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CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	DETERMINANTS OF INTEREST SPREADS IN COMMERCIAL BANKS – A CASE OF CRDB BANK TANZANIA <i>DR. SRINIVAS MADISHETTI & JOSEPH KIMEME</i>	1
2.	CORPORATE SOCIAL RESPONSIBILITY CSR OF BUSINESS ORGANIZATIONS IN NIGER STATE, NIGERIA: AN ISLAMIC PERSPECTIVE <i>DR. HALIRU BALA</i>	6
3.	CHALLENGES OF GOOD GOVERNANCE IN LOCAL GOVERNMENT: THE CASE OF SAESIETSAEDAMBA WOREDA, TIGRAY REGION, ETHIOPIA <i>GEBRESLASSIE KIROS HAILU</i>	11
4.	TOTAL COST OF SMALL ENTREPRENEURIAL CREDIT: AN ANALYSIS ON SELECTED PRIVATE COMMERCIAL BANKS IN BANGLADESH <i>JASMINE JAIM</i>	27
5.	FACTORS INFLUENCING TOTAL HOUSEHOLD INCOME OF FARMERS IN UTTAR PRADESH <i>AMARENDRA PRATAP SINGH</i>	31
6.	CUSTOMER AWARENESS AND SATISFACTION IN COMMERCIAL BANKS WITH REFERENCE TO COIMBATORE DISTRICT <i>DR. M. VIDHYA & DR. A. RAMACHANDRAN</i>	38
7.	MEASUREMENT OF CONSUMER'S PERCEPTION ON SERVICE QUALITY IN LIFE INSURANCE <i>ALTAF AHMAD DAR & SHABIR AHMAD BHAT</i>	44
8.	GROWTH AND PERFORMANCE OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN INDIA: AN OVERVIEW <i>OMKAR P. DASTANE.</i>	50
9.	A STUDY ON THE POSITION OF SMALL AND MEDIUM ENTERPRISES IN KERALA VIS A VIS THE NATIONAL SCENARIO <i>N. RAJEEVAN & DR. M. M. SULPHEY</i>	57
10.	A STUDY ON SOCIO – ECONOMIC STATUS OF PIG FARMERS IN KANCHEEPURAM DISTRICT OF TAMILNADU STATE <i>SASIKALA. V, P. KUMARAVEL & P. MATHIALAGAN</i>	61
11.	STUDY OF EMPOWERMENT STATUS AND THE LEADERSHIP QUALITIES OF WOMEN NGOS <i>DR. MADHAVI S. KULKARNI & KISHOR G. BHIDE</i>	64
12.	IMPACT OF AGE AND LEVEL OF EDUCATION ON ORGANIZATIONAL COMMITMENT <i>DR. ARTI BAKSHI, ATUL DUTT SHARMA & DR. KULDEEP KUMAR</i>	69
13.	SCAN ON MINIMUM ALTERNATE TAX <i>DR. G. VELMURUGAN</i>	73
14.	SELF HELP GROUPS (SHGs): IMPACT ON WELFARE OF RURAL WOMEN AT IKP (INDIRA KRANTHI PATHAM) <i>DR. M. SUKANYA</i>	76
15.	SELF HELPS GROUPS: A NEW PARADIGM SHIFT FOR WOMEN EMPOWERMENT <i>DR. K. MANOHARAN NAIR</i>	81
16.	WTO AND INDIA'S FOREIGN TRADE <i>DR. SANJAY TIWARI & DR. TILAK SETHI</i>	85
17.	PERFORMANCE OF VARIOUS BANKING AGENCIES IN INDIA OVER A PERIOD OF TIME <i>K. RANGASWAMY & DR. D.V.GOPALAPPA</i>	94
18.	DIRECT TAXES CODE – AN OVERVIEW <i>DR. A. JAYAKUMAR & R. ELAVARASAN</i>	98
19.	REGIONAL RURAL BANK FINANCE IN ARUNACHAL PRADESH, INDIA: AN IMPACT ANALYSIS <i>DR. TASI KAYE</i>	103
20.	FOREIGN DIRECT INVESTMENT AND RETAILING IN INDIA-ISSUES AND CONCERNS <i>K. BABY & C.A VISALAKSHI</i>	108
21.	SOCIO-ECONOMIC PROFILE OF WOMEN ENTREPRENEURS: A CASE STUDY WITH REFERENCE TO NORTH DISTRICT OF GOA STATE <i>DR. ACHUT P. PEDNEKAR</i>	114
22.	HUMAN SETTLEMENTS UNDER SRIPADA-YELLAMPALLY PROJECT AND SUSTAINABLE DEVELOPMENT STRATEGY <i>RAMAIAH BHEENAVENI</i>	118
23.	EFFICIENCY STUDY OF LARGE-SIZED BANKS IN INDIA – A DEA APPLICATION <i>MANAS KUMAR BAIDYA</i>	122
24.	GLOBALIZATION AND SMALL-SCALE INDUSTRIES: THE INDIAN PERSPECTIVE <i>SANDEEP AGGARWAL & PARUL MITTAL</i>	130
25.	STRATEGIES FOR SMALL BUSINESS DEVELOPMENT: MICROENTERPRISE IN ORISSA: PRACTICES TO PROMOTE SUCCESS AMONG LOW-INCOME ENTREPRENEURS <i>DR. BIKRANT KESARI</i>	136
26.	TRENDS AND CHALLENGES BEFORE BANKING SECTOR: A STUDY <i>SATISH TANAJI BHOSALE</i>	140
27.	INDIA & CHINA: THE RISING POWER IN GLOBAL ECONOMY <i>SARITA RANI & INDRA NEHRA</i>	143
28.	PROTECTION OF CHILDREN - ROLE OF PANCHAYATS IN INDIA <i>R.ARUNAJAYAMANI</i>	150
29.	BASEL III: A TOOL OF RISK MANAGEMENT IN BANKING SECTOR <i>SAHILA CHAUDHRY</i>	154
30.	MGNREGA: ITS DRAWBACKS IN J&K 2010 <i>SHEIKH IRSHAD AHMAD</i>	158
	REQUEST FOR FEEDBACK	162

