



SIGNIFICANCE OF INSTITUTIONAL STRUCTURE FOR THE DEVELOPMENT OF MSMES IN INDIA: AN OVERVIEW

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ABSTRACT

The significance of Micro, Small, and Medium Scale Industries (MSME) holds great importance. Research indicates that MSMEs contribute approximately 45% of the gross value of output in the manufacturing sector, while generating employment opportunities more than five times that of large-scale industries. Since Independence, Small Scale Industries have played a dynamic role in the economic development of the nation, fostering employment, income generation, increased exports, affordable products, rural development, and the reduction of regional imbalances. Over the past six decades, both the Central and State governments of India have formulated development policies to accelerate the growth of this sector. To promote the growth and development of MSMEs, the government has established numerous organizations and institutes. These entities provide diverse financial and non-financial support to these enterprises through various schemes and programs. This paper aims to present a concise overview of the major organizations established by the Indian government to foster the growth and development of the MSME sector, thereby facilitating rapid industrialization throughout the nation.

KEY WORDS: MSMEs, Ministry of MSME and other organizations

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in the economic growth of any nation. Historical evidence reveals that the development of small industries, including India, has contributed to the economic growth of various countries such as Western Europe, the United States, Japan, Australia, Ghana, Sri Lanka, Nigeria, Kenya, Bangladesh, and many others. Unlike large-scale industries, small industries require minimal capital investment, workforce, and skills. They are easily manageable and operable. Importantly, they facilitate the creation of employment opportunities, income generation, reduction of regional imbalances, cost-effective production, and rural development in a country. Since Independence, industrialization has been a significant aspect of the Indian economy. Successive governments have consistently encouraged industrialization by focusing on the rapid growth of the small-scale industrial sector. The small-scale sector gained legal recognition through the Industries (Development and Regulation) Act of 1951. Subsequently, all industrial policies and five-year plans in India incorporated provisions that emphasized and promoted small-scale industries, leading to rapid industrialization. In the fiscal year 2020-21, the MSME sector contributed 29% to the Gross Domestic Product (GDP), 45% to the country's total manufacturing output, and approximately 50% to India's exports. This sector manufactures over 6000 products. Due to the inherent characteristics of small-scale enterprises, it has the potential to accelerate industrialization throughout the country. Over the past six decades, the MSME sector has played a prominent role in the Indian economy. The Government of India has established various organizations and institutes to support MSMEs, providing financial and non-financial assistance such as loans, subsidies, market assistance, infrastructure facilities, information dissemination, suggestions, skill development, training, and management development programs to this sector.

CONCEPT OF MSME

MSME Development Act, 2006 Small Scale Industries in different categories as Micro, Small Medium, Large and Mega Scale Industries on the basis of their Investment in plant and machineries (original cost).

Manufacturing Sector: In case of enterprises engage in production, processing and preservation of goods, the investment requirement in plant and machineries upto Rs. 25 lakhs for Micro enterprises, more than Rs.25 lakhs to Rs.5 crore for Small enterprises and more than Rs.5 crores to Rs.10 crore for Medium enterprises.

Service Sector: In case of enterprises engage in providing and rendering services, the investment requirement in plant and machineries upto Rs.10 lakhs for Micro enterprises, more than Rs.10 lakhs to Rs.2 crore for Small

But post COVID-19, on 13th May 2019, Finance Minister Nirmala Sitharaman redefines the MSME and made an amendment to change the criteria to classify MSMEs by adding principle of turnover along with the investment. Again on On 1st June, 2020, the Union Cabinet headed by Prime Minister Narendra Modi officially revised the MSME definition. As a result, there will be no difference between manufacturing and service sectors. Also, a new criterion of turnover has been added in the previous criterion of classification based only on investment in plant and machinery.

Updated MSME Definition		
Type of enterprise	Investment	Turnover
Micro	Not more than Rs 1 crore	Not more than Rs 5 crore
Small	Not more than Rs 10 crore	Not more than Rs 50 crore
Medium	Not more than Rs 50 crore	Not more than Rs. 250 crore

OBJECTIVES OF STUDY

The main objective of this study is to present a brief view about major institutes and organization, established for providing financial and non financial support to MSMEs in India. Research Methodology for this research is descriptive design. Secondary data method for data collection is adopted in this study. The data were collected from the various websites of Ministry of MSME, annual reports of Ministry of MSME and its various organisations, articles, research papers etc. The study is based on present scenario of MSME in India. It is limited to the secondary data available in web sites , research paper, journals, magazines, publications, articles etc.

