

Removal of Regional Imbalances in Developments of MSMEs in India-A Challenge after Pandemic

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ABSTRACT

MSME sector plays a crucial role in socio-economic development of any country. It contributes higher growth of employment, output, promotion of exports and fostering entrepreneurship. It is also the pillar of Indian economy. Presently with around 63.4 million units throughout the geographical expanse of the country, MSMEs contribute around 6.11% of the manufacturing GDP and 24.63% of the GDP from service activities as well as 33.4% of India's manufacturing output. It is targeted to increase MSMEs share in GDP to 40% by 2025. India has seen the rise of regionalism, linguism, separatism, etc. since independence resulting regional imbalances and group identities. There are different physical infrastructures, natural resources etc. in different parts of India. So it is very difficult to remove imbalances in developments of MSME in all parts of India. This paper attempts to highlight the regional disparities occurred in case of MSMEs during last 15 years. An effort is also made how the discrepancies may be reduced through development of MSMEs. It is also tried to be shown the challenges faced by the MSMEs after pandemic since March 2020.

Keywords: MSMEs, Socio-economic, developments, regional imbalances, Pandemic

BACKDROP

India is a vast country having 139 crores of population. 70% of the population lives in rural India. India is full of diversities of religions, castes, languages, tribes, cultures, etc. It has been said that during colonial rule, the administration was interested in economic exploitation of the country and not in its actual development and it encouraged various divisions based on religion; region, caste and language and no plan or strategy had been pursued for a balanced development of the country. These resulted in regional imbalances and group identities. Subsequently, the independent India has seen the rise of regionalism, linguism, separatism, etc.

Regional imbalances mean that wide differences in per capita income, literacy rates, availability of health and education services, levels of industrialization, etc. exist between different regions of the country. These regions may be either inter or intra states. In this regard, in India there are enormous imbalances on various accounts. The exploitative nature of British colonial rule either created or accentuated regional imbalances. After independence, the planning India has also not been able to remove these imbalances.

The transformation of an economy from rural to industrial and predominantly urban is indicator of economic development. Rise in urbanization has led to the urban –rural divide in India. India has two economies-the rural (referred as Bharat) growing very slowly and the urban (referred as India) increasingly growing.

Industrialization in the North Eastern region has not developed successfully and even small-scale industries have not been feasible due to lack of adequate economic infrastructure like transportation, communications and market accessibility. The eight states of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura comprise the North East of India. The region is well endowed with natural resources, like oil and gas, agro horticultural resources, mineral deposits, immense hydro electric potential and significant forest resources. However, despite the abundance of resources, the region has lagged behind many Indian States in vital development indicators. Today the region occupies 8% of India's land area, has 3.77% of its population and accounts a little over 2.5% of

India's GDP. Economy of the region is largely agrarian in nature with over 70% of the population engaged in agriculture (*jhum*) for livelihood, service sector comes next and the manufacturing sector is still at a preliminary stage. While the national economy has been growing at a quick rate, the economies of the region are slowing down creating an economic gap between the northeast region and the mainland.

Micro, Small and Medium Enterprises (MSME) is a dynamic and highly vibrant sector of the Indian economy. Over the last 50 years MSMEs have been playing crucial role in providing employment opportunities in a large scale at comparatively lower cost of capital than larger industries. They also help in industrialization and creating employment of rural & backward areas of the country. They have a great role in reducing regional imbalances, assuring more equitable distribution of national income and wealth.

LITERATURE SURVEY

Countries and agencies across the world have adopted different parameters for defining MSMEs. World Bank defines MSMEs as those enterprises with a maximum number of 300 employees, \$ 15 million in annual revenue and \$15 million in assets. As per the European Union (European Commission, 2015) SMEs are defined based on three major thresholds namely head count, annual turnover and annual balance sheet total. OECD (2005) defines SMEs as “non-subsidiary independent firms which employ fewer than a given number of employees”. However, this number also largely differs across countries. The definition of MSME varies between countries and often within the same country (Das, Singh and Rao, 2006; Beck, 2013; Gopal and Ramesh, 2014). In some countries the definition of the sector based on only number of employees while others define based on asset value or annual revenues. Further, even the composition of SME/MSMEs differs widely across countries. For instance, some countries, like UK, China, considers only small and medium enterprises under MSME sector while some, like Malaysia, Australia, Indonesia, India, considers micro, small and medium enterprises as part of SMEs. The wide disparities in SME definitions have led to differences in MSME measurement and understanding resulting in formulating the MSME policy virtually random (Gibson & Van der Vaart, 2008). In India, the MSME sector consists of any enterprise, whether sole proprietorship, Hindu undivided family (HUF), Association of persons (AOP), Co-operative society, Partnership or any other legal entity, by whatever name called, engaged in production of goods pertaining to any industry specified in the first schedule of industry development and regulation act, 1951 and other enterprises engaged in production and rendering service, subject to limiting factor of investment in plant and machinery and equipments respectively as mentioned below (Table 1).

