

# Regional Trends in Financing and Growth of Indian MSMEs



Smita Mohapatra

**Abstract:** *The Indian MSME Sector is the major contributor to the national economy providing it resilience to ward off global economic stress and adversities. With around 60 million units of MSME across India, they promote entrepreneurship and boost employment on a large scale. But since Independence, the Small-Scale Industries didn't get much attention by the Central Government or State Governments. It took almost five decades for the Govt. of India to realize the potential of MSMEs in economic development of the country. The MSME Act was passed in Parliament in 2006 to enable vibrant growth of Indian MSMEs and separate Ministry of Micro, Small & Medium Enterprises was created. The Reserve Bank of India has acted swiftly to improve the flow of credit to the MSME sector. Banks and NBFCs have come together in a great way to boost formal credit to MSMEs with all such loans qualifying for Priority Sector Lending classification. But still the growth of the MSME sector has not been uniform across different regions of the country. In this paper, we will try to analyze the regional trends in the financing and growth of MSMEs in India. Secondary data available from various Govt. sources are utilized to draw some conclusions regarding the current growth trends of the MSME units. Chi-square tests and correlation analysis are used to quantify the performance parameters of MSMEs. The paper brings out the figures pertaining to growth of MSMEs across rural and urban India. It concludes by emphasizing the need for enhanced growth opportunities for the MSME sector in low-performance states.*

**Keywords:** *growth, India, MSME, regional.*

## I. INTRODUCTION

Our nation has become one of the fastest growing countries in terms of economic development and Gross Domestic Product (GDP). India's production of goods and services are par excellence with advanced countries enabling more export earnings. The Govt. of India and various State Governments provide support for achieving higher GDP through various schemes and concessions to enable both big industries and small enterprises to increase the output of goods and services. While big industrial houses produce in a big way, the MSME viz. Micro, Small and Medium Enterprises too contribute significantly to the GDP. The Indian MSME Sector is the major contributor to the national economy providing it resilience to ward off global economic stress and adversities. With around 60 million units of MSME across India, they

promote entrepreneurship and boost employment on a large scale. Around 50 per cent of the total MSMEs operate in rural areas and they provide nearly 45 per cent of total employment. Out of these, the micro enterprises alone account for 97 per cent of total employment in MSME.

After Independence, the Small-Scale Industries didn't get much attention by the Central Government or State Governments. It took almost five decades for the Govt. of India to realize the potential of MSMEs in economic development of the country. On 18 Jan 2006, the MSME Act, 2006 was passed in Parliament to enable MSMEs Sector for vibrant growth and separate Ministry of Micro, Small & Medium Enterprises was created. The Reserve Bank of India has acted swiftly to improve the flow of credit to the MSME sector. Banks and NBFCs have come together in a great way to boost formal credit to MSMEs with all such loans qualifying for Priority Sector Lending classification. But still the growth of the MSME sector has not been uniform across different regions of the country. In this paper, we will try to analyse the regional trends in the financing and growth of MSMEs in India.

## II. LITERATURE SURVEY

Vasu & Jayachandra (2014) examined the growth and performance of MSMEs in India and also highlighted the various problems faced by MSMEs [1]. The authors suggested that it is time to put emphasis on formulation of friendly policies, favourable operating environment, proper infrastructure and arranging proper finance facilities for the MSME sector. Kannan & Sudalaimuthu (2014) studied the relationship between Indian MSMEs' performance and macro-economic variables and found that financing to the sector is of critical importance, particularly as it benefits the weakest sections of the society [2]. They also observed that there are differentials in performance and development of MSMEs in different States in the country. Manna and Mistri (2017) studied the nature of spatial disparity of Indian MSME in terms of registration, output generation and employment generation [3]. They observed that Micro enterprises occupied the leading position naturally in all states but some developed states like Gujarat, Tamil Nadu, and Goa in the south; Himachal Pradesh, Punjab, Haryana in the north and the north-eastern states like Arunachal, Mizoram, Manipur, Nagaland and Tripura are improving their small and medium scale enterprises also. In states like West Bengal, Bihar, Uttar Pradesh, Rajasthan, Madhya Pradesh and Orissa, small and medium enterprises are lesser in number. There is seen a normal path that those states who are leading in working enterprises,

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creates more employment, generate more income and do more registration whether filling EM-II or UAM.

