Chapter II

Micro, Small and Medium Enterprises - Conceptual Issues
Contents of the Chapter

- Introduction ....................................................................................................... 25
- Concept of Small Scale Industries................................................................. 27
- Micro Enterprises .......................................................................................... 28
- Small and Medium Enterprises - Global Perspective................................. 28
- MSMEs in India ............................................................................................... 32
- Small Scale Industries: The wheel of Legal and Regulatory Framework ........ 37
- Regulatory Framework and Incentives for Small and Medium Enterprises .... 39
- Micro, Small and Medium Enterprises ......................................................... 41
- MSME Contribution to the Economy .............................................................. 43
- The MSMEs in the Indian Backdrop ............................................................... 44
- Problems faced by the MSMEs ..................................................................... 48
- Conclusion ........................................................................................................ 48
CHAPTER II

Micro, Small and Medium Enterprises - Conceptual Issues

2.0 Introduction

This chapter sets out the conceptual issues involved in the study of the concept of MSMEs. It also gives a broad outline of the policies and the legal frame work for some of the developed and developing economies around the world including our own country.

Micro Small and Medium Enterprises play a key role in the industrialization of a developing nation. “This is because: they provide immediate large scale employment and have a comparatively higher labour-capital ratio; they need only a shorter gestation period and relatively smaller markets, to be economic; they need lower investments. They offer a method of ensuring a more equitable distribution of the national income and facilitate an effective mobilization of the resources of capital and skill which might, otherwise, remain unutilized; and they stimulate the growth of the industrial entrepreneurship and promote a more differed pattern of ownership and location”\(^1\).

The small scale sector has stimulated economic activity of a far reaching magnitude and has played a significant role in the elimination of the economic backwardness of the rural and the under-developed regions in the country, attained self reliance and reduction of regional imbalances. It has also led to the reduction of disparities in income, wealth and consumption.
The MSMEs play an important role in assisting the bigger industries and the projects so that the planned activity of the developmental work is timely attended to. The setting up and the growth of all types of industries have the basic objective of profit making. However, it also contributes towards social justice and the development of the particular area, by way of trade and commerce. These industries also develop lots of entrepreneurs who, in future, may play a bigger role in the developmental activities.

The All India Management Association (AIMA), in collaboration with the Federation of the Indian Chamber of Commerce and Industry (FICCI) organized a two day “National Convention on Small and Medium Enterprises in the Emerging Scenario” in 1998 sponsored by the SIDBI and Global Trust Bank to discuss the opportunities and challenges for the SMEs. “The convention was of the unanimous view that in view of the backlog of the manifold problems and the emerging global scenario in the new millennium, the development of the SMEs can certainly tackle issues involved in the economic development of the developing nations and the least developed countries with regard to employment and income generation”\(^2\).

Thus the Micro, Small and Medium industries can very well provide an answer to the economic under development and the growing unemployment. The development of these industries would be beneficial to the developing countries and would assist them in improving their economic and social well being.
2.1 CONCEPT OF SMALL SCALE INDUSTRIES

The legal definition of small scale industries often varies from country to country. It is less than 100 employees in the United States, under 50 employees in the European Union and less than that in the developing countries. These industries are privately owned companies, partnerships or sole proprietorships. In India, capital investment in plant and machinery is considered as the main criterion for distinguishing between large and small industries.

• Since 1996, a production unit is considered small if it has an investment of $30 million.

• Production units ancillary to small scale units are considered small if they sell not less than 50 percent of their manufactured products to one or more industrial units.

Small scale industry has a major role in the Indian Economy due to the following reasons:

• 40 percent share in the national industrial output.

• 80 percent share in the industrial employment.

• Nearly 50 percent share in exports.

The broad term small scale industries comprises of the Micro Enterprises, the Small Enterprises and the Medium Enterprises.
2.2 MICRO ENTERPRISES

A micro enterprise is a type of small business that is often unregistered and run with small capital investment. Specifically, a micro enterprise is defined as a business having five or fewer employees and a seed capital of not more than $35000. The terms micro enterprise and micro business have the same meaning, though traditionally, when referring to a small business financed by micro credit, the term micro enterprise is used. Broadly stated, a micro enterprise is a business started with as little capital as possible, or less capital than would be usual for a business. In most countries, the term micro is used to refer to a business with a single owner.