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GROWTH AND PERFORMANCE OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN INDIA: AN OVERVIEW

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ABSTRACT

The aim of this paper is to study the performance of the SME sector of India. The paper outlines year-wise growth trends in SMEs in terms of the number of units, employment generation, fixed investment, production and exports. The paper also shows a comparison of the SME sector with the total industrial sector of India. The new SME unit registration trends and industry sector wise distribution of units have also been highlighted here. The micro, small and medium enterprises (MSME) sector contributes significantly to the manufacturing output, employment and exports of the country. The Indian market is growing rapidly and Indian industry is making remarkable progress in various Industries like Manufacturing, Precision Engineering, Food Processing, Pharmaceuticals, Textile & Garments, Retail, IT, Agro and Service sectors. SMEs are finding increasing opportunities to enhance their business activities in core sectors. The paper uses descriptive research methodology based on secondary data collected from various government journals and Annual Reports. Broadly this paper is based on extracts taken from MSME Annual Report 2010-11, Ministry of Micro, Small and Medium Enterprises, with intention of providing a quick overview of the SME sector of India in simple format. The paper concludes that the position of the SME sector has strategic position in Indian economy. There is much scope of research in this topic to formulate various new policies and also for evaluation of existing policies.

KEYWORDS

Contribution of SME, Growth of SME, Performance of SME, SME sector of India.

INTRODUCTION

The government of the country has been pushing for achieving economic growth and development in all the sectors. SMEs have been one of the major planks of India's economic development strategy since independence. Today, the SME sector occupies a position of strategic importance in the Indian economic structure due to its significant contribution in terms of output, exports and employment (Subrahmanya, 2004). SMEs in India have always remained high on the priority of government. The basic policy towards SMEs in India has been protective (Nag, 2000). Small and Medium Enterprises (SMEs) play a vital role for the growth of Indian economy by contributing 45% of industrial output, 40% of exports, employing 59 million people, create 1.3 million jobs every year and produce more than 6000 quality products for the Indian and international markets. SME's Contribution towards GDP in 2011 was 17% which is expected to increase to 22% by 2012. There are approximately 29 million MSME Units in India and 12 million persons are expected to join the workforce in the next 3 years. SMEs are the fountain head of several innovations in manufacturing and service sectors, the major link in the supply chain to corporate and the PSUs. By promoting SMEs, the rural areas of India will be developed. SMEs are now exposed to greater opportunities than ever for expansion and diversification across the sectors. Indian market is growing rapidly and Indian entrepreneurs are making remarkable progress in various Industries like Manufacturing, Precision Engineering Design, Food Processing, Pharmaceutical, Textile & Garments, Retail, IT and ITES, Agro and Service sector. (Annual Report 2010, Small and Medium Business Development Chamber of India). Hence the SME sector is one of the most vibrant, dynamic and vital sectors of the Indian economy. This sector is significantly contributing to the gross domestic product and employment generation, providing a strong entrepreneurial base (Jayasheela and Hans, 2006).