FRAMEWORK OF MSME

Initially, India was among the wealthiest nations in the world. However, throughout its history, it attracted numerous invaders who plundered its riches. The British invasion, in particular, devastated the Indian economy through their policies, rules, and regulations. As a result, at the time of Independence, the Indian economy was underdeveloped and stagnant, relying heavily on agriculture. India grappled with issues such as unemployment, poverty, illiteracy, low per capita income, inadequate infrastructure, limited industrialization, economic disparities, and a high population.

Following Independence, the government prioritized the growth of small industries and began formulating plans and policies to expedite industrialization and foster the development of the Indian economy. In 1951, the Industries (Development and Regulation) Act was enacted to provide a legal framework for small industries. Subsequently, a series of measures were initiated through industrial policies, with small-scale sectors given preference and encouragement for self-reliance and sustained economic growth in all ten Five-Year Plans spanning from 1951 to 2007.

Based on recommendations from the 1947 Industrial Conference, the Small Scale Industrial Board was established in 1952, granting it overarching control over industries in the country. The National Small Industries Corporation (NSIC) was formed in 1955 to assist these industries. Furthermore, Small Industries Development Corporations (SIDCO) were established in each state to provide support to small industries. The Ministry of Industries created the Department of Industrial Development and the Department of Agro and Rural Industries to oversee the administrative mechanism of small-scale industries. Additionally, several

departments, corporations, and agencies were established to assist small-scale industries, such as the National Institute for Small Industries Extension Training (NISIET), the Industrial Development Bank of India (IDBI), the Industrial Finance Corporation of India (IFCI), the Industrial Credit and Investment Corporation of India (ICICI), and the Khadi and Village Industries Commission (KVIC).

Despite fierce competition from larger sectors, the small-scale industry has emerged as one of the fastest-growing sectors in the country, recording significant growth since Independence. However, with the increase in the number of small-scale units, various challenges have arisen, including issues with product quality, inadequate infrastructure, outdated technology, insufficient finances, a lack of managerial skills, delayed payments from customers, resource unavailability, and difficulties in closing down non-viable units.

To address these concerns and promote the sector, the "Micro, Small, and Medium Enterprises Development Act" was enacted in 2006, providing a statutory mechanism. This Act introduces the concept of enterprises, encompassing both manufacturing and service entities, and categorizes them into three tiers: micro, small, and medium. On May 9, 2007, the Ministry of Small Scale Industries and the Ministry of Agro and Rural Industries merged to form the Ministry of Micro, Small, and Medium Enterprises (MSME). This ministry is responsible for designing policies, promotion schemes, projects, etc., for these enterprises, including Khadi, Village, and Coir Industries, and monitoring their implementation.

ORGANISATIONAL SETUP of MINISTRY OF MSME

Ministry of MSME (Micro, Small and Medium Enterprises) has two wings namely Small and Medium Enterprises (SME) and Agro and Rural Industry wing (ARI). SME wing supervises the work of NSIC and NIMSME, while ARI wing looks after the work of KVIC, Coir Board and MGIRI.

Ministry of MSME formulates various policies, programmes and projects for MSMEs and monitors their proper implementation in the states. Ministry of MSME and its organizations help the state governments in their activities for development of entrepreneurship, promotion of MSMEs according to the changed economic scenario. The Government is undertaking a number of programmes and schemes with the object of providing adequate flow of credit, infrastructural facilities, testing facilities, quality certification, technology upgradation and modernization, skill development and training programmes, domestic and export market assistance for development and promotion of MSME through its various institutes and organisations.

VARIOUS OTHER INSTITUTIONS

Following are the various offices, Institutions and organizations, which are developed for the help and support of MSMEs.

1. Office of Development Commissioner (MSME)

The office of Development Commissioner was established in 1954 primarily was named as Small Industries Development Organisation (SIDO), later with the commencement of MSME Development Act 2006 renamed as office of Development Commissioner (MSME). It is headed by Special Secretary and Development Commissioner (MSME). It is the apex body which is engaged in the formation and implementation of policies for development of MSME over India. It provides advisory services to the government in policy formation for MSME sector. It also helps MSME units by giving technical, economical and managerial consultancy and facilities like modernization, technological up gradation, infrastructural development, quality improvement, training and other skill development etc. It works through various institutes and centers like MSME-DI, Testing centers, production centers and other specialized centers.

