationalization are urgently required in small-scale industries.

**5. Problems of marketing:** One of the main problems faced by the small-scale units is in the field of marketing. These units often do not possess any marketing organization and consequently their products compare unfavourably with the quality of the products of the large-scale industries. Therefore, they suffer from a competitive disadvantage vis-à-vis large-scale units. Because of the shortage of capital and financial resources, these units do not have adequate 'staying capacity' and are often forced to sell their products at unremunerative prices.

**6. Adverse effects of economic reforms and globalization:** The decade of 1990s was marked by considerable deregulation of industrial economy through delicensing and dereservations, 'opening up' the industrial sector to both internal and external competition, lowering of tariffs, removal of quantitative restrictions etc. These reforms have had an adverse effect on the small-scale sector. Cheaper and better quality imported goods are posing a serious threat to small scale units operating in various industries like chemicals, silk, auto components, toys, sports goods, footwear etc. The most serious threat is being posed by cheap Chinese imports as the so-called 'China price' (which is a rock-bottom price) is forcing many small-scale units to close down.

**Extreme competition :** The MSMEs face ruthless competition from the large domestic firms and multinationals armed with improved technology, managerial ability, skilled workers, marketing skills, better product quality, and wide range of products. The small firms find it difficult to maintain their existence as the cases of merger and acquisition are continuously increasing.

**Poor Technology Base :** There exists considerable heterogeneity among the MSMEs in India. A small percentage of firms operate with sophisticated technology base whereas majority of firms use outdated technology. They suffer from low productivity and poor product quality. Due to their small size, they cannot enjoy large-scale production economies.

**Lack of Skilled workers :** Though India has no shortage of human resource, most of them are unskilled workers. Large firms pay higher remuneration and employ skilled workers. The MSMEs have to operate with unskilled or semi-skilled workers. Thus, the MSMEs suffer from low managerial capabilities.

**Delayed payments :** The small firms find it difficult to recover their dues from the large firms and even from Govt. departments due to complex payment procedure and corruption. Due to lack of funds, they cannot employ credit collection machineries (like factoring services). The large firms force them to offer long credit period and even pay advance to ensure timely supply of materials.

**Gradual withdrawal of Reservation Policy :** Reservation Policy, introduced in 1967 emphasized that some products would be earmarked for exclusive production by the small enterprises and Non-MSME units can undertake manufacture of reserved items only if they undertake 50 percent export obligations. Withdrawal of reservation policy allowed MNCs and large domestic firms to produce reserved items without any restrictions and increased the degree of competition for the small firms. However, Several Expert Committees like Abid Husain (1995), Shri T.S. Vijayaraghavan (1997), Confederation of Indian Industries (CII) (1997) etc concluded that reservation policy is no longer helpful for MSMEs as MSME units with no reservation facility have performed better than those units with reservation support. Moreover many MSMEs do not produce the reserved items and many MSME Entrepreneurs do not consider it a relevant policy.

**Mindset Problems :** The mindset of the many MSME entrepreneurs has not yet changed. They still expect protection policies and preferential treatment for the MSMEs. Fortunately, this tendency is low in the new generation entrepreneurs. Workshops, success story based approach may help reduce this tendency even more.

**Outflow of wealth :** Globalization process seems to favour the developed countries and the multinationals more than that of developing countries and the MSMEs. The MNCs use domestic wealth, infrastructure, and local unskilled workers at a lower cost and repatriate huge profits to their own countries.

**Social welfare areas neglected :** The MNCs are more willing to produce consumer goods to maximize their profit. The qualitative services like health, education etc which require huge investment but generate less and time taking return on investment, would be neglected.

**Major findings of study:**

- MSMEs account for about 45% of India's manufacturing output.
- MSMEs account for about 40% of India's total exports.
- The sector is projected to employ about 73 mn people in more than 31 mn units spread across the country.
- MSMEs manufacture more than 6,000 products ranging from traditional to high tech items.
- The number of MSMEs units has increased from 105.21 lakh units in 2001-02 to 311.52 lakh units in 2010-11.
- The investment and production increased from Rs.154349 crore in 2001-02 to Rs.1095758 crore in 2010-11 at current prices.

The plan outlay for the Ministry of MSME for 2013-14 is 2977.00 crore and this gross budgetary support has been allocated amongst the different wings of the Ministry as follows:-

(Rs. in crore)

(a) ARI Sector 1842.00

(b) Development Commissioner, MSME 870.00

(c) SME Sector 265.00

#### IV. CONCLUSION

The overall performance and contribution of small scale industries to Indian economy is described in terms of its absolute growth in units, employment, production and exports. The MSMEs Development Act of 2006 perhaps is the most crucial of these recent policy changes. The formulation and implementation of policies and programmes/projects/schemes for MSME sector is undertaken by the Ministry with the assistance of its attached and autonomous organizations. The growth of small scale industries can be evaluated on the growth rates of units, Employment, output and exports of Small scale industries in 2013 with that of 1990s. At the same time MSMEs sector faced *Key Challenges like as* Lack of availability of adequate and timely credit, High cost of credit, Collateral requirements, Limited access to equity capital, Procurement of raw material at a competitive cost, Problems of storage, designing, packaging and product display, Lack of access to global markets, Inadequate infrastructure facilities, including power, water, roads, Low technology levels, Lack of skilled manpower for manufacturing, services, marketing, etc. Despite the various challenges it has been facing, the MSME sector has shown admirable innovation, adaptability and Resilience to survive the recent economic downturn and recession. The small scale sector has grown rapidly over the years. The period of liberalization and the development the MSMEs sector constituted an important segment of our economy. MSMEs are a very important segment in the Indian industrial sector and would continue to play a crucial role in the Indian Economy in the future. A rewarding feature of economic development in India is due to impressive growth of modern MSMEs.

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