



- (1) **Social welfare aspect neglected** : The Privatisation policy gives greater emphasis on the expansion of the private sector enterprises. But these private sector enterprises operate mainly with an objective of profit maximisation. So, this system does not guarantee the social welfare of the poor people. If the prices of different goods are determined through the market forces of supply and demand, then prices of some essential items may be out of the reach of these poor people and they will suffer most.
- (2) **Growth of monopoly power** : It is believed that a competitive environment under such an economic policy would help in reducing the monopoly concentration of economic power in the Indian economy. But the opposite may happen in reality. When some powerful foreign firms and Multi-National Companies (MNCs) enter into the industry and service sectors, there will be greater tendency of merger and amalgamation among companies. The weak Indian companies may either be closed down or taken over by some big giants. So, ultimately, the monopoly power of the MNCs will grow in the Indian economy.
- (3) **Greater inflow of foreign portfolio capital** : In case of Foreign Portfolio Investment (FPI), foreign investors purchase the shares of different companies in India. On the other hand, when foreign investors invest in directly productive activities (e.g., establishing some industrial units), it is called Foreign Direct Investment (FDI). If the share of FPI is more in the total inflow of foreign capital, then that does not directly benefit the productive activities in our economy. We know that share prices depend too much on speculative activities in an economy.
- (4) **Greater incidence of unemployment and poverty** : When the Government of India reduces its expenditure and many sick public sector enterprises are closed down, the incidences of unemployment and poverty are likely to increase. For example, the process of rationalisation in many public sector companies leads to voluntary retirement of many workers. Similarly, when sick public sector companies are closed down, a great number of workers become unemployed. The vacuum created by the reduction in Government expenditure, may not be filled in by the corresponding increase in the private sector investment. Even if there is an increase in private sector investment, that may not lead to greater employment opportunities because of the utilisation of labour-saving technology. Thus, this policy may lead to greater incidence of unemployment and poverty in the Indian economy.
- (5) **Hasty and unplanned disinvestment programme** : Different critics have pointed out that the Government carried out the whole exercise of disinvestment in a hasty and unplanned manner. It launched the programme without proper listing of the shares of PSUs in the Stock Exchange. As a result, the process of sale of such shares to private sector enterprises got delayed. Thus, adequate efforts were not undertaken to build-up the required linkage between the PSUs and the capital market. In many cases, the shares have been sold at much lower prices. Such underpricing of shares of the PSUs resulted in substantial loss to the Government. For example, the shares of HPCL were sold to the private sector for ₹ 243 per share, whereas its market price was ₹ 550 per share ! Again, another PSU, viz., the BALCO (Bharat Aluminium Company) was sold by the Government to the private sector in March, 2001 for just ₹ 551.50 crore, whereas the assets of this PSU were estimated to be about ₹ 1,500 crore. During 1991-2000, the Government aimed at collecting ₹ 44,300 crore from such 'disinvestment', but the actual realisation was to the tune of only ₹ 18,638 crore.

#### **4.5. MSME Sector in India**

The Micro, Small and Medium Enterprises (MSMEs) have been considered universally as an engine of economic growth and a key instrument for promoting equitable development. They have emerged as a vibrant and dynamic sector, and as an engine of growth for the present millennium. This sector has been playing a prominent role in the socio-economic development of India for the past six decades.

In 2006, the **Micro, Small and Medium Enterprises Development Act** has been passed. According to this Act, these enterprises have been categorised into two broad groups :

(i) Those enterprises engaged in manufacturing, and (ii) Those engaged in providing services. In the **manufacturing business**, the investment limits (in fixed capital) for different categories of enterprises are as follows :

Enterprises	Investment Limit
(a) Micro enterprises	₹ 25 lakh
(b) Small enterprises	Above ₹ 25 lakh and up to ₹ 5 crore.
(c) Medium enterprises	Above ₹ 5 crore and up to ₹ 10 crore.

However, in case of **service-providers** (say, an enterprise providing telecommunication service or tourism service), the investment limit will be as follows :

Enterprises	Investment Limit
(a) Micro enterprises	₹ 10 lakh
(b) Small enterprises	Above ₹ 10 lakh and up to ₹ 2 crore.
(c) Medium enterprises	Above ₹ 2 crore and up to ₹ 5 crore.

Some other features of this Act are noted below :

- (i) Establishment of specific funds for the development and promotion of these enterprises;
- (ii) Progressive credit policies;
- (iii) Preference in government procurements to products and services produced by these SMEs;
- (iv) Effective mechanism for solving the problems of delayed payments due to these SMEs.