DEFINITION OF MSMEs IN INDIA

Manufacturing Enterprises – Investment in Plant & Machinery		
Description	INR	USD(\$)
Micro Enterprises	upto Rs. 25Lakhs	upto \$ 62,500
Small Enterprises	above Rs. 25 Lakhs & upto Rs. 5 Crores	above \$ 62,500 & upto \$ 1.25 million
Medium Enterprises	above Rs. 5 Crores & upto Rs. 10 Crores	above \$ 1.25 million & upto \$ 2.5 million

Service Enterprises – Investment in Equipments		
Description	INR	USD(\$)
Micro Enterprises	upto Rs. 10Lakhs	upto \$ 25,000
Small Enterprises	above Rs. 10 Lakhs & upto Rs. 2 Crores	above \$ 25,000 & upto \$ 0.5 million
Medium Enterprises	above Rs. 2 Crores & upto Rs. 5 Crores	above \$ 0.5 million & upto \$ 1.5 million

METHODOLOGY

The paper uses descriptive research methodology based on secondary data collected from various government journals and Annual Reports. Broadly this paper is based on extracts taken from MSME Annual Report 2010-11, Ministry of Micro, Small and Medium Enterprises, with intention of providing a quick overview of the SME sector of India in simple format.

DATA COLLECTION AND ANALYSIS

(A) MSMEs PERFORMANCE

The Office of the DC (MSME) provides estimates in respect of various performance parameters relating to the Sector. The time series data in respect of the Sector on various economic parameters is incorporated in the following Table 1.1. It may be mentioned that data with respect to MSMEs have been

collected/compiled for the first time in 2006-07 and hence include both the industry and service sectors. Till the year 2005-06, data in the Table 1.1 refer to micro and small scale industry only.

TABLE 1.1: MSMEs PERFORMANCE: UNITS, INVESTMENT, PRODUCTION, EMPLOYMENT & EXPORTS

Sr. No.	Year	Total MSMEs (Lakh Numbers)	Fixed Investment (Rs. Crore)	Production (Rs. Crore)	Employment (Lakh person)	Export (Rs Crore)
				Current Prices		
1	1992-93	73.51 (4.07)	109623 (9.24)	84413 (4.71)	174.84 (5.33)	17784 (28.10)
2	1993-94	76.49 (4.07)	115795 (5.63)	98796 (17.04)	182.64 (4.46)	25307 (42.30)
3	1994-95	79.60 (4.07)	123790 (6.9)	122154 (23.64)	191.40 (4.79)	29068 (14.86)
4	1995-96	82.84 (4.07)	125750 (1.58)	147712 (20.92)	197.93 (3.42)	36470 (25.46)
5	1996-97	86.21 (4.07)	130560 (3.82)	167805 (13.60)	205.86 (4.00)	39248 (7.62)
6	1997-98	89.71 (4.07)	133242 (2.05)	187217 (11.57)	213.16 (3.55)	44442 (13.23)
7	1998-99	93.36 (4.07)	135482 (1.68)	210454 (12.41)	220.55 (3.46)	48979 (10.21)
8	1999-00	97.15 (4.07)	139982 (3.32)	233760 (11.07)	229.10 (3.88)	54200 (10.66)
9	2000-01	101.1 (4.07)	146845 (4.90)	261297 (11.78)	238.73 (4.21)	69797 (28.78)
10	2001-02	105.21 (4.07)	154349 (5.11)	282270 (8.03)	249.33 (4.44)	71244 (2.07)
11	2002-03	109.49 (4.07)	162317 (5.16)	314850 (11.54)	260.21 (4.36)	86013 (2.07)
12	2003-04	113.95 (4.07)	170219 (4.87)	364547 (15.78)	271.42 (4.31)	86013 (20.73)
13	2004-05	118.59 (4.07)	178699 (4.98)	429796 (17.90)	282.57 (4.11)	97644 (13.52)
14	2005-06	123.42 (4.07)	188113 (5.27)	497842 (15.83)	294.91 (4.37)	124417 (27.42)
15	2006-07	261.01 (111.48)	500758 (166.20)	709398 (42.49)	594.61 (101.62)	150242 (21.50)
16**	2007-08	272.79 (4.51)	5858190 (11.47)	790759 (11.47)	626.34 (5.34)	202017 (10.67)
17**	2008-09	285.16 (4.53)	621753 (11.39)	880805 (11.39)	659.35 (5.35)	NA
18**	2009-10	298.08 (4.53)	693835 (11.59)	982919 (11.59)	695.38 (5.47)	NA

The figures in brackets show the percentage growth over the previous year. The data for the period up to 2005-06 is of small scale industries (SSI). Subsequent to 2005-06, data with reference to micro, small and medium enterprises (MSMEs) are being compiled.