2.2.1 Micro Enterprise in the US

The micro enterprise sector has a twenty-year history in the United States. While the term “micro enterprise” was in common use internationally by the late 1970’s, it came into domestic use about a decade later.

In the United States, the micro enterprises are defined as the business with five or fewer employees. Many of these business enterprises have no employees other than the self-employed owners.

2.3 SMALL AND MEDIUM ENTERPRISES – GLOBAL PERSPECTIVE

The SMEs are not uniform across the globe. The way they are defined depends on the stage of economic development and the broad policy purposes for which the definition is used. “There are said to be more than 60 definitions of the Small and Medium Enterprises used in 75 countries surveyed”.

3
In the European Union, small and medium enterprises are defined as enterprises with less than 500 employees.

### 2.3.1 DEFINITION OF SMEs IN SELECTED COUNTRIES

**China:** In China, the definition of the SMEs is less quantified and varies with the product. These industries are designed to mobilize the local raw materials, local skills, local finance and the local markets. Investment ceiling is 30 Million Yuan.

**ECAFE:** The working group of the Economic Commission for Asia and the Far East had suggested in 1952 that small industries be defined for statistical purposes as any establishment employing not more than 20 persons when using power and 50 when not using power.

**Egypt, Israel and Turkey:** The United Nations Report (1958) on the development of the manufacturing industry, in Egypt, Israel and Turkey, refers to all manufacturing establishments employing less than 10 persons as small-scale industries and having a connected load of less than 10hp – Turkey.

**ESCAP Region**

In Indonesia there is no differentiation between the SMEs and the cottage enterprises. More than 90 percent of the enterprises in the small scale and cottage industries group are cottage industries.
In Thailand a small and medium enterprise is defined as an enterprise the fixed deposit on which does not exceed Baht2 million (approximately Rs. 12 lakhs). Industrial enterprises are grouped under four categories, namely the manufacturing, the servicing, the handicraft and the cottage industries.

Germany, Sweden, Norway and Denmark: There is no official definition of the SMEs in these countries. Units employing up to 300 workers are considered to be small.

There is no clear-cut definition of a small industry in the Scandinavian countries. However, such units that employ 10 to 100 workers are taken to be small – scale units.

Iran: The SMEs are defined as those;

(i) With 100 percent Iranian ownership and management;

(ii) Whose assets do not exceed 5 million Rials;

(iii) Whose products are not artistic in nature.

It has been further provided that investment in land and buildings must not exceed 25 percent of the total capital.

Italy: Units having a capital investment of not more than 1,500 Million Lira and are employing not more than 500 workers are considered to be SMEs.

Korea: The term small and medium industry is defined in the Small and Medium Industry Co-operative Act as any unit:
(i) In manufacturing with more than 5 and less than 200 employees or with the total assets of less than 50 million won; and

(ii) In mining with more than 5 and less than 300 employees or with the assets of less than 50 million won.

(275 won = 1 U S Dollar)

Netherlands: There is no definition of the SMEs; nevertheless, they seem to reserve the term to industries which generally employ 10 to 100 workers.

Philippines: The Institute for Small Scale Industries, Philippines, defines the SMEs as “a manufacturing or industrial service enterprise in which the manager is not actively engaged in production but performs a varied range of tasks involved in guidance and leadership without the help of specialized staff officer4.”

Sudan: The SMEs are defined in Sudan as those industries which have a capital investment of less than Ls 50,000 ($ 142,000) or which employ less than 30 full-time workers.

Taiwan: In the manufacturing and processing sector (including handicrafts,) any business employing less than 100 persons or with assets worth $5 million is a small industry.

UK: There is no demarcation between small and large industries. However, in books and treatises on industrial subjects, units employing less than 500 workers are generally referred to as small
units; but this cannot be considered as a criterion of universal applicability.

USA: In the USA, the manufacturing firm is officially a small business for Government procurement purpose, if it is not dominant in its field of operations and if it has fewer than 500 employees, or if it is certified as small by the Small Business Administration.

Vietnam: The SMEs are defined as those employing less than 300 persons and having not more than 20 million piastres ($250,000) in capital investment.