Debasish, N (2019) has studied the role played by MSMEs in development of rural India [4]. The author observed that the MSMEs make significant contribution in employment generation and expanding industrial network in rural and backward areas.

### III. OBJECTIVE OF STUDY

The objective of this study is to

- assess current regional trends in performance and growth of micro, small and medium enterprises (MSMEs) in India.
- evaluate the state-wise performance of MSME in India.

### IV. RESEARCH METHODOLOGY

The study and analysis presented in this paper is based on secondary data for the time period from 2015 to 2019. The data is taken from the following sources:

- Annual Report of MSME (Year wise)
- Websites of Ministry of Micro, Small and Medium Enterprises
- Udyog Aadhar Memorandum (UAM), 2019-20

The graphs and charts presented are drawn with the help of MS-Excel utility.

### V. THE URBAN-RURAL DIVIDE

Table 1 shows the estimated number of MSME categorized into manufacturing, trade and other services in rural and urban region of India [5]. To know the dependency between their activity category and region of operation, Chi-Square test is applied on the data.

$H_0$ : There is no relation between MSME Activity Category and region of operation.

$H_1$ : There is relation between MSME Activity Category And region of operation.

**Table 1: Number of MSME across Activity category and Region of Operation**

Activity Category	Estimated No of Enterprises (in lakh)		
	Rural	Urban	Total
Manufacturing	114.14	82.5	196.64
Trade	108.71	121.64	230.35
Other Services	102	104.85	206.85
Total	324.85	308.99	633.84

Source: Annual Report, 2018-2019 (Ministry of MSME, Govt. of India)

For the data in Table 2, Chi-square degree of freedom is  $(3-1)*(2-1)=2$ . Chi-square value at 5% level of significance is found to be 5.46 which is less than critical value 5.99. Hence  $H_0$  is accepted that shows there is no relation between MSME Activity category and Region of operation.

Table-2 shows the number of MSMEs categorized into micro, small and medium enterprises in rural and urban regions of India [5]. The null and alternate hypotheses are formed as given below.

$H_0$ : There is no relation between MSME type and region of operation.

$H_1$ : There is relation between MSME type and region of

operation.

**Table 2: Number of MSME type and Region of Operation**

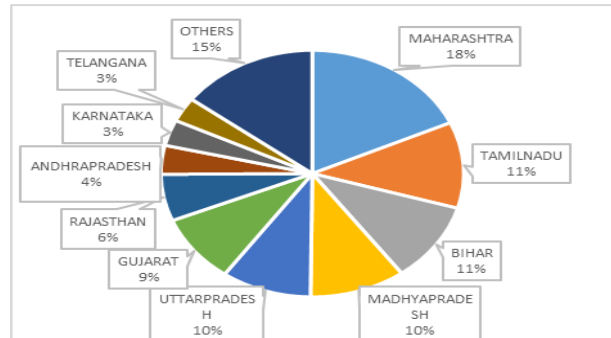
Sector	Micro	Small	Medium	Total
Rural	324.09	0.78	0.01	324.88
Urban	306.43	2.53	0.04	309
All	630.52	3.31	0.05	633.88

Source: Annual Report, 2018-2019 (Ministry of MSME, Govt. of India)

Chi-square value at 5% level of significance is found to be 1.04 which is less than critical value 5.99. Hence  $H_0$  is accepted that shows there is no relation between MSME type and Region of operation.

