



# The Development And Obstacles Of Micro, Small, And Medium Enterprises In India

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## Abstract

The Micro, Small, and Medium Enterprises (MSMEs) sector in India plays a crucial role in propelling the growth of the Indian economy. These enterprises not only generate employment opportunities but also facilitate industrialization in rural regions, thereby addressing income inequality among the population. MSMEs make substantial contributions to the Indian economy through various avenues, including export production, domestic manufacturing, minimal investment requirements, operational adaptability, and technology-driven initiatives. Following agriculture, small businesses serve as the second largest source of employment in the country. MSMEs account for over 80 percent of all industrial enterprises, contributing to 40 percent of industrial output, 80 percent of employment within the industrial sector, 45 percent of the value added by manufacturing, and 40 percent of total exports. This paper aims to explore the growth and contributions of MSMEs in India, as well as their role in creating employment opportunities. Additionally, it addresses the challenges faced by these enterprises in their operational endeavors.

**Key words:** MSMEs, Employment, Growth, Challenges of MSMEs.

## Introduction:

The Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating largest employment opportunities at comparatively lower capital cost, next only to agriculture. MSMEs are complementary to large industries as ancillary units and this sector contributes significantly in the inclusive industrial development of the country. The MSMEs are producing a wide range of products and services to meet demands of domestic as well as global markets. On an average this sector has almost 36 million units that provide employment to about 80 million individuals. This sector through the production of 8000 products contributes 8% to GDP of

the country. The schemes & various initiatives of Ministry of MSMEs & other organisations seeks to provide the following facilities: Adequate flow of credit from financial institutions/banks, Support for technology up-gradation and modernization, Integrated infrastructural facilities, Modern testing facilities and quality certification, Access to modern management practices, Entrepreneurship development and skill up gradation through appropriate training facilities, Support for product development, design intervention and packaging, Welfare of artisans and workers, Assistance for better access to domestic and export markets, and Cluster- wise measures to promote capacity-building and empowerment of the units and their collectives. The various commissions, institutions , organisations & acts has been setup by the concerned Ministry to promote & develop the various industries at micro, small and medium levels. Some of the important institutional setups are as: Micro, Small and Medium Enterprises Development (MSMED) Act 2006, Khadi & Village Industries Commission (KVIC), Coir Board, National Small Industries Corporation (NSIC) Ltd., Mahatma Gandhi Institute for Rural Industrialisation (MGIRI), National Board for Micro, Small and Medium Enterprises (NB MSME), and National Institute for Micro, Small and Medium Enterprises.

### **Definition of MSMEs:**

In accordance with the provision of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 the Micro Small and Medium Enterprises are classified in two classes:

Manufacturing Enterprises – Investment in Plant and Machinery Service enterprises- Investment in Equipment.

Classification	Investment Ceiling for Plant, Machinery or Equipment	
	Manufacturing Enterprises	Service Enterprises
<b>Micro</b>	Up to Rs. 25 lakhs	Up to 10 Rs. Lakhs
<b>Small</b>	Above Rs. 25 lakhs and Up to Rs. 5 Crores	Above 10 Lakhs and Up to 2 Crores
<b>Medium</b>	Above Rs. 5 Crores and Up to Rs.10 Crores	Above Rs. 2 Crores and up to Rs. 5 Crores

Source: Ministry of MSMEs

### **Literature Review:**

- Ghatak, Shambhu (2010) in his paper titled "Micro, small and medium enterprises (MSMEs) in India: an appraisal highlighted that status of Indian MSMEs is better than its counterpart in Bangladesh & Pakistan. About 36% of Pakistani SMEs have bank accounts where as about 46% Bangladeshi's SMEs have Bank accounts. In comparison to them about 95% of Indian SMEs have their bank accounts. He further stated that Indian Govt. should accelerate its initiatives to provide further support to these Small scale industries.
- Rajib Lahiri (2012) in his study compares the performance of MSMEs in pre and post liberalisation period on the basis of average annual growth rates. It is a secondary data based study done on the

basis of four Macro Economic variables i.e. Number of working units, Employment, Production and Export. The study reveals that Number of working units, Production and Export of MSMEs has lower AAGR in post liberalisation period as compare to pre liberalisation whereas Employment shows a slight high value in post liberalisation period as compare to pre liberalisation period. This paper concludes that the growth of MSME sector in post liberalisation period is not satisfactory in India.