In other countries, small and medium enterprises are defined on the basis of both quantitative and qualitative elements, such as, the number of workers employed and / or the annual turnover or the level of fixed investment. However, employment is an omnipresent criterion for determining the size of the unit in these countries.

2.4 MSMEs IN INDIA

It will be relevant to make an assessment of the existing status of the Indian SMEs. The Indian experience of the development of the SMEs during the last decades has amply demonstrated that they do have both the capabilities as well as the resilience not only to survive global competition but also to improve their presence in the international markets, barring, of course, a few inefficient units. They are becoming increasingly adept at making the most through innovation and flexibility. Their inherent ability to invent and innovate and to make quick adjustments to the changing economic and the trading scenarios have
served them in good stead so far, giving them the much needed operational flexibility.

This conviction is reinforced by the actual experience of the growth achieved by the Indian SMEs particularly since the initiation of the liberalisation process in July 1991. The data show that the growth in the small industries sector has shown much better response to the liberalized policy regime compared to the overall growth of the Indian industrial sector. “The SSI sector recorded a growth rate of 3.1 percent in 1991-92, 5.6 percent in 1992-93, 7.1 percent in 1993-94, 10. Percent in 1994-95 compared to 0.6, 2.3, 6.0, 9.4 percent respectively, recorded by the total Industrial sector during the corresponding years; however, while growth performance of the SSI was slightly less (11.4 Percent) in 1995-96 compared to 12.1 Percent for the industry sector as a whole. The SSIs growth pushed itself to 11.3 Percent in 1996-97 against 6.7 Percent for the entire sector. (April-December, 1997) The SSI sectors’ growth was 9.5 percent compared to 4 Percent for the entire Industries Sector”

The SMEs form a significant segment of the Indian industrial sector. It is indeed heartening to note that, as a result of the last four decades Government and institutional support, in terms of policies and assistance programmes, there are, at present, nearly 3 million small industrial units in India, which manufacture a wide variety of nearly 8000 different kinds of products in diversified industries. “The total value of the output of this section is about Rs. 4,693,770 million during 1997-98 accounting for about 40 Percent of the gross value of export; the small industries sector provides employment to an estimated 167 lakh persons and
accounts for about 40 Percent of the total value of manufactured exports. In terms of its total employment potential, this sector provides the largest number of opportunities for employment, next only to agriculture. In fact, almost 80 Percent of the total industrial employment is provided by the small enterprises.

The national industrial sector has achieved an overall growth rate of 8.5 percent in spite of a slowdown in the first half of 2007-2008. But in 2008-09 there was a sharp slowdown as a consequence of the successive shocks, the most important being the knock-on effects of the global financial crisis. The pace of slowdown accelerated in the second half of 2008-09 pushing down the average growth of the sector to 2.4 percent as per the Index of the Industrial Production. Manufacturing growth was placed at 2.3 percent in 2008-09 as compared to the 9 percent in 2007-08. Mining grew only at 2.3 percent in 2008-09 as against 5.1 percent in 2007-08.

As against this national scenario, the experience of Kerala is finer. During the period 2000-2001 to 2008-2009 the industrial growth in Kerala recorded was quite positive except, of course, in 2001-02 when it registered a negative growth of 2.88 percent at current prices. The average growth rate for the period 2000-01 to 2007-08 was 4.64 percent and 9.02 percent as constant and current prices are 8 percent and 7.59 percent respectively during 2008-09.
Table 2.1
Growth of manufacturing sector in Kerala (GSDP)

<table>
<thead>
<tr>
<th>Year</th>
<th>Contribution to GSDP (Rs. Lakhs)</th>
<th>Growth Rate (Percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>At constant Prices</td>
<td>At current prices</td>
</tr>
<tr>
<td>2000-01</td>
<td>680170</td>
<td>703404</td>
</tr>
<tr>
<td>2001-02</td>
<td>649950</td>
<td>683278</td>
</tr>
<tr>
<td>2002-03</td>
<td>680869</td>
<td>734199</td>
</tr>
<tr>
<td>2003-04</td>
<td>718735</td>
<td>818580</td>
</tr>
<tr>
<td>2004-05</td>
<td>753166</td>
<td>912523</td>
</tr>
<tr>
<td>2005-06</td>
<td>805882</td>
<td>1009504</td>
</tr>
<tr>
<td>2006-07</td>
<td>914367</td>
<td>1197663</td>
</tr>
<tr>
<td>2007-08</td>
<td>951056(P)</td>
<td>1315550(P)</td>
</tr>
<tr>
<td>2008-09</td>
<td>1026851(Q)</td>
<td>1481561(Q)</td>
</tr>
</tbody>
</table>