** Projected (Source: S & D Division-office of the DC (MSME))

(B) COMPARISON OF THE MICRO AND SMALL ENTERPRISES (MSEs) SECTOR WITH THE OVERALL INDUSTRIAL SECTOR

The MSE sector has maintained a higher rate of growth (and consistent increase) vis-à-vis the overall industrial sector as would be clear from the comparative growth rates of production for both the sectors during last five years as incorporated in the Table 1.2.

TABLE 1.2: COMPARATIVE DATA ON GROWTH RATES OF MSE SECTOR

Year	Growth rates of 2001-02 base IIP (percentage)	Overall Industrial Growth rates of Sector (percentage) #
2002-03	8.68	5.70
2003-04	9.64	7.00
2004-05	10.88	8.40
2005-06	12.32	8.20
2006-07	12.60	11.60
2007-08	13.00*	8.50
2008-09	NA	2.80
2009-10	NA	10.40

*: Projected, IIP – Index of Industrial Production

#: Source – M/O Statistics and PI website – www.mospi.gov.in

(C) CONTRIBUTION OF MSEs IN GROSS DOMESTIC PRODUCT

The contribution of MSEs in GDP is not consistent till 2004 but we can observe consistent growth in contribution of MSEs in GDP after 2005. The same is not the case with contribution of total industrial production in GDP. It can be seen from data presented in Table 1.3.