- Srinivas, K. T. (2013) in his paper entitled Role of micro, small and medium enterprises in inclusive growth concluded that the MSMEs has been termed as the engine for the growth of the Country. In the last few years, there has been tremendous change in the national & State level for consolidating this sector. Poor infrastructure & lack of marketing linkages are the key reasons for the poor growth of the MSMEs in India. The support provided by the state as well as Central Govt. is not adequate for the upliftment of the MSMEs in India. Therefore the entrepreneurs in India & Govt. should take some initiatives for further-development of these MSMEs in India.
- Sanjeeb Kumar Dey., (2014) in his article on “MSMEs in India: It’s Growth and Prospects” the importance of MSME has been recognized in recent years in both developed and developing countries for its significant contribution in gratifying various socio-economic objectives such as higher growth of employment, output, promotion of exports and fostering entrepreneurship. They play a crucial role in the industrial development of any country. The MSME sector is an important pillar of Indian economy as it contributes greatly to growth of Indian economy. This sector even assumes greater importance now as the country moves towards a faster and inclusive growth agenda. Moreover, it is the MSME sector which can help realize the target of proposed National Manufacturing Policy of raising the share of manufacturing sector in GDP from 16% at present to 25% by the end of 2022. The present paper is an attempt to focus the present status of performance of MSMEs in India & future prospects. It is concluded that this sector contributes significantly to manufacturing output, employment, exports of the country.
- Soundarapandian M., (2015) in his article on “Role of Micro Small and Medium Enterprises After Global Economic Crisis in Tamil Nadu” an attempt was made to analyse the impact of the global financial crisis on the Micro Small and Medium Enterprises (MSMEs) in India. The specific objectives of the study are: (i) to find out the level of growth of the Micro Small and Medium Enterprises (MSMEs) after global economics crisis and (ii) to compare the changes in the performance of MSMEs during pre and post financial crisis period in India. The performance of MSMEs parameters (variables) like number of units (both registered and unregistered) level of investment, production, employment and exports are analysed by using the secondary data. Extensive discussion held with the officials of various District Industries Centre (DIC) revealed a number of crucial problems confronting the industry. Some of these problems have to be tackled by the government and others are to be solved by industries themselves. For Indian MSMEs, the erratic availability of raw material and their rising prices present formidable difficulties in adhering to the schedules of production and maintaining the production cost ultimately and they create serious

problems at the sales stage. MSMEs hardly do anything to cultivate and develop the sales systematically as a result they suffer and shiver even with the slighted depression. The attitude of the MSMEs entrepreneurs towards selling the product is a crucial factor in the success and growth of their enterprises.

- Shivalingapp G.Vibhuti and Prof.Gururaj Shivaraj barki., (2016) in their article on “Role of Micro Small and Medium Enterprises (MSMEs) in Indian Economy” stated that the Micro Small and Medium Enterprises in India is the boost to the economy, in the form of gross domestic product of the country and employment opportunity. In fact, the significance of MSMEs is an important avenue for employment generation in India, low capital requirement and technology requirement, also needs promotion of industrial development especially in the rural areas, with the usage of traditional method or practice of manufacture or inherited skill to manufacture, effective use of local resources, mobilization of resources and to export the products. According to the approximation of the Ministry of MSMEs, Government of India, the sector generates around hundred million jobs through over forty six thousand millions of units situated all over the country. Also 38% of contribution to the nation’s GDP and more than 40% share of the overall exports and manufacturing output, it is clear with this information that the MSMEs plays major role in the country development, social and economic restructuring of India through that it also helps in make in India global hub for manufactures. The MSME sector faced the following challenges: Inadequate access to finance due to lack of financial information and non-formal business practices, changes in technology, changes in demands, emergence of new markets, operational challenges (such as sparse population, infrastructural bottlenecks, particularly transport and order conditions) and lack of any documented financial information is one of the major challenges in the underwriting process.
- N. Aruna (2017) has done an empirical study of Telangana state to find out the major problems faced by MSMEs of Hyderabad district by taking sample of 150 units. Among five major finance, production, marketing, management and pre-commencement of business, major problem of area was finance and production problem. Similarly Pandey (2011) have done the similar state level empirical research on problems of Uttar Pradesh MSMEs. He found that problem of finance, marketing, raw material, transportation, power and entrepreneur profile were the major problems faced by U.P. MSMEs.
- Rashmi Khanna & Satyendra .P. Singh (2018) in their study focused on the importance of MSMEs sector by shedding light on the contribution of MSME sector to total industrial production and GDP which is showing increased trend over the period. This is a secondary data based study which also focus that the number of enterprises, employment and investment in fixed assets in India has increased over the period of time. The role of MSMEs in India is increasing day by day and have became a thrust area for growth in future. Therefore this sector need zenith attention as well as proper nurturing for the socio- economic development of economy.

