

AN ANALYSIS OF GROWTH AND PERFORMANCE OF THE RURAL MICRO, SMALL AND MEDIUM MANUFACTURING ENTERPRISES

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ABSTRACT

The Micro, Small and Medium Enterprises (MSMEs), including khadi and village enterprises and coir enterprises, credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. The Micro, Small and Medium Enterprises are the largest providers of employment after agriculture. As a catalyst of socio-economic transformation, the Micro, Small and Medium manufacturing enterprises play an important role in the Indian rural economy. These enterprises have a major share of contribution towards Gross Domestic Product (GDP) in terms of Production, exports and employment. Therefore, the Micro, Small and Medium manufacturing enterprises set up in rural areas foster employment opportunity to the rural people and thereby fulfill several economic and social needs such as increasing employment opportunities, diversifying rural occupation, raising income and living standards of rural communities, retard on migration, eliminate regional-economic imbalance and ensure social justice. Thus, the promotion of Micro, Small and Medium Enterprises (MSMEs) including Khadi and Village industry and Coir industry have been a major plan of Indian Industrial Policy after Independence as well as in Five Year Plans. Hence, this has motivated to present a conceptual analysis on the growth and performance of rural Micro, Small and Medium manufacturing enterprises in India.

KEYWORDS: Rural entrepreneurship, Micro, Small and Medium Enterprises (MSMEs), Growth and Performance.

1.1INTRODUCTION

The Indian Economy is highly dependent on rural economy, as about half of India's population lives in rural areas, where agriculture and allied activities are the main stay of their lives. However, the saturation in the agricultural sector has resulted in the migration of rural workforce to urban areas in search of employment. In this context, rural entrepreneurship plays an imperative role in the development of rural peoples' livelihoods. As a catalyst of socio-economic transformation, the Micro, Small and Medium manufacturing enterprises play a pivotal role in the Indian rural economy. They have a major share of contribution to the Gross Domestic Product (GDP) in terms of Production, exports and employment. Therefore, the Micro, Small and Medium

manufacturing enterprises set up in rural areas facilitate employment opportunity to the rural people and thereby fulfill several economic and social needs such as increasing employment opportunities, diversifying rural occupation, raising income and living standards of rural communities, retard on migration, eliminate regional-economic imbalance and ensure social justice. Thus, the promotion of Micro, Small and Medium Enterprises (MSMEs) including Khadi and Village industry and Coir industry have been a major plan of Indian Industrial Policy after Independence as well as in Five Year Plans.

1.2 Industrial Policies For The Promotion Of Rural Industries – Post Independence Review

In the Industrial policy of 1948, Small Scale Industries (SSIs) have a significant role in the national economy, since, industrialization in rural areas has helped in the utilisation of local resources and has increased the production of essential consumer goods. The need for promoting industrial co-operatives has been stressed in this policy. The Industrial Policy Resolution 1956 has emphasised the role of small scale industries and accordingly, the Government of India has reserved the number of products as 180 for exclusive production to rural industrial sector. In the Industrial policy 1977, the reserved number of products for exclusive production to rural industries has increased from 180 to 807 to maximise the employment opportunity in rural areas. Moreover, technological change in the traditional sector has also been encouraged in this policy. The policy has also proposed to set up an agency in each district called 'District Industries Centre' to provide assistance for the promotion of rural Small Scale Industries (SSIs).

The new industrial policy of 1980 has strengthened the financial inflows to rural industrial units at district level. The industrial policy of 1990 has assisted the large number of artisans to engage in rural industries and has expanded the activities of Khadi and Village Industries Commission. Special marketing organisations have created at the central and state levels to promote rural industrial products. Agro processing industries have received high priority in credit allocation from financial institutions. The new industrial policy of 1991 has introduced a new scheme of 'Integrated Infrastructural Development' to promote industrialisation in rural and backward areas. The main thrust of this new policy is to impart more viability and growth to employment and exports, by setting up of technology development and export development centre in rural Small Industries Development Organisation (SIDO). The policy has also assisted market promotion of rural Small Scale Industry (SSI) products through co-operatives and public sector institutions.

The comprehensive policy package of SSIs and Tiny sector 2000, have raised the exemption limit of excise duty from Rs.50 lakhs to Rs.1 crore. An amount of Rs. 441 crore has allotted for the development of Khadi and Village industries. The industrial policy package of SSI 2001-02 has enhanced the investment limit of the Small Scale Industrial Products from Rs.1 Crore to Rs.5 Crores to 41 items. Further, market development assistance scheme, credit linked capital subsidy and technology up gradation in specified industries have launched exclusively for SSI sector. In the industrial policy 2004-05, the Reserve Bank of India has raised the composite loan limit from Rs.50 lakhs to Rs.1 crore. The policy 2005-06 has emphasized on cluster development model and to set up incubation centres to promote rural manufacturing enterprises. Nevertheless, the Government has announced some important measures in the recent years. They are as follows:

The Integrated Infrastructure Development (IID) Scheme has extended to cover the entire country with 50 percent reservation to rural areas.