(A) For manufacturing sector, an enterprise is classified as follows

Table -1: Classification of MSMEs before 1, June 2020
 (As per Micro, Small and Medium Enterprises Development Act, 2006)

Enterprise	Manufacturing	Service
Micro	Up to Rs.25 lakh	Up to Rs. 10 lakh
Small	Above Rs. 25 lakh upto Rs.5 crore	Above Rs.10 lakh upto Rs.2 crore
Medium	Above Rs. 5 crore upto Rs.10 crore	Above Rs.2 crore upto Rs.5 crore

Source: Ministry of Micro, Small and Medium Enterprises, Government of India.

The revised definition of MSMEs significantly increased the investment threshold. It removed the differences in investment between the manufacturing and the service industries. It also added the criteria of turnover to define the MSMEs. The turnover, however, did not include the export turnover to enable the MSMEs to gain benefits. Table 2 provides the details of the revised definition of MSMEs.

Table 2: Revised MSMEs classification of India

Enterprise	New Capital (Rs)	New Turn over (Rs)
Micro	10 Million	50 Million
Small	100 Million	500 Million
Medium	500 Million	2500 Million

The COVID-19 broke out in India during March, 2020. The impact of COVID-19 pandemic on MSMEs, formal and informal, and the dependent wage and own-account workers has been severe. The containment measures undertaken by the Central and State governments, disrupted functioning of the MSMEs and livelihoods of the majority workers. Decrease in demand led to temporary or permanent shut down of enterprises, or businesses adopted practices such as wage cuts or retention, job cuts or increase in working hours. This has accentuated the vulnerability of many workers, in particular the migrant workers.

Objectives Of The Study:

The main objective of the study is to highlight the regional disparities occurred in case of MSMEs during last 15 years. An effort is also made how the discrepancies may be reduced through MSMEs. The challenges of MSME sector has been facing due to COVID-19 since March, 2020.

RESEARCH METHODOLOGY

In this paper an attempt has been made to examine the rural-urban and inter-state differences in the distribution of Micro, Small and Medium Enterprises in India. This study is exclusively based on secondary data. The necessary data analyzed in this study have been collected from the Fourth All India Census of MSME, Ministry of Micro, Small and Medium Enterprises, Government of India. Percentage and graphical analysis have been done in this study to analyze the data

DATA ANALYSIS

According to the NSSO, there are 63.4 million enterprises in India. Of them, 63 million or nearly 99.4 per cent of all enterprises are micro-units, 0.3 Million are small units, and 5000 enterprises are medium. Table 3 shows the performance of MSME units during last 15 years

Table: 3: Performance of SSI/MSME units, Employment, Investment and Gross Outputs

Sl. No	Year	Total working Enterprise (in Lakh)	Employment(in lakh)	Market Value of Fixed Assets (in Crores)	Gross output (in Crores)
I	II	III	IV	V	VI
1	2001-02	105.21	249.33	154349	282270
2	2002-03	109.49	260.21	162317	314850
3	2003-04	113.95	271.42	170219	364547
4	2004-05	118.59	282.57	178699	429796
5	2005-06	123.42	294.91	188113	497842
6	2006-07	361.76	805.23	868543.79	1351383.45
7	2007-08	377.37	842.23	868543.79	1435179.26
8	2008-09	393.7	881.14	920459.84	1524234.83
9	2009-10	410.82	922.19	977114.72	1619355.53
10	2010-11	428.77	965.69	1038546.08	1721553.42
11	2011-12	447.73	1012.59	1105934.09	1834332.05
12	2012-13	467.54	1061.40	1182757.64	1,268,763.67
13	2013-14	488.56	1114.29	1268763.67	1,363,700.54
14	2014-15	510.57	1171.32	1363700.54	1,471,912.94
15	2015-16	633.88	1109.89	1363700.32	107721286