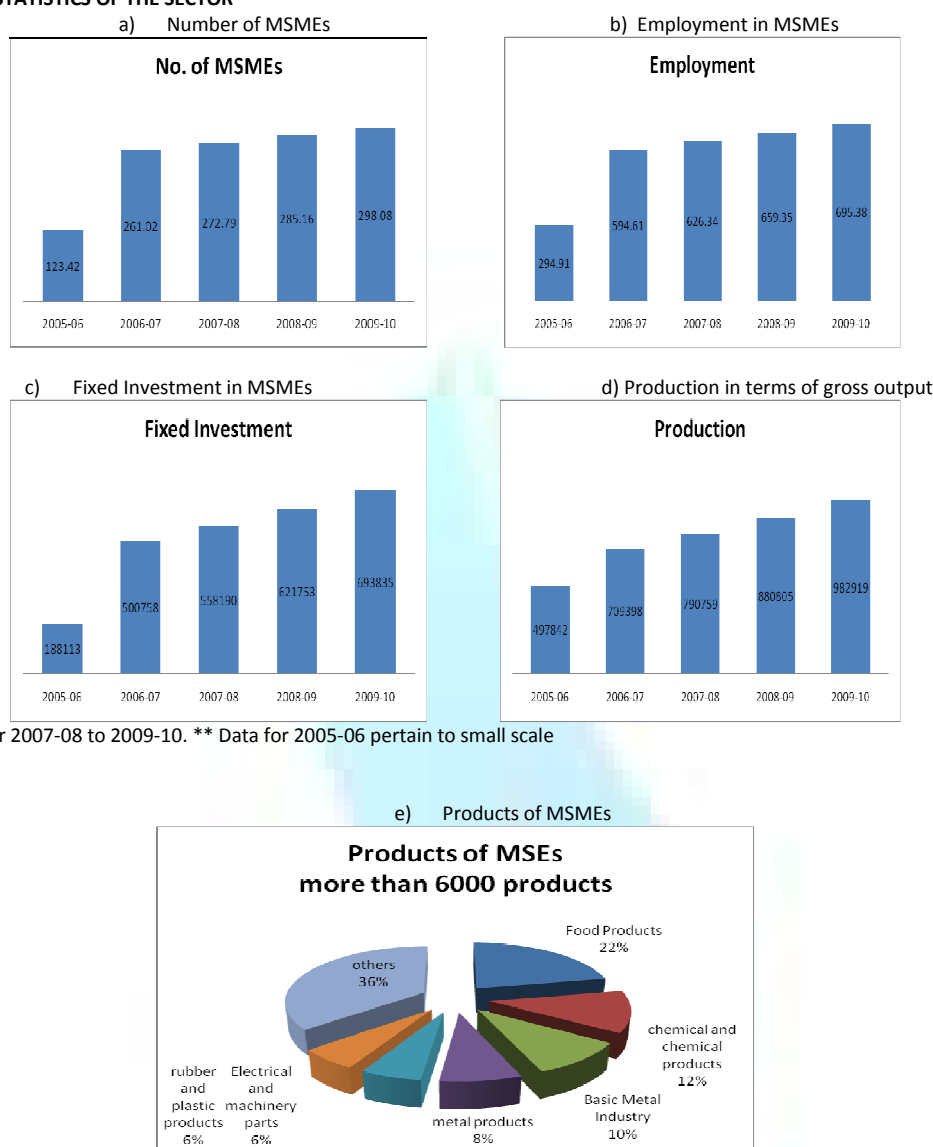
TABLE 1.3: CONTRIBUTION OF MSEs IN GDP

Year	Contribution of MSEs at 1999-2000 prices in	
	Total Industrial Production	GDP
1999-00	39.74	5.86
2000-01	39.71	6.04
2001-02	39.12	5.77
2002-03	38.89	5.91
2003-04	38.74	5.79
2004-05	38.62	5.84
2005-06	38.56	5.83
2006-07	45.62	7.20
2007-08	45.24	8.00
2008-09	44.86	8.72

(D) EMPLOYMENT IN MSME SECTOR

The total employment from the MSE sector (including SSSBEs) in the country as per the Fourth Census of MSEs with Reference Year 2006-07 was 594.61 lakh numbers. As per the estimates compiled for the year 2009-10, the employment was 695.38 lakh persons in the sector.

CHARTS SHOWING OTHER STATISTICS OF THE SECTOR

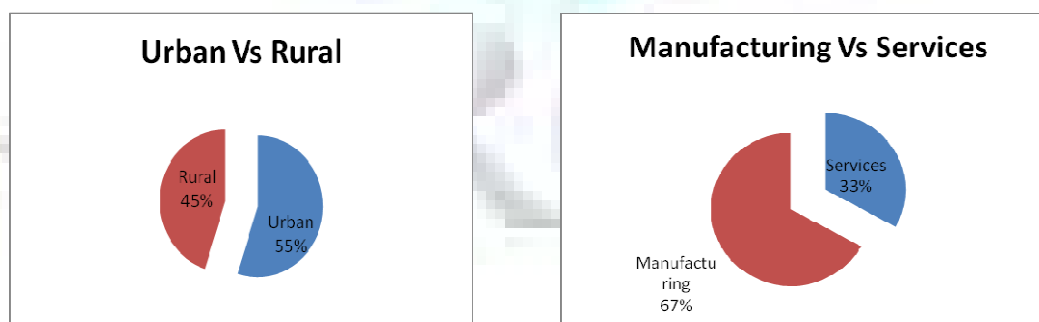


* Projected data for the year 2007-08 to 2009-10. ** Data for 2005-06 pertain to small scale Industries (SSI) only

(E) Estimates obtained from Registered MSMEs

(I) SIZE OF THE REGISTERED MSME SECTOR

The size of the registered MSME sector is estimated to be 15, 63,974. Of the total working enterprises, the proportion of micro, small and medium enterprises were 94.94%, 4.89% and 0.17% respectively. This comprises of 67.10% manufacturing enterprises and 32.90% services enterprises. About 45.23% (7.07 lakh) of the units were located in rural areas.



(II) NATURE OF ACTIVITY

67.10 % of the enterprises in the registered MSME sector were engaged in manufacturing/ Assembling / processing, whereas 16.78 % of the units were engaged in services activities as may be seen from the Table given below. The remaining 16.13 % of the enterprises were engaged in the repair and maintenance. It is presented in Table 1.4.

TABLE 1.4: DISTRIBUTION BY NATURE OF ACTIVITY

Distribution by nature of activity	No in Lakh
Manufacturing / Assembling / Processing	10.49 (67.10%)
Services	2.62 (16.78%)
Repairing & Maintenance	2.52 (16.13%)
Total	15.64 (100%)

(III) TYPE OF ORGANIZATION

The table given below shows that 90.08 % of the enterprises in the registered MSME sector was proprietary concerns. About 4.01 % of the enterprises were run by partnerships and 2.78 % of the enterprises were run by private companies. The rest were owned by public limited companies, cooperatives/trusts or others. It is presented in Table 1.5.