Source: Dept. of Economics and Statistics

P: Provisional    Q: Quick Estimates

The Index of the Industrial production (IIP) measures the impact of development in the field of the industrial sector over a period of time in the State in comparison with a selected previous year. It gives a comprehensive view of the industrial development of the State. So far the index used to cover only the production in the manufacturing and electricity generation and the transmission sectors in the State. But now the mining and quarrying industry also fall within the purview of the IIP. In order to ensure more accuracy and better reliability of the data, the base year has been shifted from 1980-81 to 1993-94.

The General Index for the year 2006-07 increased to 261.30 from 208.31 in 2005-06 showing an increase of 25 percent. Negative growth was recorded in products such as jute and other vegetable fibre textiles. All other items showed positive growth.
2.4.1 SCOPE OF SMALL AND MEDIUM ENTERPRISES

There is a perceptible change in the economic scenario all around and the role of the SMEs in all the economies have assumed greater prominence and dynamism. Technology is going to be the cutting edge in this competitive environment for the Small Scale Sector. The SMEs have a greater propensity towards global integration owing to their ability to adapt as a result of their smaller size and greater flexibility to adjust to the changes in design and technology. This would ensure the benefit of specialization and technology advancement.

A number of reports have confirmed that both in India and in the European countries, the SMEs are venturing into exports because of the inherent advantage of the easy adaptability to the new technologies. This potential needs to be fully exploited which will result in the development of new products, according to the needs and requirements both of the international market and of the vast domestic arena.

As a result of the planned process of the last five decades there exists in the country, a large industrial base consisting of small, medium and large enterprises. This has also resulted in the creation of a strong entrepreneurial base conducive to the growth and development of the SMEs.

The importance of Small Scale Enterprise is a global phenomenon encompassing both the developing and the developed countries. Norman Mcrae predicts that “the age of Mammoth Corporation was over and the future lay with small, dynamic efficient production groups that could respond quickly to the
customer needs. Globally the emphasis is on small enterprises holding the key to growth with equity and proficiency\(^7\).

Small and Medium Enterprises are facing a situation of diversified consumer demand patterns, more outsourcing in industrial production strategies and new technologies.

The following table shows the scope of the SMEs in some selected countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>Manufacturing, Transportation, Industrial</td>
</tr>
<tr>
<td></td>
<td>Mining, Services, Wholesale and retail</td>
</tr>
<tr>
<td></td>
<td>trading</td>
</tr>
<tr>
<td>Korea</td>
<td>Manufacturing, Mining, Construction,</td>
</tr>
<tr>
<td></td>
<td>Commerce, Transport</td>
</tr>
<tr>
<td>U.S.A</td>
<td>Manufacturing, Services, Trading</td>
</tr>
<tr>
<td>U.K</td>
<td>Manufacturing, Commerce, Construction,</td>
</tr>
<tr>
<td></td>
<td>Mining, Transport</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Manufacturing, Services</td>
</tr>
<tr>
<td>Singapore</td>
<td>Manufacturing, Services</td>
</tr>
<tr>
<td>India</td>
<td>Industry</td>
</tr>
</tbody>
</table>

Thus it becomes very clear that the scope of the small industry in India is rather narrow as compared to other countries.

2.5 Small Scale Industries - The Wheel of Legal and Regulatory Framework

The New Industrial Policy for Industry 1991 has brought about several changes in the regulatory framework for industry. The thrust of the Industrial policy has been towards deregulation and privatization with a dismantling of
controls over industry. This is evidenced from the Policy Statement of 1991: “All statutes, regulation and procedures would be reviewed and modified, with the interest of the small and village enterprises”\(^8\). “Procedures would be simplified, bureaucratic controls effectively reduced, unnecessary interference eliminated and paper work cut down to the minimum to enable the entrepreneurs to concentrate on production and marketing functions”\(^9\)

The industrial promotion activities of the Government of India were officially started right from 1947, the year of independence, especially with the Industrial Policy Resolution of 1948. It is the most vital document which decided, to a great extent, the future industrialization in the State. The Government of India in its Resolution dated 6\(^{th}\) April 1948 propounded the policy to be pursued in the industrial field. The Resolution emphasized the importance to the economy of securing a continuous increase in production and its equitable distribution. It has also pointed out that the State must play an active role in the development of our industries.