The government of India has also taken a cluster-based development strategy for the MSEs. It means that infrastructural, marketing and financial support to the MSEs will be provided not to any single enterprise but to a cluster of MSEs.

■ **New definition of MSMEs** : The government of India, during February 2018, has given the following definitions of Micro, Small and Medium enterprises based on the yearly turn-over of these enterprises (irrespective of the sectors in which they operate) :

- (a) **Micro enterprise** : The enterprises whose yearly turnover is upto ₹ 5 crore would be considered as Micro enterprises.
- (b) **Small enterprises** : The enterprises whose yearly turnover is greater than ₹ 5 crore but upto ₹ 75 crore, would be considered as Small enterprises.
- (c) **Medium enterprises** : The enterprises whose yearly turnover is more than ₹ 75 crore but upto ₹ 250 crore, would be considered as Medium enterprises.

#### 4.5.1. Role of MSMEs in Indian economy

MSMEs play a predominant role in Indian economy in terms of employment, production, income generation and export potential. These enterprises have grown significantly since 1960, when there were only 12,376 small and medium enterprises, providing direct employment opportunities to about 2 lakh people and an indirect employment opportunity to another 8 lakh people. In India, these small and medium enterprises provide maximum employment next only to agriculture sector. It is estimated that ₹ 1 lakh investment in fixed assets in the small-scale sector generates employment for four persons. The annual value of output produced by this sector was to the tune of about ₹ 875 crore. Since the inception of economic reforms in 1991, the MSMEs recorded high rate of growth despite a stiff competition from large-scale industries and multinational corporations.

Thus we can point out the following contributions of the MSME sector towards the progress of Indian economy. These contributions would reflect its role in Indian economic development.

- (1) **Increase in the number of MSMEs :** The number of MSMEs was about 73.5 lakh in India in the year 1992-93, and this number increased to about 448 lakh in 2011-12 (Table-6). However, it has been observed during 2009-10 that about 94% of the MSMEs are unregistered.
- (2) **Growing amount of fixed investment :** The fixed investment made in this sector for the creation of land and buildings, machineries etc. increased from about ₹ 1,09,623 crore in 1992-93 to about ₹ 11,83,332 crore in 2011-12. This investment is required for the capital formation in the economy (Table-6). The **output-capital ratio** or the productivity of capital is found to be higher in the MSME sector compared to the large-scale industries. Thus, the capital-output ratio remains lower in the MSME sector than the large-scale enterprises.
- (3) **Growing value of output :** The sector currently produces more than 6,000 quality products, ranging from handloom saris, carpets and soaps to pickles, auto and machine parts targeting both domestic and international markets. The value of output produced by this sector also increased from about ₹ 92,246 crore (at 1993-94 prices) to about ₹ 1,95,613 crore in 2001-02. Further, this value (at 2001-02 prices) increased from about ₹ 3,06,771 crore in 2002-03 to about ₹ 18,34,332 crore in 2011-12. So, there has been a twenty fold increase in the output produced by the MSMEs during the post-reform period which indicates that the MSMEs have successfully faced the global challenges in a liberalized environment (Table-6). The share of MSMEs in the gross industrial output also increased from about 23% in 1992-93 to about 29% in 2001-02. In most of the years between 1992-2008, the growth rate of output in the MSME sector was higher than the overall growth rate of industrial output of India. The contribution of the MSME towards India's GDP was about 6% during 1992-93 and it increased to about 7% in 2011-12.
- (4) **Generation of employment opportunities :** The Micro, Small and Medium Enterprises not only generate the highest employment per capita investment, but they also provide employment to villagers and people living in backward regions so that they do not migrate to the urban areas. The **Capital-labour ratio** is found to be lower in MSME sector compared to that in large-scale industries. About 175 lakh people were employed in this in the year 1992-93, and this number increased upto about 1012 lakh in 2011-12 (Table-6). This also helps in reducing inequality in the distribution of total income among different sections of people.
- (5) **Contribution towards export earnings of the country :** This sector also contributed a lot towards the generation of export earnings for the country. Export earnings by the MSME sector increased from about ₹ 17,784 crore in 1992-93 to about ₹ 2,02,017 crore in 2007-08, showing more than eleven fold increase. Moreover, the MSMEs were able to compete with the multi-national corporations even in the export market. It shows that MSME sector is able to face the competition boldly. The share of exports of the MSME sector in total export earnings of India was about 31% during 1992-2007. In 2011-12, this share increased to about 43%.
- (6) **Contribution towards rural development :** The MSME sector also plays a significant role in improving the employment and income opportunities in rural areas. The contribution of this sector towards rural development can be observed from the fact that 200.19 lakhs of the working enterprises were located in rural areas in 2012-13, which accounted for 55.34% of the total working enterprises in MSME sector.