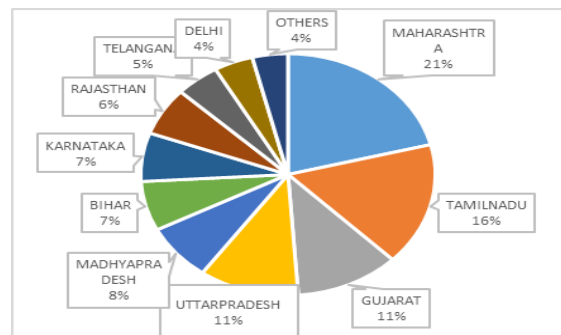
### VI. STATE-WISE PERFORMANCE

The following graph (Fig. 1) shows state-wise percentage of MSMEs registered under UAM accumulated over the period from 2015 to 2019 [6]. From the graph, it can be seen that Maharashtra occupies a major share of 18% followed by Tamilnadu (11%) and Bihar (11%). The top 10 states account for nearly 85% of total MSME registration over the same period.



**Fig. 1: State-wise distribution of Registered MSMEs**

Similarly, Fig. 2 shows the state-wise percentage distribution of the total employment generated by MSMEs over the period from 2015 to 2019 [6]. As evident Maharashtra caters for nearly 21% of the employment followed by Tamilnadu (16%) and Gujarat (11%). The three states together generate nearly 50% of the total employment in MSME sector. The top 10 states cater for nearly 96% of the total employment. The following data (Table 3) shows the number of existing MSMEs, total no of employees and number of new MSME filings for the top ten states [6].



**Fig. 2: State-wise distribution of MSME Employment**

The average number of employees per MSME is found to vary from 1.52 to 1.95 with the higher figure from Tamilnadu.



The Pearson correlation coefficient between the number of MSMEs and no of employees is found to be 0.98, which is near perfect. But the correlation between existing number of MSMEs and new filings under UAM is very low at 0.1 which shows that the MSME sector in the states with lower numbers are growing more. These figures ascertain the Government initiatives to boost the Indian MSME sector are taken in the right direction. Micro enterprises occupied the leading position naturally in all states in terms of number of units. But some developed states like Gujarat, Tamil Nadu and

Maharashtra are improving their small and medium scale enterprises also. In states like West Bengal, Bihar, Uttar Pradesh, Rajasthan, Madhya Pradesh and Orissa where small and medium enterprises are lesser in number. Numbers of working enterprises are higher in the informal or unregistered sector and they play crucial role in employment generation too. But registered enterprises surpass the unregistered sector in terms of productivity.

**Table 3: Statewise Performance of MSMEs (Top 10 states)**

State	Number of MSMEs (in lakh)	No of Employees (in lakh)	UAM filings	Average employees per MSME
Bihar	34.46	53.07	727416	1.54
Uttar Pradesh	89.99	165.26	532951	1.83
Tamil Nadu	49.48	96.73	459066	1.95
Gujarat	33.16	61.16	386515	1.84
Maharashtra	47.78	90.77	349918	1.89
Madhya Pradesh	26.74	48.8	269349	1.82
Rajasthan	26.87	46.33	220957	1.72
Andhra Pradesh	33.87	55.99	217226	1.65
West Bengal	88.67	135.52	124368	1.52
Telangana	26.05	40.16	107381	1.54

**VII. CONCLUSION**

The MSME sector acts as the catalyst for the Industrial and economic growth of India by contributing in terms of jobs creation, export potential, GDP addition, and better standard of living to millions of families. The categorization of MSME units into micro, small and medium enterprises and testing with Chi-Square revealed that there is no specific relationship between the unit size and region of operation. Similarly, the the activity category (i.e. manufacturing, trade or Other services) is found to be independent of the region of operation. So it can be assumed that the MSME units are equally divided among the urban and rural India. By analysing the state-wise data, we have observed that the MSME sector currently is concentrated in few states only. The top 10 states mentioned have registered more that 85% of MSMEs in the time period from 2015 to 2019 and generated more than 96% of the total employment. This shows a disparity of MSME growth among the states of India. But this seem to be decreasing as, the number of new registrations through UAM filings are becoming higher for the states with less number of existing MSMEs. All efforts should be made to project an even growth of MSME across India by framing suitable regulations, easing the access to finance and providing tax incentives for the states lacking in growth of MSMEs. Also the unorganized MSME sector shall be encouraged and incentivized to register their units through EM-II or UAM so that they can leverage the benefit of government schemes and lower financing rates.

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**AUTHORS PROFILE**



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