Source: MSME Annual Report-2019-20, Government of India

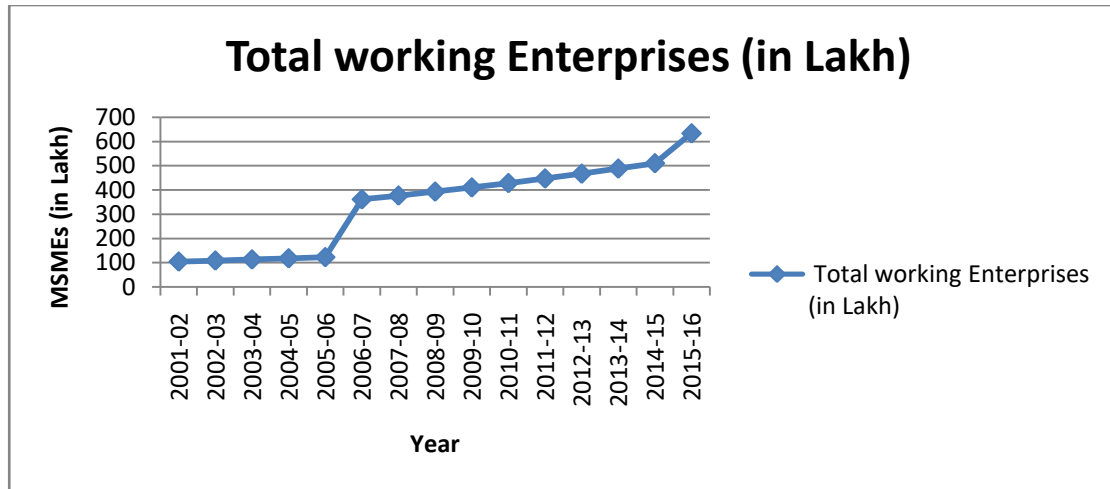


Fig 1: Total working MSMEs in India

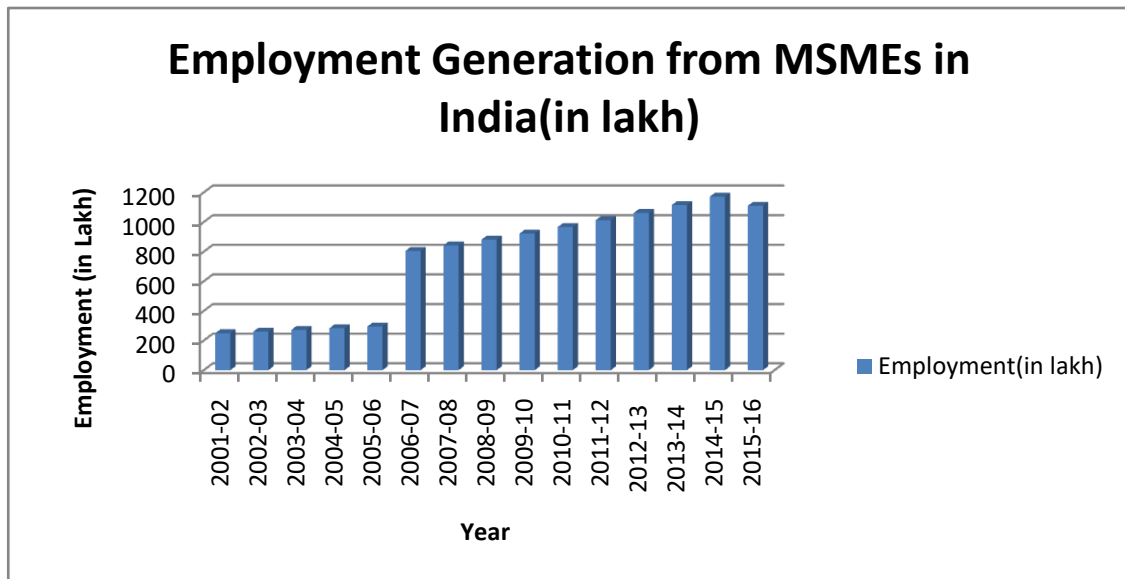


Fig 2: Employment Generation from MSMEs in India

Table :4: State/UT-wise distribution of Enterprises

SL No	State/UT	Estimate Number of MSMEs	
		Number(in Lakh)	Share (in %)
1	Uttar Pradesh	89.99	14
2	West Bengal	88.67	14
3	Tamil Nadu	49.48	8
4	Maharashtra	47.78	8
5	Karnataka	38.34	6
6	Bihar	34.46	5
7	Andhra Pradesh	33.87	5
8	Gujrat	33.16	5
9	Rajasthan	26.87	4
10	Madhya Pradesh	26.74	4