TABLE 1.5: DISTRIBUTION BY TYPE OF ORGANIZATION

Distribution by type of Organization	No in Lakh
Proprietary	14.09 (90.08%)
Partnership	0.63 (4.01%)
Pvt. Company	0.43 (2.78%)
Pub. Ltd. Company	0.08 (0.54%)
Cooperatives	0.05 (0.30%)
Others	0.36 (2.30%)

(IV) TYPE OF MANAGEMENT/ OWNERSHIP

An enterprise (Manufacturing or Services) managed by one or more women entrepreneurs in proprietary concerns, or in which she/ they individually or jointly have a share capital of not less than 51% as partners/ share holders/ Directors of Private Limited Company/ Members of Co-operative Society is called a 'Woman Enterprise'. It was found that 13.72% (2.15 lakh) of the units in the registered MSME sector were women enterprises, whereas the share of enterprises actually managed by females was also 13.72%. It is presented in Table 1.6.

TABLE 1.6: DISTRIBUTION BY GENDER OF OWNERS OF THE ENTERPRISES

No of enterprises managed by	No in lakh
Male	13.49 (86.26%)
Female	2.15 (13.72%)
Total	15.64 (100%)
No of women enterprises	2.15 (13.72%)

(V) COMMUNITY STATUS

From the angle of community status, 7.60% of the enterprises were owned by Scheduled Caste (SC) entrepreneurs, 2.87% by Scheduled Tribe (ST) entrepreneurs and 38.28% by entrepreneurs of Other Backward Classes (OBCs). Thus, 48.75% of the working units in the registered MSME sector were being owned by socially backward classes. It is presented in Table 1.7.

TABLE 1.7: DISTRIBUTION BY SOCIAL CATEGORY OF OWNERS

Ownership by type of social category	No in Lakh
Scheduled Caste (SCs)	1.19 (7.60%)
Scheduled Tribe (ST)	0.45 (2.87%)
OBCs	5.99 (38.28%)
Others	8.02 (51.26%)

(VI) RELIGION

In terms of religion, 81.22% units were owned by Hindu whereas domination of Muslim, Sikh and Christian was 9.11%, 3.31% and 4.12% respectively. It is presented in Table 1.8.

TABLE 1.8: DISTRIBUTION BY TYPE OF RELIGION OF OWNERS

Ownership by type of religion	No in Lakh
Hindu	12.70 (81.22%)
Muslim	1.43 (9.11%)
Sikh	0.52 (3.31%)
Christian	0.64 (4.12%)
Jain	0.08 (0.52%)
Buddhist	0.01 (0.07%)
Others	0.26 (1.64%)