Table-6

Year	No. of MSMEs (in lakh)	Amt. of Fixed Investment (₹ in Crore)	Value of output (₹ in Crore) at constant prices	Employment generated (in Lakh)	Exports (₹ in Crore)
1992-93	73.51	1,09,623	92,246	174.84	17,784
2001-02	105.21	1,54,349	1,95,613	249.33	71,244
2011-12	447.66	11,83,332	18,34,332	1011.80	6,30,362

Source : Ministry of MSME, Annual Reports

**4.5.2. Problems faced by MSMEs**

The problems faced by the MSME sector can be broadly classified into two categories : internal problems and external problems. The internal problems are normally the outcome of internal course of management of an enterprise and are related to a single unit, whereas the external problems are those which are generally faced by all the enterprises in an industry and are beyond the control of any particular unit. The internal and external problems as assessed from different studies are shown below in a tabular form.

Problems	External/Exogenous	Internal/Endogenous
Finance	Non-availability of adequate finance; Access to finance with excessive collateral security; etc.	High cost of borrowings; Inadequate finance; Problem of recovery from the debtors etc.
Managerial	Market saturation; Weak market demand; Competitive environment in the market etc.	Lack of sales promotion; Limited local market; Price of the product is high; Dependency on large-scale industries; Lack of marketing research etc.
Raw material	Inadequate availability of Raw materials; Imports are difficult; etc.	Poor inventory management
Marketing	Market saturation; Weak market demand; Competitive environment in the market (Since April 2015, no items have been kept reserved for exclusive production in the MSME sector)	Lack of sales promotion; Limited local market; Price of the product is high; Dependency on large-scale industries; Lack of marketing research
Technology	Delay in delivery of machines	Obsolete Plant and Machinery; Poor capacity utilization; Inadequate maintenance; Transport bottleneck etc.
Labour	Unavailability of skilled Labour	Labour Absenteeism/turnover; High rates of wages/salaries; inefficient handling of labour problems etc.

Some of these problems can be analysed as follows :

- (1) **Finance and credit** : The scarcity of finance and credit for meeting both fixed and working capital requirements are supposed to be the main obstacle in the growth-path of MSME sector. In many cases, such credit is obtained at a very high rate of interest from different non-institutional sources (like rural money-lenders, land-owners, etc.).
- (2) **Availability of raw materials** : The majority of MSME units depend on local sources for satisfying their raw material requirements. For example, the handloom weavers depend on the local traders for fulfilling their yarn requirements. Now, these traders often fix a relatively higher price for these raw materials. Sometimes the supply is also disrupted due to various exogenous factors, and hence, those MSME units are subject to the market fluctuations with regard to the supply of raw materials. At present, some modern SSI units produce a lot of sophisticated items and, hence, require specific raw materials which are to be transported from long distances. So the raw material constraint has emerged as a significant problem for the smooth growth of these units. If such raw materials are to be imported from abroad, then foreign exchange constraints becomes serious.



- (3) **Problem of marketing** : Most of the MSME units do not have any marketing department like those of large industrial units. So they suffer from a competitive disadvantage when compared with these large-scale units. Again, due to their low bargaining power, they are often forced to sell their products at non-remunerative prices. Sometimes, they have to depend on several brokers and commission agents. Due to the existence of such intermediaries, these units have to suffer a severe set back because any gain due to price-hike is then pocketed by these intermediaries.
- (4) **Under-utilisation of capacity** : If production capacity is not fully utilised, then the average cost of production would not come to its minimum. In the case of MSME units also, this capacity utilisation was only to the extent of 41 per cent for electrical machinery producing units, 32 per cent for metal products industry, etc., in 1987-'88. On an average, about 50 per cent of the actual capacity of SSI units could be utilised.
- (5) **Primitive types of equipment** : In many MSME units, machinery and other equipment have become obsolete. Due to this reason, the production technique in the MSME sector is supposed to be inferior in comparison with large industrial units. Hence, lack of proper modernisation and rationalisation also led to a high average cost of production and reduced their competitive strength.
- (6) **Dereservation and uneven competition** : About 846 items were kept reserved (by the Government of India) exclusively for these sectors, i.e., neither medium nor large-scale industrial units would be able to produce these items. However, with the withdrawal of quantitative restrictions on various imported items during 1990s, several goods are now flowing into India. Previously, some of these goods were kept reserved for the SSI (Small-scale industry) sector. So, during 2001-2007, the Government of India had dereserved about 560 items (e.g., leather goods, toys, etc.). Thus, the SSI sector would face uneven competition with the medium and large-scale industries (which are expected to produce those dereserved items). The inflow of cheap foreign goods (e.g., cheap toys made in China) would also create severe problems before the SSI sector of India.
- (7) **Other problems** : In addition to the aforesaid problems, the MSME sector also faces some other problems like inefficient management, non-availability of cheap electric power, burden of local taxes, lack of proper infrastructural facilities, etc.