In para 8 - Industrial Policy Resolution No. 1 (3)-44 (13) /48 dated 6\(^{th}\) April 1948, it is clearly stated that “the cottage and small scale industries have a very important role in the national economy”\(^{10}\).

After eight years of the introduction of the Industrial Policy 1948, the Government passed another resolution on 30\(^{th}\) April 1956, in which 128 items have been reserved exclusively for the small-scale production. The goal was to make the small-scale industrial sector self-sufficient. It also reserved 166 items for exclusive purchase by the Government from the small-scale sector.
2.6 Regulatory Framework and Incentives for Small and Medium Enterprises

The future action agenda for policy-makers should include “A regulatory environment that does not impose undue burdens on the SMEs and is conducive to entrepreneurship, innovation and growth through, inter alia, promoting good governance and greater accountability in public administration; pursuing a fair and transparent competition policy and implementing effective anti-corruption measures; and fostering the implementation of transparent, stable and non-discriminatory regimes”.[11]

Most countries, whatever be their level of economic development, have framed laws and regulations specifically for the SMEs. A brief survey of some of the regulatory policies shows the range of legislative interventions to regulate market-oriented economic activity in select countries.

Germany: Germany has implemented “The German small Business Law” to protect the interest of the small entrepreneurs. This Act has identified 147 industries requiring registration by the chamber of small business, an official organ of the Government. The entrepreneurs must be trained and certified to engage in the listed 147 trades.

USA: The U.S Small Business Act directs the Government to support small business through various forms including Government purchases from and sales to such enterprises.

Korea: The Small and Medium Industries Fundamental Act (1966) not only defines the scope of small and medium industries and their
importance for a balanced economic development, but it also
provides the Government with the mandate “to research and
formulate policies in order to improve international competitiveness,
 systematization with large business, financial assistance, managerial
and technical guidance etc”\textsuperscript{12}.

Japan: Japan has provided very comprehensive and co-ordinated assistance to
its small and medium industries parallel to the regulatory mechanisms.
The SME Basic Law (1963) ensures the existence of a comprehensive
framework for the assistance given to the SMIs.

India: The SSI sector was governed by a myriad of laws and rules framed
by the bureaucracy.

The policies, laws, regulations and the Government organizations
implementing them can be seen as two wheels of the institutional
framework, shown in the diagrammatic form below;
2.7 Micro, Small and Medium Enterprises (MSMEs)

The Micro, Small and Medium Enterprises (MSMEs) sector has been recognized as the engine of economic growth all over the world. However, the lack of universal size definition of the MSMEs makes business studies and research more difficult. The Micro, small and medium size enterprises are businesses that may be defined by the number of employees.

There is no infallible international standard definition of firm size; however, many agencies that collect information use the following categories:-
The Micro Enterprises have 0-9 employees, the Small Enterprises have 10-49 employees, and the Medium size Enterprises have 50-249 employees.

2.8 Definition of the Micro, Small and Medium Enterprises in India

As per the MSMED Act-2006, the following enterprises whether Proprietorship, Hindu Undivided Family business, Association of persons, Cooperative Society, Partnership undertaking or any other legal entity by whatever name be they called:-

Enterprise engaged in the Manufacturing or Production of Goods pertaining to any industry as per First Schedule to the Industries (Development & Regulation) Act 1951 as

- Micro Enterprises: in which the investment in fixed assets in plant and Machinery does not exceed Rs. 25 Lakhs.
- Small Enterprises: in which the investment in fixed assets in plant and Machinery is more than Rs. 25 Lakhs but does not exceed Rs. 5 Crore.
- Medium Enterprises: in which the investment in fixed assets in plant and Machinery is more than Rs. 5 Crore, but does not exceed Rs. 10 Crore.