2. National Board for Micro, Small and Medium Enterprises (NB MSME)

After commencement of MSME Development Act, 2006, a National Board for MSME was established. It consists 47 members. The Minister Incharge of MSME is the chairman and other members are State Industry Ministers, some members of Parliament, Secretaries of various government departments, financial institutes, public sector undertakings, industry association and experts of the field. It is apex advisory body, advises Government on all the issues related to MSME Sector.

3. Khadi and Village Industries Commission (KVIC)

KVIC is a statutory organization established under Khadi and Village Industries Commission Act, 1956. It is an organization under Ministry of MSME with regard to Khadi and Village Industries within India. It formulate policies and assist in establishment and development of Khadi and Village Industries in rural areas. which is engaged in promotion and development of employment opportunities in rural areas. Its head office is situated at Mumbai having six zonal offices in Delhi, Bhopal, Bangalore, Kolkata, Mumbai and Guwahati and 29 state offices. The main objective of KVIC is to provide employment opportunities in rural area and to create self reliance among rural people.

4. Mahatma Gandhi Institute for Rural Industrialization (MGIRI)

MGIRI (erstwhile JAMNALA Baja Central Research Institute) is a society registered under Societies (Registration) Act, 1860 at Wardha, Maharashtra. MGIRI is acting like a facilitator and a nodal networking institute for promotion of rural industrialization. It consists of six major divisions as per different generic areas of rural Industrialization namely Khadi and Textile division, Bio Processing and Herbal Industries division, Chemical Industries division, Rural craft and engineering division, Rural Infrastructure and Energy division, Management and System division. Its main objectives are to incur the Research and Development activities in Khadi and Village Sector, facilitate fast availability of modern science, technology and management inputs for rural industrialization and providing infrastructural facilities, specialized tool room and other market facilities by creating a network among other institutes.

5. Coir Board

It is a statutory body established under Coir Industry Act, 1953. Its main objective is to develop and promote coir industry within the country, which is one of the major agro based rural industries of India. It also undertakes various scientific, economical and technological research and development activities for promotion of coir Industry. For the purpose the Board has promoted two research Institutes namely Central Coir Research Institute (CCRI) at Kalavoor Alleppey and Central Institute of Coir Technology (CICT) at Bengluru. The Board provides various facilities like providing market facilities within and outside India, promotion of Cooperative societies for producers of husks, coir fibre, coir yarn and coir products.

6. National Small Industries Corporation (NSIC) Ltd.

It was established in 1955 by Government of India. The main objective of the corporation is to promote aid and develop the micro and small enterprises in India. It has 142 offices all over India and one office at Johannesburg (South Africa). It carries out various programmes, schemes to assist MSMEs of the country. It provides various facilities and support like material procurement, market facilities, technology acquisition and modernization, credit rating, training etc. for promotion and development of MSME.

7. National Institute for Micro, Small and Medium Enterprises (NI-MSME)

It is originally established in 1960 as a Central Industrial Extension Training Institute in New Delhi under Ministry of Industry and Commerce. It was extensively engaged in training so later on in 1962 it was shifted to Hyderabad and renamed as Small Industry Extension Training Institute (SIET). After commencement of MSME Development Act, 2006, on 11th April 2007 it became NI-MSME comes under the Ministry of MSME and also its structure and organisation is redesigned. It is engaged in undertaking training and research and providing consultancy for entrepreneurship development and promotion of MSME. It is providing various programmes benefitting not only the Indian people but also the executives of other developing countries.

8. MSME Development Institute (MSME DI)

MSME DI earlier known as Small Scale Industries Service Institute (SISI), was set up to provide training and consultancy to small enterprises. At present there are 30 MSME DIs, established in State capitals and other cities all over India. The activities of the Institute are providing assistance to entrepreneur, preparation of State Industrial profile, project profiles, market survey, to make various entrepreneurship development programmes, skill development programme, management development programme, energy conservation, pollution control, export promotion, quality control, technological upgradation, preparation of directory for specific industry, coordination with various DICs etc.

9. National Institute for Entrepreneurship and Small Business Development (NIESBUD)

NIESBUD is an organisation established in 1983 by the Ministry of Industry (now Ministry of MSME) comes under Ministry of Skill Development and Entrepreneurship with the mission to promote support and sustain entrepreneurship by training, consultancy and research. The main objectives of the institute are providing training, management development programme, entrepreneurship cum skill development programme, consultancy, standardizing model syllabi for training, formulating scientific selection procedures, developing entrepreneurial culture within the country etc.