Now due all such problems, the MSMEs fall sick, i.e., they run under huge loss year after year. The third census of small-scale industries (SSI) in India in 2001-02 undertaken by the government of India indicated the relative importance of those factors for sickness of such SSI units. This is shown in a tabular form (Table-7). So the lack of demand for the goods produced by the SSI sector was supposed to be principal reason behind sickness in this sector. The second important factor was the shortage of capital.

Table-7

Sl. No.	Reasons for Sickness	Proportion of sick SSI units in 2001-02 (%)
1.	Lack of demand	66.0
2.	Shortage of working capital	46.0
3.	Non-availability of raw material	12.0
4.	Power shortage	13.0
5.	Labour troubles	5.0
6.	Marketing problems	36.0
7.	Problems of inadequate equipments	11.0
8.	Management problems	4.0

Source : Third All India Census on SSI 2001-02, Ministry of SSI, Government of India.



### 4.5.3. Government policy towards MSME Sector

The Micro, Small and Medium Enterprises-Development Organisation (MSME-DO) [earlier known as Small Industries Development Organization or SIDO], headed by the Additional Secretary and Development Commissioner (MSME), is the apex body for formulating and monitoring the implementation of the policies for the development of MSMEs in India.

The first comprehensive legislation The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 covering the entire gamut of the micro, small and medium enterprises, has come into force w.e.f. 2 October, 2006. The Office of the Development Commissioner (MSME) has been actively pursuing the implementation of MSMED Act with States/UTs. Some of the recent steps taken by the government of India for the benefit of MSMEs are noted below.

- (1) **Easy registration of MSMEs** : Since most of the MSMEs remain unregistered, the government of India has taken the policy of easy registration for the MSMEs [simple one-page registration Form 'Udyog Aadhaar Memorandum' (UAM) since September, 2015].
- (2) **Supply of credit at a subsidized interest rate** : The Ministry of Micro, Small and Medium Enterprises (MSME) has been operating a scheme, viz., 'Credit Linked Capital Subsidy Scheme (CLCSS)' for technology up-gradation of Micro and Small Enterprises. The scheme aims at facilitating technology up-gradation of Micro and Small Enterprises (earlier known as Small Scale Industries). The Scheme was launched in October, 2000 and was revised in 2005. The revised scheme facilitates 15% capital subsidy (limited to maximum ₹ 15-00 lakh) for the purchase of approved plant and machinery. The maximum limit of eligible loan for the calculation of subsidy under this scheme is ₹ 100 lakh. The Government has also launched the Credit Guarantee Fund Scheme for Micro and Small enterprises (CGTMSE) in August, 2000 with the objective of making available credit to Micro and Small Enterprises for loans up to ₹ 100 lakh without collateral/ third party guarantees. The government has also been operating a scheme of Micro Finance Programme since 2003-04 for the benefit of MSMEs. This scheme has been tied up with the existing Micro Credit Scheme of Small Industries Development Bank of India (SIDBI).

In April 2015, the government of India took initiative to establish 'Micro Units Development and Refinance Agency' (MUDRA) Bank. It provides loan to micro finance institutions and non-banking financial institutions which, in turn, provide loan facilities to the MSME sector (or the start-up firms) on easy terms at low rates of interest. Thus MUDRA Bank is a refinance institution (like NABARD in the agricultural sector). The MUDRA Bank aims at the proper implementation of Pradhan Mantri Mudra Yojana (PMMY) which came into force since April, 2015. Three types of loans are sanctioned under PMMY :