Enterprises engaged in providing or Rendering Services as-

- Micro Enterprises: in which the investment in fixed assets in plant and Machinery does not exceed Rs. 10 Lakhs.
- Small Enterprises: in which the investment in fixed assets in plant and Machinery is more than Rs. 10 Lakhs but does not exceed Rs. 2 Crore.
Medium Enterprises: in which the investment in fixed assets in plant and
Machinery is more than Rs. 2 Crore, but does not exceed Rs. 5 Crore.

The following chart shows a clear picture in the ceiling of investment in the
MSMEs

NEW NOMENCLATURE AND CLASSIFICATION OF THE MSME
(As per Micro, Small and Medium Enterprises Development Act, 2006)

2.9 MSMEs Contribution to the Economy

Prime Minister Manmohan Singh, during the presentation of the National
Award to the Micro, the Small and the Medium Enterprises (MSMEs), said that
the MSMEs play an important role in employment creation and provide the vital
components and accessories necessary for the large manufacturing sector. In this
way the sector contributes significantly to the process of rapid industrialization.
The Prime Minister continues, “The MSME sector has shown continued dynamism in terms of growth in the number of enterprises, production, and has the capacity to contribute to manufacturing output and nearly 40 percent of India’s exports”\textsuperscript{13}.

The sector provides employment to over 42 million people. “It contributes about 45 percent of the total manufacturing output and nearly 40 percent of India’s exports”\textsuperscript{14}.

“With one of the youngest populations in the world, India is estimated to have the capacity to create 500 million skilled and trained technicians by the year 2020 and claim a fourth of the global workforce”\textsuperscript{15}.

For the MSMEs, the sky is the limit. The Small and medium enterprises (SMEs), particularly in the developing countries, are the backbone of the nation's economy. They constitute the bulk of the industrial base and also contribute significantly to their exports as well as to their Gross Domestic Product (GDP) or Gross National Product (GNP).

2.10 The MSMEs in the Indian Backdrop

India has nearly three million MSMEs, which account for almost 50 percent of the industrial output and 42 percent of India's total exports.

A special role for the SMEs was earmarked in the Indian economy with the advent of planned economy from 1951 and the subsequent industrial policy followed by the Government.
However, as a result of globalization and liberalization, coupled with the WTO regime, the MSMEs have been passing through a transitional period. With enhanced competition from China and a few low cost centres of production from abroad many units are facing survival problems.

Nevertheless, those MSMEs which had a strong technological base, international business outlook, competitive spirit and willingness to restructure themselves withstood the current challenges and came out successful to make their own contribution to the Indian economy.

It is the most important employment-generating sector and is an effective tool for the promotion of balanced regional development. These account for 50 percent of the private sector employment and 30 to 40 percent of value-addition in manufacturing. It produces a diverse range of products (about 8000 odd items), including consumer items, capital and intermediate goods.

The MSMEs in India, which constitute more than 80 percent of the total number of industrial enterprises and form the backbone of industrial development, are as yet, in technological backwaters vis-a-vis advances in science and technology.

While most of the large companies, even in developing countries, have financial as well as technical capacity to identify technological sources and evaluate alternate technologies that would suit their requirements, unfortunately, this capacity is conspicuously absent in most of the MSMEs in India.

It is these features of the MSMEs that make them an ideal target for technological upgradation through technological co-operation with foreign and
local enterprises, with research and development institutions and centres of technology development.

Poor financial situations and low levels of research and development, poor adaptability to changing trade trends, non-availability of technically trained human resources, lack of management skills, lack of access to technological information and consultancy services and isolation from technology hubs are some of the reasons why these MSMEs are unable to surge ahead.

So, what these MSMEs need today is primarily access to the new technology. The MSMEs have to put in more effort on research and development (R&D) and on ways to use technology at par with the international standards.

As our Prime Minister mentioned, “I am sure that the MSME sector will continue to contribute handsomely to the balanced economic and social development of our country”16.