## Objectives of the study:

1. To examine the present condition and expansion of micro, small, and medium enterprises (MSMEs) in India.
2. To analyze the influence of MSMEs on job creation within the Indian economy.
3. To identify the challenges encountered by MSMEs in India.

## Research Methodology:

This research utilizes secondary data obtained from a range of sources, including magazines, annual reports, the Department of Micro, Small, and Medium Enterprises (MSMEs), and other published documents. The findings are organized in tabular format, and interpretations have been drawn in accordance with the study's previously stated objectives.

## ANALYSIS OF DATA:

### Growth and development of MSMEs

**Table 1: Number of MSMEs (Activity Wise)**

The MSMEs in India are playing a crucial role by providing large employment opportunities at comparatively lower capital cost than large industries as well as through industrialization of rural & backward areas, *inter alia*, reducing regional imbalances, assuring more equitable distribution of national income and wealth.

Activity Category	Number of Enterprises (in lakh)			Share (%)
	Rural	Urban	Total	
(1)	(2)	(3)	(4)	(5)
Manufacturing	114.14	82.50	196.65	31
Trade	108.71	121.64	230.35	36
Other Services	102.00	104.85	206.85	33
Electricity	0.03	0.01	0.03	0
<b>All</b>	<b>324.88</b>	<b>309.00</b>	<b>633.88</b>	<b>100</b>

Source: Ministry of MSMEs annual report 2018-19

## Interpretation

As per the National Sample Survey (NSS) 73<sup>rd</sup> round, conducted by National Sample Survey Office, Ministry of Statistics & Programme Implementation during the period 2015-16, there were 633.88 lakh unincorporated non-agriculture MSMEs in the country engaged in different economic activities (196.65 lakh in Manufacturing, 0.03 lakh in Non-captive Electricity Generation and Transmission, 230.35 lakh in Trade and 206.85 lakh in Other Services)

**Table2: Percentage share of rural and urban MSMEs in the country**

Area	Rural (In lakhs)	Urban (In Lakhs)	Total
No. of MSMEs	324.88	309	633.88
% of MSMEs	51.25%	48.75%	100%

Source: Ministry of MSMEs annual report 2018-19

### Interpretation

Out of 633.88 estimated no. of MSMEs, 324.88 lakh MSMEs (51.25%) are in rural area and 309lakh MSMEs (48.75%) are in the urban areas. MSMEs in rural areas are growing faster than inurban areas.

**Table 3: Distribution of Enterprises Category Wise (numbers in Lakhs)**

Sector	Micro	Small	Medium	Total
Rural	324.09	0.78	0.01	324.88
Urban	306.43	2.53	0.04	309.00
All	<b>630.52</b>	<b>3.31</b>	<b>0.05</b>	<b>633.88</b>

Source: Ministry of MSMEs annual report 2018-19

### Interpretation

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

**Table 4: Percentage Distribution of Enterprises in rural and urban areas (Male/Female ownership category wise)**

Sector	Male	Female	Total
Rural	77.76	22.24	100
Urban	81.58	18.42	100
All	<b>79.63</b>	<b>20.37</b>	<b>100</b>

Source: Ministry of MSMEs annual report 2018-19

### Interpretation

Out of 633.88 lakh MSMEs, 608.41 lakh (95.98%) MSMEs were proprietary enterprises. There has been overwhelming predominance of male owners in proprietary MSMEs. Thus, for proprietary MSMEs as a whole, male owned 79.63% of enterprises as compared to 20.37% owned by female. There was no significant deviation in this pattern in urban and rural areas, although the dominance of male owned enterprises was slightly more pronounced in urban areas as compared to rural areas (81.58% as compared to 77.76%).