- (i) **Sishu loan** : In this scheme, the applicants get loan upto ₹ 50,000.
  - (ii) **Kishor loan** : This loan is given to the people who have already started their business and want funds for further expansion of the business. They are entitled to get ₹ 50,000 – ₹ 5,00,000 under this scheme.
  - (iii) **Tarun loan** : Under this scheme, the applicant is entitled to get a loan amount of ₹ 5,00,000 - ₹ 10,00,000.
- (3) **Revival and Rehabilitation of MSMEs** : During the past few decades several steps have been taken by the government for the easy flow of credit to the MSMEs from the financial institutions. For instance, the outstanding bank credit to the MSME sector was about ₹ 83,498 crore in 2005 and this amount increased to about ₹ 6,84,797 crore in 2012. The Ministry of Micro, Small and Medium Enterprises has notified a 'Framework for Revival and Rehabilitation of MSMEs' in May, 2015. Under this framework any enterprise can seek revival and rehabilitation benefit through a committee constituted by banks with representatives from State Governments, experts and others.



- (3) (4) **Scheme for Promotion of Innovation, Rural Industry and Entrepreneurship** : The government has also launched 'A Scheme for Promotion of Innovation, Rural Industry and Entrepreneurship' (ASPIRE) during March 2015 to set up a network of technology centres and incubation centres to accelerate entrepreneurship and also to promote start-ups for innovation and entrepreneurship in rural and agriculture-based MSMEs. Under this scheme, 80 Livelihood Business Incubators (LBI) and 30 Technology Business Incubators were set up by March 2017. The first such Livelihood Business Incubator (LBI) has been set up in Deoria, Uttar Pradesh during April 2015.
- (4) (5) **Emphasis on increasing the competitive strength** : In the 2005-06 Budget, the Government has announced formulation of a National Competitiveness Programme, particularly to support the Small and Medium Enterprises (SMEs) in their endeavour to become competitive. The National Manufacturing Competitiveness Programme (NMCP) highlights the needs for enhancing the competitiveness of Indian Manufacturing Sector. This is determined by measuring the productivity vis-à-vis the use of its human capital and natural resources. It is important to note in this connection that the **list of items reserved for exclusive manufacture in MSE Sector has been done away with since April 2015**. Hence, it is expected that the MSME sector would face stiff competition in both manufacturing and service sectors. The government of India, to overcome this problem, has initiated the programmes like : (a) Promotion of Information and Communication Tools (ICT) in MSME sector ; (b) Technology and Quality Upgradation Support to MSMEs; (c) Design Clinics scheme for MSMEs; (d) Enabling Manufacturing Sector to be Competitive through Quality Management Standards (QMS) and Quality Technology Tools (QTT); (e) Marketing Assistance and Technology Upgradation Scheme for MSMEs ; (f) National campaign for building awareness on Intellectual Property Rights (IPR) ; (g) Support for Entrepreneurial and Managerial Development of SMEs through Incubators.
- (6) **Public procurement of goods produced by the MSME Sector** : The Government of India has notified Public Procurement Policy for Micro and Small Enterprises (MSEs) Order in 2012. This Policy mandates that every Central Ministry/Department Public Sector Undertaking shall set an annual goal of Procurement from Micro and Small Enterprises from the financial year 2012-13. The objective was to achieve an overall procurement of a minimum 20 per cent of the total annual purchases of products produced and services rendered by the MSMEs during 2012-15.
- (7) **Technology Centers for the MSMEs** : In order to upgrade and expand the network of MSME Technology Centres (earlier known as Tool Rooms and Technology Development Centres), a Programme entitled "Technology Centre Systems Programme (TCSP)" is being implemented at an estimated cost of ₹ 2200 crore including World Bank funding of USD 200 Million.
- (8) **Development of MSMEs through clusters** : The Ministry of Micro, Small and Medium Enterprises (MSME), Government of India, has adopted the cluster development approach as a key strategy for enhancing the productivity, competitiveness and capacity building of Micro and Small Enterprises (MSEs) and their collectives in the country. A cluster is a group of enterprises located within an identifiable and as far as practicable, contiguous area and producing same/similar products/services. This scheme aims at addressing the needs of the industries, through well defined clusters and geographical areas. Some common facility centers and infrastructure development centers are formed within each cluster so as to facilitate the MSMEs. A total of 1018 interventions in various clusters spread over 29 States and 1 UT in the country have been taken till 2016 under this programme.

#### 4.6. Economic reforms and Indian industries

The Government of India has been following different policies since the early 1990s for economic reforms in India. Three basic elements of these reform policies are liberalisation, privatisation and globalisation. These policies had an important bearing upon the industrial sector of our economy.