10. Indian Institute of Entrepreneurship

Indian Institute of Entrepreneurship is an autonomous organization established in 1993 by the Ministry of Industry (now Ministry of MSME) registered under Societies Registration Act, 1860, comes under Ministry of Skill Development and Entrepreneurship. The main objective of the institute is to provide training, research and consultancy activities for Micro and Small Enterprises for entrepreneurship development. Its headquarter is at Guwahati.

11. Small Industries Development Bank of India (SIDBI) Established on April 2, 1990, through an act of Parliament, SIDBI is an autonomous financial institution with a mission to facilitate and enhance credit availability for Micro, Small, and Medium Enterprises (MSMEs). Its primary goal is to bridge the financial and developmental gaps in the MSME sector, making these enterprises robust, dynamic, and globally competitive. The headquarters of SIDBI is located in Lucknow. Initially, it operated as a wholly owned subsidiary of the Industrial Development Bank of India (IDBI). Subsequently, all operations related to the small-scale sector of IDBI were transferred to SIDBI. Initially functioning as a refinancing agency, providing funds to banks and other financial institutions for lending to small industries, SIDBI later expanded its activities across India with the establishment of 100 branches. It also ventured into direct funding for the SME sector. Presently, SIDBI operates seven dedicated branches specifically for microfinance, offering loans up to Rs. 5 lakhs. The objectives of SIDBI encompass providing financial assistance to the MSME sector, promoting employment-oriented industries, facilitating the marketing of products manufactured by the small-scale sector, upgrading technology and modernizing small-scale units, and coordinating the efforts of institutions involved in the promotion of small-scale industries. Currently, SIDBI serves as the principal financial institution for the promotion, financing, and development of the Micro, Small, and Medium Enterprise (MSME) sector, while also coordinating the functions of other institutions engaged in similar activities.

State Financial Corporation

State Financial Corporations are the integral part of finance structure in the nation. It is established to promote small and medium industries of the state. It provides financial assistance and other related services to MSME sector. It is also very helpful in balanced regional development, higher investment and more employment generation. At present 18 SFCs are there in the country.

12. Industrial Finance Corporation of India

In 1948 the first development finance institution was under the name Industrial Finance Corporation of India (IFCI). Later in 1993, it was reconstituted to limited company by bringing it under Companies Act 1956. The main objective of the company is to provide medium and long term credit to industries in both Indian currency and foreign currency. It provides soft loan assistance to small and medium sector for developing technology, financial support for entrepreneurship development, management development programmes, subsidized consultancy for promoting units, market research, modernization, reviving sick units etc.

13. Industrial Development Bank of India

IDBI was developed as a wholly owned subsidiary of Reserve Bank of India in July 1964. In 1976 the Government had taken over it. The main provide objective of the bank is to provide financial assistance to industries and also to coordinate the activities of different financial institutes. The bank is providing direct assistance and through different financial institutes. It also provide services of refinancing, rediscounting of bills, seed capital assistance, underwriting of shares and stocks. It runs different schemes and policies for MSME sector.

14. District Industrial Centres

DICs were launched in 1978 for the promotion of small scale and cottage industries at district level in order to provide integrated administrative framework there rather than big cities. It provides all services and support to the small enterprises like financial assistance, market assistance, identification of suitable scheme, supply of machineries, equipments, consultancy and extension services, to prepare feasibility reports, liasening with different financial institutes, monitor the flow of credit. Training, skill development etc.

15. Commercial and development Banks

These banks are contributing a prominent role in development of MSME sector. Almost all the banks like public sector banks, private sector banks, scheduled banks State Bank of India, ICICI, Bank of India etc. provides various facilities to industries and more specifically small industries. They are providing various facilities that are required for day to day functioning, growth and development of these enterprises like providing loans in the form of term loan, working capital, providing subsidies, non financial assistance, consultancy, markets etc.

The Micro, Small and Medium Enterprises are the growth engine in the Indian economy. The sector has the potential to faster industrialization within the country. Thus Government of India recognizes the importance of MSME sector and is trying to develop the sector at all levels. For the support of this sector the Government of India has established a series of institutes, which release the burden of small sector for their sustainable growth.

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