### 2.11 MSME – Small, but beautiful

- 12.5 million MSMEs
- Employ 30 million people
- Contribute approximately 50 Percent of the industrial production
- Contribute approximately 50 Percent of the exports

The following table shows the trends in the growth of the Industrial and the SSI Sectors.
Table 2.3
Trends in growth

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP</th>
<th>Industrial Sector Percent</th>
<th>SSI Sector Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002 – 2003</td>
<td>4.4</td>
<td>5.3</td>
<td>7.41</td>
</tr>
<tr>
<td>2003 - 2004</td>
<td>8.5</td>
<td>7.0</td>
<td>8.59</td>
</tr>
<tr>
<td>2004 - 2005</td>
<td>6.9</td>
<td>8.4</td>
<td>9.96</td>
</tr>
<tr>
<td>2005 – 2006</td>
<td>9.6</td>
<td>7.9</td>
<td>8.91</td>
</tr>
<tr>
<td>2006 - 2007</td>
<td>9.0</td>
<td>11.5</td>
<td>13.00</td>
</tr>
<tr>
<td>2007 - 2008</td>
<td>9.7</td>
<td>10.10</td>
<td>12.0</td>
</tr>
<tr>
<td>2008 - 2009</td>
<td>8.5</td>
<td>9.7</td>
<td>11.4</td>
</tr>
</tbody>
</table>


Figure 2.1
Products of the SSIs

The following figure shows the contribution of the SSIs to different products:

Source: Economic Review 2009
2.12 Problems Faced by the MSMEs

The MSMEs have an important positive role in the developing economy of India. However, “many units of this sector remain at a vulnerable stage soon after their birth or promotion”\textsuperscript{17}. Physical infrastructure like uninterrupted supply of power at cheaper rates, and the availability of raw materials are the prime concern for manufacturing\textsuperscript{18} or the industrial segment of the MSME sector.

The major problems confronting the sector have been identified as:

- Technology obsolescence
- Managerial inadequacies
- Delayed Payments
- Poor Quality
- Incidence of Sickness
- Lack of Appropriate Infrastructure
- Lack of Marketing Network

2.13 Conclusion

Micro, small and medium enterprises (MSMEs), including khadi and village as well as rural enterprises, play a pivotal role in the overall industrial development of the country. They have been the significant contributor to the national income, with their deeper and enthusiastic involvement in the country's industrial production and exports. Not only do they help in providing employment opportunities to millions of people across the country, especially to
the village artisans and the rural people, but also check the problem of economic concentration in the hands of a few. They create a sound entrepreneurial base in the economy by developing and nurturing the talents and the skills of small and medium scale entrepreneurs. The labour intensity in the MSME sector is estimated to be considerably higher than the large enterprises. Thus, this sector has been regarded as a priority sector by both the Central and the State Governments.

In spite of this, the MSMEs continue to face several problems in their day-to-day operations, that is, in the production and the marketing of their products. They find it difficult to sell their output at remunerative prices and cannot spend much on advertising, marketing and research. They also face stiff competition from large firms. Inadequate infrastructural facilities and the lack of access to credit are other major problems. The MSMEs are often unable to procure adequate financial resources for the purchase of the machinery, the equipment and the raw materials and to meet the day-to-day expenses. Further, they find it difficult to recruit and motivate skilled managerial and technical personnel. They are very reluctant to adopt the available modern methods of organisation and management.

Although, the primary responsibility for the promotion and the development of the MSMEs lies with the State Governments concerned, the Central Government has always taken active interest in supplementing the efforts of the State Governments through its various regulations, as the MSMEs have
huge potential both in terms of the creation of wealth and employment and in the proper growth and development of the related sectors of the economy.

Micro, Small and Medium Enterprises Development Act, 2006 has the first-ever legal framework for the recognition of the concept of ‘enterprise’ which comprises both manufacturing (those engaged in the manufacture or production of goods pertaining to any industry) and service (those engaged in providing or rendering of services) entities. “Under the Act, three tiers of enterprises, namely ‘micro, small, and medium’ have been defined for the first time. The Act also provides a statutory consultative mechanism at the national level with balanced representation of all the sections of the stakeholders, particularly, these enterprises, and with a wide range of advisory functions”19.
References


5. The Economic Review 2009


10. Ibid Para 8.2.


12. The Small and Medium Industry Basic Act (Amended in 1982)

13. P M’s address at the presentation of MSME Award 2008.


15. Ibid


18. Ibid