11	Total of above ten States	469.36	74
12	Other States/UTs	164.52	26
13	All	633.88	100

Source: - Annual Report-2019-20, MSME, Govt. of India

The total number of working enterprises in India has increased remarkably from 105.21 lakh in 2001-02 to 633.88 in 2015-16 (Fig 1). The employment generated by MSMEs also enhanced to a great extent from 249.33 lakh in 2001-02 to 1109.89 lakh in 2015-16 (Fig 2). However, there is a severe difference in the distribution of MSMEs among the states of India. MSMEs are not evenly spread throughout the country. In some states, they are densely populated and in other states, they are scarcely spread. It has been predominant in certain states namely Uttar Pradesh, West Bengal, Tamil Nadu, Maharashtra, Andhra Pradesh, Kerala, Gujarat, Karnataka, Madhya Pradesh and Rajasthan (Table 4). These ten states have accounted for three - fourth of the total working enterprises in MSME sector. Uttar Pradesh is a leading state having the 89.99 lakh working enterprises accounting 14% of the total working enterprises in MSME in India. The next leading states in the distribution of MSMEs are West Bengal and Tamil Nadu with having 88.67 lakh units and 49.48 lakh units respectively. The table 4 shows the distribution of MSMEs among the states of India. 99% of the existing MSMEs are of micro enterprises (Table 5).

**Table :5: Distribution of EM-II filed MSMEs by Type of Enterprises
(in '00)**

Year	Micro	Small	Medium	Total
2007-08	1,53,110	16,730	467	1,72,703
2008-09	1,70,262	18,792	702	1,93,026
2009-10	1,85,180	23,870	1,409	2,13,206
2010-11	2,05,112	29,125	1,263	2,38,429
2011-12	2,42,539	34,225	2,949	2,82,428
2012-13	2,75,867	41,502	5,449	3,22,818
2013-14	2,96,526	59,127	7,338	3,62,991
2014-15	3,46,206	70,933	8,219	4,25,358
2015-16	6,30,520	3,310	50	6,33,880

Source: - The State/UT Commissionerates/Directorates of Industries & MSME-Development Institutes

CHALLENGES:

MSMEs in India faced difficulties even before the COVID-19 pandemic. Dominated by micro enterprises, the sector lacks the scale, experience, and resources to stay abreast of latest technology, manufacturing processes, and business management practices. Insufficient local support for incubation of MSMEs, lack of guidance on entering new markets, and policies that have discouraged scaling up businesses from attaining their full potential.

TABLE: 6: Summary Results of NSS 73 Round Survey (2015-16) on Micro, Small and Medium Enterprises

SL No.	Characteristics	Number of MSME enterprises (Registered)	
		Number	Percentage
1	Total No. of Enterprises (Lakh)	633.88	-
		Manufacturing	373.99 59%
		Services	259.89 41%
2	No. of rural units (Lakh)	324.88	51%
3	No. of urban units (Lakh)	309.00	49%
4	No. of female ownership Enterprises (Lakh)	504.76	79.63
5	No. of male ownership Enterprises (Lakh)	129.12	20.37
6	No. of enterprises by type(Lakh)		

		Micro	630.52	99.47%
		Small	3.31	0.52%
		Medium	0.05	0.01%
7	Enterprises by Type of activity (lakh)	Manufacturing	196.65	31%
		Electricity (non-captive)	0.03	-
		Trade	230.35	36%
		Other Services	206.85	33%
8	Enterprises by Type of Social category(lakh)			
		SC	79.92	12.45%
		ST	25.99	4.10%
		OBC	315.17	49.72%
		Others	208.86	32.95%
		Not Known	3.94	0.79%
9	Employment: (lakh)	93.09		
		Micro Enterprises	1076.19	96.96%
		Small	31.95	2.88%
		Medium	1.75	0.16%
10	Employment by type :Lakh			
		Manufacturing	360.41	32%
		Electricity	0.07	-
		Trade	387.18	35%
		Other Services	362.22	33%
11	Employment by sex :Lakh			
		Male	844.68	76%
		Female	264.92	24%