**Table 5: Percentage distribution of Enterprises by Male/Female Owners**

Category	Male	Female	All
Micro	79.56	20.44	100
Small	94.74	5.26	100
Medium	97.33	2.67	100

Source: Ministry of MSMEs annual report 2018-19

### Interpretation

Male dominance in ownership has been more pronounced for Small and Medium enterprises with 95% or more enterprises being owned by them, as compared to Micro enterprises where 80% were owned by males.

### Employment in MSME Sector:

**Table6: 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
<b>All</b>	<b>497.78</b>	<b>612.10</b>	<b>1109.89</b>	<b>100</b>

Source: Ministry of MSMEs annual report 2018-19

### Interpretation

As per the National Sample Survey (NSS) 73<sup>rd</sup> round conducted during the period 2015- 16, MSME sector has been creating 11.10 crore jobs (360.41 lakh in Manufacturing, 387.18 lakh in Trade and 362.22 lakh in Other Services and 0.07 lakh in Non-captive Electricity Generation and Transmission) in the rural and the urban areas across the country.

**Table 7: Sectoral distribution of workers in Male and Female Category (in Lakh)**

Sector	Female	Male	Total	Share (%)
<b>Rural</b>	137.50	360.15	497.78	45
<b>Urban</b>	127.42	484.54	612.10	55
<b>Total</b>	<b>264.92</b>	<b>844.68</b>	<b>1109.89</b>	<b>100</b>

Source: Ministry of MSMEs annual report 2018-19

### Interpretation

Out of 1109.89 lakh employees in MSME sector, 844.68 (76%) are male employees and remaining 264.92 lakh (24%) are females. Rural female employees are 137.50 lakhs whereas rural male employees are 360.15. In urban area female employment is 127.42 whereas male employees are 484.54.

**Table 8: Distribution of Employment in Rural and Urban Areas (Number in lakh)**

Sector	Micro	Small	Medium	Total	Share (%)
<b>Rural</b>	489.30	7.88	0.60	497.78	45
<b>Urban</b>	586.88	24.06	1.16	612.10	55
<b>All</b>	<b>1076.19</b>	<b>31.95</b>	<b>1.75</b>	<b>1109.89</b>	<b>100</b>

Source: Ministry of MSMEs annual report 2018-19

### Interpretation

Out of 1109.89 lakhs employees in MSMEs sector, 1076.19 are in micro sector, 31.95 from small sector and 1.75 are from medium sector. Percentage of rural Employment is 45% and urban employment is 55%. The rate of employment is higher in urban areas when compared to rural areas.

**Table 9 : Share of UAM-manufacturing and service MSMEs registered**

Sector	Total	Percentage
<b>Manufacturing</b>	1749818	45
<b>Service</b>	2144111	55

Source: Ministry of MSMEs annual report 2018-19

### Interpretation

Since September, 2015, in view of promoting ease of business, an online filing system under Udyog Aadhar Memorandum (UAM) based on self-declared information has been put in place. Till end of May, 2019, 68.25 lakh MSMEs have already registered on UAM

Table 10: Performance of SSI / MSME Units, Employment, Investments and Gross Output

S.no	Year	No. of. MSMEs working( in Lakhs)	Employment (in lakhs)	Market value of FA (in crores)	Gross output (in crores)
1.	2001-02	105.21	249.33	154349.00	282270.00
2	2002-03	109.49	260.21	162317.00	314850.00
3	2003-04	113.95	271.42	170219.00	364547.00
4	2004-05	118.59	282.57	178699.00	429796.00
5	2005-06	123.42	294.91	188113.00	497842.00
6	2006-07	361.76	805.23	868543.79	868,543.79
7	2007-08	377.36	842.00	868543.79	920,459.84
8	2008-09	393.70	880.84	920459.84	977,114.72
9	2009-10	410.80	921.79	977114.72	1,038,546.08
10	2010-11	428.73	965.15	1038546.08	1,105,934.09
11	2011-12	447.66	1011.80	1105934.09	1,182,757.64
12	2012-13	467.56	1061.52	1182757.64	1,268,763.67
13	2013-14	488.29	1114.29	1268763.67	1,363,700.54
14	2014-15	510.57	1171.32	1363700.54	1,471,912.94
15	2015-16	553.65	805.24	1363700.32	107721286

Source: Ministry of MSMEs annual report 2018-19

### Interpretation

The above table shows number of MSMEs are working, the increase of employment opportunities, market value of fixed assets and gross output from 2001-2002 to 2014-2016. There is an increase in no. of MSMEs 361.76 lakhs, employment 805.23 lakhs, investment in fixed assets (868543.79), gross output (868,543.79) in the year 2006-2007. There is a decrease in employment 805.24 lakhs in the year 2015-2016 from 1171.32 lakhs in the year 2014-2015. At present in the year 2018-2019 it is 1109.89 lakhs.