(VII) INDUSTRY SECTOR-WISE DISTRIBUTION OF MICRO, SMALL AND MEDIUM ENTERPRISES BASED ON NUMBER OF ENTERPRISES

TABLE 1.9

Industry Sector-Wise (At 2-Digit Level of NIC-2004) Distribution of Micro, Small and Medium Enterprises as per Fourth All India Census 2006-07					
Sr. No.	NIC Code	Description of Activities	No of Enterprises		
			Regd.	Unregd.	Total
1	01	Service activities related to agriculture and hunting	11871	34933	46804
2	02	Service activities related to forestry and logging	1025	15751	16776
3	05	Service activities incidental to fishing	124	3826	3950
4	10	Service activities incidental to mining	71	23	94
5	11	Service activities incidental to extraction of Oil and Gas	42	3847	3889
6	13	Mining of metal ores	464	2861	3325
7	14	Other mining and quarrying	12943	8866	21809
8	15	Food products and beverages	212559	1317070	1529629
9	16	Tobacco products	4461	923693	928154
10	17	Textiles	106616	939018	1045634
11	18	Wearing apparel	214861	1092501	1307362
12	19	Leather products	26741	62549	89290
13	20	Wood and wood products	53939	494471	548410
14	21	Paper and paper products	12888	20111	32999
15	22	Publishing, printing and reproduction of recorded media	40464	102649	143113
16	23	Coke and refined petroleum products	2166	3016	5182
17	24	Chemicals and chemical products	50065	89687	139752
18	25	Rubber and plastic products	35894	25212	61106
19	26	Non-metallic mineral products	56692	220060	276752
20	27	Basic metals	19274	55610	74884
21	28	Fabricated metal products	137957	181766	319723
22	29	Machinery and equipments	72400	49845	122245
23	30	Office, accounting and computing machinery	4750	1909	6659
24	31	Electrical machinery and apparatus N.E.C	34326	43030	77356
25	32	Radio, T.V. and communication equipment and apparatus	8784	25987	34771
26	33	Medical, precision, optical instruments, watches and clocks	10488	10004	20492
27	34	Motor vehicles, trailers and semi-trailers	5773	9391	15164
28	35	Other transport equipments	15579	5877	21456
29	36	Furniture	99920	565569	665489
30	37	Recycling	183	15502	15685
31	40	Electricity, gas, steam and hot water supply	645	15362	16007
32	41	Collection, purification and distribution of water	101	11358	11459
33	45	Construction	184	53904	54088
34	50	Repair & maintenance of motor vehicles & motor cycles, sale of automotive fuels	58021	609843	667864
35	51	Wholesale trade commission trade	1255	655973	657228
36	52	Repair & maintenance of personal and household goods and retail trade	141050	11968341	12109391
37	55	Hotels and restaurants	1256	1322994	1324250
38	63	Supporting and auxiliary transport activities, travel agencies	2709	149174	151883
39	64	Post and telecommunications	17127	610214	627341
40	70	Real estate activities	312	54284	54596
41	71	Renting of machinery and equipment without operator and household goods	458	265671	266129
42	72	Computer and related activities	21357	41752	63109
43	73	Research and development	4	1450	1454
44	74	Other business activities	25855	421327	447182
45	80	Education	801	213418	214219
46	85	Health and social welfare activities	1371	569017	570388
47	90	Sewage and refuse disposal, sanitation and similar activities	34	0	34
48	92	Recreational, cultural and sporting activities	2560	161523	164083
49	93	Other service activities	8622	1092632	1101254
50	99	Not reported	15449	5440	20889
		Total	1552491	24548311	26100802

One can observe that top three industry sectors in terms of total number of enterprises (registered as well as unregistered) are Repair & maintenance of personal and household goods and retail trade, Food products and beverages, Hotels and restaurants. Also bottom three industry sectors in terms of number of enterprises (registered as well as unregistered) are Sewage and refuse disposal, sanitation and similar activities, Service activities incidental to mining, Research and development.

(VIII) INDUSTRY SECTOR-WISE DISTRIBUTION OF MICRO, SMALL AND MEDIUM ENTERPRISES BASED ON EMPLOYMENT

TABLE 2.0

Industry Sector-Wise (At 2-Digit Level of NIC-2004) Distribution of Micro, Small and Medium Enterprises as per Fourth All India Census 2006-07					
Sr. No.	NIC Code	Description of Activities	Employment		
			Regd.	Unregd.	Total
1	01	Service activities related to agriculture and hunting	214962	0	214962
2	02	Service activities related to forestry and logging	8554	0	8554
3	05	Service activities incidental to fishing	1319	0	1319
4	10	Service activities incidental to mining	962	0	962
5	11	Service activities incidental to extraction of Oil and Gas	605	11189	11794
6	13	Mining of metal ores	6893	9154	16047
7	14	Other mining and quarrying	124598	63252	187850
8	15	Food products and beverages	1255412	2588948	3844360
9	16	Tobacco products	168221	1852146	2020367
10	17	Textiles	1064230	2862348	3926578
11	18	Wearing apparel	911539	1830196	2741735
12	19	Leather products	165153	174311	339464
13	20	Wood and wood products	217677	1027039	1244716
14	21	Paper and paper products	144622	44120	188742
15	22	Publishing, printing and reproduction of recorded media	208265	305752	514017
16	23	Coke and refined petroleum products	30048	26079	56127
17	24	Chemicals and chemical products	489738	225042	714780
18	25	Rubber and plastic products	293879	129517	423396
19	26	Non-metallic mineral products	577778	822380	1400158
20	27	Basic metals	315125	178757	493882
21	28	Fabricated metal products	738821	356519	1095340
22	29	Machinery and equipments	507253	108752	616005
23	30	Office, accounting and computing machinery	26538	16795	43333
24	31	Electrical machinery and apparatus N.E.C	172738	144701	317439
25	32	Radio, T.V. and communication equipment and apparatus	59637	61134	120771
26	33	Medical, precision, optical instruments, watches and clocks	89468	29466	118934
27	34	Motor vehicles, trailers and semi-trailers	69913	114190	184103
28	35	Other transport equipments	179377	20159	199536
29	36	Furniture	361710	1478822	1840532
30	37	Recycling	1534	42246	43780
31	40	Electricity, gas, steam and hot water supply	4579	92219	96798
32	41	Collection, purification and distribution of water	361	31856	32217
33	45	Construction	1005	121203	122208
34	50	Repair & maintenance of motor vehicles & motor cycles, sale of automotive fuels	169705	1563655	1733360
35	51	Wholesale trade commission trade	5369	1772013	1777382
36	52	Repair & maintenance of personal and household goods and retail trade	259934	26625218	26885152
37	55	Hotels and restaurants	7116	3378098	3385214
38	63	Supporting and auxiliary transport activities, travel agencies	29117	459283	488400
39	64	Post and telecommunications	40746	1022714	1063460
40	70	Real estate activities	1324	119530	120854
41	71	Renting of machinery and equipment without operator and household goods	1273	526531	527804
42	72	Computer and related activities	78349	268817	347166
43	73	Research and development	105	9109	9214
44	74	Other business activities	82371	1138399	1220770
45	80	Education	2545	580745	583290
46	85	Health and social welfare activities	4425	1597303	1601728
47	90	Sewage and refuse disposal, sanitation and similar activities	286	0	286
48	92	Recreational, cultural and sporting activities	6844	491002	497846
49	93	Other service activities	22048	1936330	1958378
50	99	Not reported	79593	0	79593
		Total	9203664	50257039	59449352