Source: MSME Annual Report-2019-20, Government of India

The table 6 shows that the rural area covers 324.88 lakhs working enterprises accounting 51% of the registered working enterprises in MSME sector whereas urban area covers 309 lakhs enterprises accounting 49% of the total working enterprises in MSME sector. The registered MSMEs have been located more in urban area than in rural area. As per World Bank statistics rural area of India covers 65% of the population where as urban area covers only 35% of the population. Almost half of the total units provide job for 35% urban population where as half of the units provide job for 65% rural population. So there exist huge regional discrepancies for providing jobs for rural people.

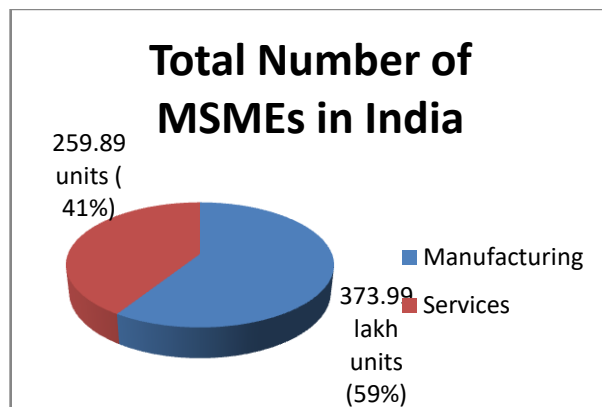


Fig 3: Number of MSMEs in India

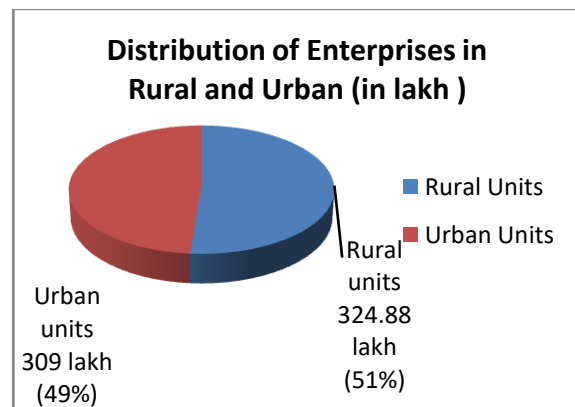


Fig 4: Rural and Urban MSMEs

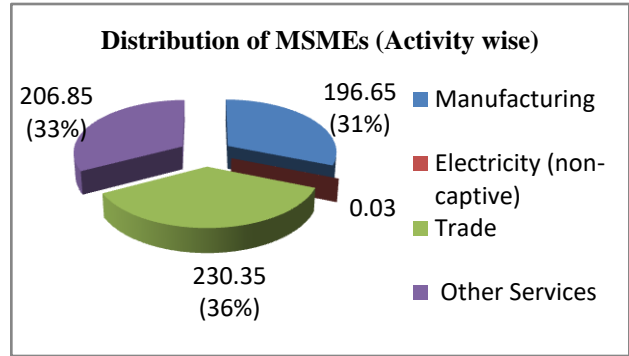
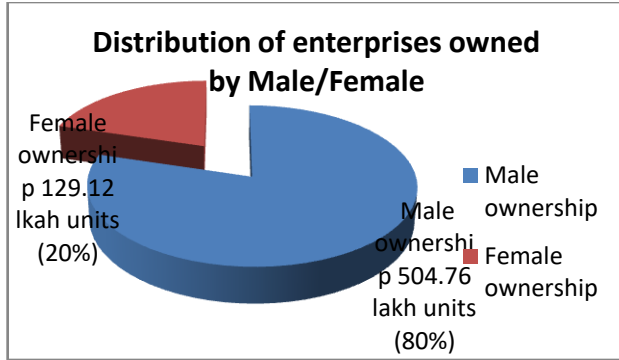


Fig 5: Male/ Female owned MSMEs

Fig 6: Distribution of MSMEs (Activity wise)