### Challenges of MSMEs in India:-

- ❖ **Lack of credit from banks-** The banks are providing on an average 50% total capital employed in fixed assets. The cost of credit is also high. Interest rates on MSME loans are between **8.65% to 16.25%**.
- ❖ **Competition from multinational companies-** In present era of globalization, the MSME`S are facing the great from the international manufacturing companies who are proving quality goods at cheapest price.
- ❖ **Poor infrastructure-** Though, MSME`S are developing so rapidly but their infrastructure is very poor. With poor infrastructure, their production capacity is very low while production cost

is very high.

- ❖ **Unavailability of raw material and other inputs-** For MSME's required material skilled work force and other inputs, which are not available in the market. Due to unavailability of these essentials, it is very difficult to produce the products at affordable prices.
- ❖ **Lack of advanced technology-** The owners of MSME'S are not aware of advanced technologies of production.
- ❖ **Lack of distribution of marketing channels-** The MSME'S are not adopting the innovative channels of marketing. The ineffective advertisement and poor marketing channels leads to a very poor selling.
- ❖ **Lack of training and skill development program-** The owners is not aware of the innovative methods of production. The skill developmental schemes conducted by the government are not sufficient.

#### **Findings:-**

- ❖ Growth of MSMEs in rural areas i.e. 51% are more when compared to urban areas ie., 49%.
- ❖ Growth of Medium enterprises i.e., 0.05 lakhs are very low when compared to Micro and Small enterprises i.e., 630.52 lakhs and 3.31 lakhs.
- ❖ Male owned MSMEs i.e., 79.63% as compared to female owned MSMEs i.e., 20.37%.
- ❖ Male owned enterprises are more in case of small and medium enterprises i.e., 95% and in case of micro enterprises their dominance is 80%.
- ❖ Employment generation is more in Urban areas i.e., 55% when compared to rural areas ie., 45%.
- ❖ Male employees are 76% and female employees are only 24% in MSMEs sector.
- ❖ Out of 1109.89 lakhs no. of. MSMEs, the growth of medium enterprises are only 1.75 lakhs.
- ❖ In case of service sector, registration of MSMEs under UAM is 55%, whereas manufacturing sector it is 45%. Till May 2019, 68.25 lakh MSMEs have been registered under UAM.

#### **Suggestions:-**

- ❖ MSMEs in urban areas need to be improved to create more employment opportunities for the development of economy.
- ❖ Opportunities must be provided to women in terms of employment and business both in urban and rural areas through proper training.
- ❖ Government of India must take necessary steps to encourage medium enterprises too.
- ❖ Bank credit and interest rates must be flexible according to the requirements of MSMEs.
- ❖ Proper training must be provided to the MSMEs both in rural and urban areas in terms of technology and innovation.

**Conclusion:-**

The Micro, Small, and Medium Enterprises (MSME) sector in India is experiencing robust growth and is creating numerous employment opportunities for a large segment of the population. Both the Manufacturing and Service sectors within MSMEs make substantial contributions to the nation's overall GDP. The Government of India has implemented various initiatives and is actively working to enhance the development of MSMEs across the country. Additionally, the government is forming partnerships and agreements with non-governmental organizations, governmental bodies, and universities to ensure the effective execution of policies aimed at establishing MSMEs, while also providing entrepreneurs with the necessary guidance to launch their businesses. However, MSMEs continue to encounter several challenges. The issue of limited awareness regarding technological advancements can be addressed through the implementation of effective training and skill development programs. Furthermore, there is a need for affordable credit options for MSMEs, as foreign banks show limited interest in providing loans to this sector. Currently, outstanding bank credit accounts for less than 50% of the total fixed assets utilized by MSMEs, compelling owners to rely on personal funds for working capital. It is essential to establish a panel of experts to evaluate the status and requirements of MSMEs. The outlook for the MSME sector in India is promising, and its growth is expected to significantly contribute to the economy.

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