One can observe that top three largest employers industry sectors (registered as well as unregistered) are Repair & maintenance of personal and household goods and retail trade, Textiles, Food products and beverages. Also bottom three employers industry sectors (registered as well as unregistered) are Sewage and refuse disposal, sanitation and similar activities, Service activities incidental to mining, Service activities incidental to fishing.

(IX) REGISTERED MSME SECTOR – ALL INDIA

TABLE 2.1

Sr. No.	Characteristics	Registered	% Share
1	Number of working enterprises	1552492	70.19%
	Number of enterprises found permanently closed	480946	21.74%
	Number of enterprises found non traceable	178522	8.07%
	Total number of enterprises surveyed	2211960	100%
2	Number of Working Enterprises		
	Manufacturing	1035102	66.67%
	Services	517390	33.33%
	Total	1552492	100%
3	Employment (Person)		
	Manufacturing	7984321	86.75%
	Services	1219343	13.25%
	Total	9203664	100%
4	Per unit employment (Person)		
	Manufacturing	7.71	
	Services	2.36	
	Total	5.93	
5	Original value of Plant & Machinery / Equipment (Rs. Crore)		
	Manufacturing	110310.31	90.94%
	Services	10987.97	9.06%
	Total	121298.28	100%
6	Per unit original value of Plant & Machinery / Equipment (Rs Lakh)		
	Manufacturing	10.66	
	Services	2.12	
	Total	7.81	
7	Market Value of Fixed Investment (Rs Crore)		
	Manufacturing	440493.68	87.97%
	Services	60264.68	12.03%
	Total	500758.36	100%
8	Per unit market value of Fixed Investment (Rs Lakh)		
	Manufacturing	42.56	
	Services	11.65	
	Total	32.26	
9	Value of Net Worth (Rs Crore)		
	Manufacturing	415554.75	93.06%
	Services	30996.47	6.94%
	Total	446551.22	100%
10	Per unit value of Value of Net Worth (Rs Lakh)		
	Manufacturing	40.15	
	Services	5.99	
	Total	28.76	
11	Total Gross Output (Rs Crore)		
	Manufacturing	668866.63	94.29%
	Services	40531.00	5.71%
	Total	709397.63	100%
12	Per unit Gross Output (Rs Lakh)		
	Manufacturing	64.62	
	Services	7.83	
	Total	45.69	
13	Number of units taken loan from Institutional sources or others	185378	
14	Amount of Loan taken (Rs Crore)	66125.47	
15	Number of Units having Loan Outstanding	108238	
16	Amount of loan outstanding (Rs Crore)	43606.11	

CONCLUSION

The MSE sector has maintained a higher rate of growth (and consistent increase) vis-à-vis the overall industrial sector as would be clear from the comparative growth rates of production for both the sectors during last five years. The share of manufacturing enterprises in terms of total numbers and in terms of total employees is more than the share of service enterprises. There are 70.19% registered units of MSMEs in India against 29.81% unregistered units. There are almost equal numbers of registered units in urban and rural part of India. 11.9% registered units have taken loan from institutional sources or others. One can see male domination in ownership of enterprises. And maximum enterprises are proprietary in their type. There is much scope of research in this topic to formulate various new policies and also for evaluation of existing policies.

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