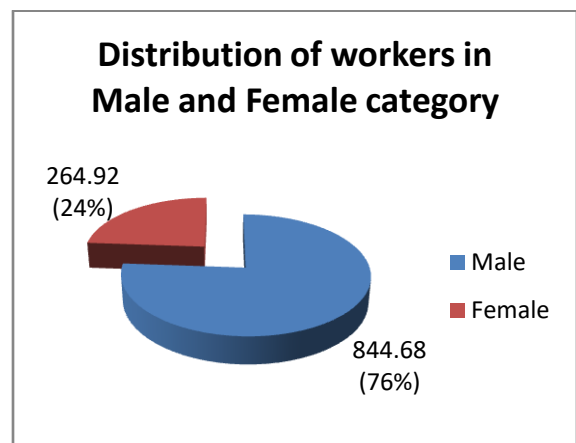
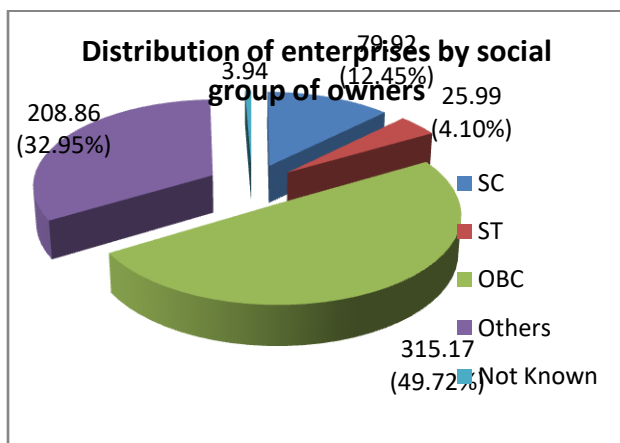


Fig:7: Distribution of MSMEs by social groups

Fig: 8: Male/Female workers in MSME

FINDINGS

In this study an attempt has been made to examine the spatial difference in the distribution of SMEs in India. The results of the study show that there is severe disparity in the distribution of MSMEs between the rural and urban areas. Even though the rural people still constitutes more than two-thirds of the total population of India, only 45% of the total registered MSMEs have been located in rural areas. In the overpopulated India, facing with the demographic pressure, where the social and spatial inequalities occasionally take extreme measures, in order to raise up the rural regions and improve the chances for the integration of the disadvantaged social groups, it would be essential to enhance the governmental efforts aiming to develop small business in rural area. Similarly there is an inter-state difference in the distribution of MSMEs in India. It has been predominant in certain states merely Uttar Pradesh, West Bengal, Tamil Nadu and Maharashtra. These four states together have accounted more than 40% of the total working enterprises in MSME sector. It is essential to the government of India to take appropriate supporting measure to reduce this inter-state difference in the distribution of MSMEs to achieve the balanced regional development

LIMITATIONS OF THE STUDY

The study is based on secondary data only. So the findings may not be appropriate in all cases. Moreover there may be different infrastructure in different states. So the measurements for socio-economic developments may not be done in same parameters.

CONCLUDING OBSERVATIONS

To achieve balanced regional development of all parts of India a balanced distribution of MSMEs to be encouraged. The Reserve Bank of India Expert Committee on MSMEs has recommended policy measures for developing an

enabling ecosystem for enhancing competitiveness and sustainability of MSMEs. These initiatives require a medium-term reforms agenda based on seven pillars.

1. Integrated cluster development focuses on reducing the isolation of individual unit MSMEs and achieving economies of scale improving cluster competitiveness. It can be implemented using a holistic approach that entails developing connectivity and sustainable utility infrastructure, promoting cleaner manufacturing practices, and establishing good governance systems to ensure the financial sustainability and maintenance of the infrastructure.
2. Specific initiatives can include support for MSMEs co-location in industrial parks, regular training sessions on waste minimization and recycling, and last mile connectivity and logistics infrastructure improvements.
3. The COVID-19 crisis has prompted India's MSMEs to repurpose production lines, diversify supply chains, and borrow to meet working capital requirements.
4. Pandemic recovery requires reforms toward an efficient manufacturing ecosystem that will enable greater digital service delivery, connect MSMEs with global value chains, and minimize market failures associated with digital transactions.
5. Robust institutional support at district and block levels is key to delivering on this reform agenda, so that the intended policies can enable growth of MSMEs located not only in big cities but also in semi-urban and rural areas.

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