The limit of collateral free loans has increased from Rs. 5 lakhs to Rs. 15 lakhs and up to Rs. 25 lakhs in case of Small Scale Industrial units with a good track record.

Finally, the policy framework underwent changes in accordance with the course of industrial development in the country.

1.3 THE ROLE OF FIVE YEAR PLANS IN THE DEVELOPMENT OF SSIs/MSMEs

During the First Five Year Plan (1951-1956), the rural industries had been complimentary to agriculture. During this plan period, Small Scale Industries Board (SSIB) had been set up in 1954 for the development of small scale industries.

For regional, Small Industries Service Institute (SISI) has established to provide technical assistance to the rural industries. During the Second Five Year Plan (1956-1961), the Karve committee (1955) has recognized the importance of the small scale industries as a major source of employment. The Khadi and Village Industries Commission had set up in 1957 as a separate body for the development of Khadi and Village industries. The Third Five Year Plan (1961-1966) has emphasized the importance of rural small scale industries. The thrust is to create immediate and permanent employment on a large scale at relatively small capital cost, to meet a substantial part of the increased demand for consumer goods, to facilitate mobilization of resources of capital and skill and to bring about the integrated development of these industries in the rural economy. The Fourth Five Year Plan (1969-1974) has proposed to encourage decentralized growth of industries. Besides, the skill and productivity of the people engaged in the small scale sector has promoted to raise their income levels. The Credit Guarantee scheme of the Reserve Bank of India (RBI) has been liberalized during this plan period. The Fifth Five Year Plan (1974-1980) has recognized that the Small Scale Industries (SSIs) play an imperative role in the removal of regional imbalances. Several measures have been adopted for the promotion of these industries. District Industries Centres (DIC) has established during this plan to coordinate the promotional activities of different agencies working for the development of rural small scale industries. The Sixth Five Year Plan (1980-1985) has created a viable structure of rural small industrial sectors, decentralizing and dispersing employment opportunities and establishing a wider entrepreneurial base.

The policies pursued during the Seventh Five Year Plan (1985-1990) have aimed at rationalization of fiscal regime to ensure rapid growth of the small industries. In this plan period, the Government has started extending the basic support in terms of functional assistance such as marketing, ancillarisation, credit flow, supply of raw material and critical inputs, technology, training etc. The seventh plan has provided a package of incentives to attract the attention of industries in backward regions.

The Eighth Five Year Plan (1992-1997) has achieved the increased financial assistance from commercial banks and accordingly has strengthened the Small Industries Development Bank of India (SIDBI) and National Bank for Agricultural and Rural Development (NABARD) for the adequate flow of credit to rural Small Scale Industries. The Plan has proposed to initiate a programme for the development of appropriate technology, technology up gradation and to increase the flow of marketing assistance through agencies. During the Ninth Five Year Plan (1997-2002), the infrastructure facilities under the scheme of Integrated Infrastructure Development Centres (IIDCs), have been provided in backward rural areas with more incentives and financial assistance for the promotion of rural industries. The Government has also set up several Industrial Associations for the transfer and acquisition of the latest technologies. In the

Tenth Five Year Plan (2002-2007), many tool rooms and cluster development programmes have set up in various states to increase production facilities. The National Rural Small Industries Corporation (NRSIC) Ltd. established in 1995, promotes and fosters the growth of rural small industries by providing machinery on hire purchase, equipment on lease, raw material assistance, marketing inputs for domestic and exports, single point registration, technical and managerial assistance. The aim of the Eleventh Five Year Plan (2007-2012) is to attain faster and more inclusive growth. The 12th Five Year Plan (2012-2017) has aimed to achieve “faster, sustainable and more inclusive growth”. For the purpose, it seeks to achieve 4 per cent growth in agricultural sector and 10 per cent in manufacturing sector. The recommendations of the Working Group are vital to support the growth of the MSME sector.

1.4 Growth and Performance Of The Rural Micro, Small And Medium Manufacturing Enterprises

Growth of the MSME Sector

As per the Sixth Economic Census (2013), 58.5 million establishments have been found to be in operation, out of which 34.8 million establishments (59.48 per cent) are found in rural areas which is higher than 2005 economic census (49.82 per cent). Nearly 23.7 million establishments (40.52 per cent) are found to be located in urban areas. As per Fourth All India census of MSMEs (2006-07), around 60 per cent of Micro, Small and Medium manufacturing enterprises are located in rural areas and 40 per cent are located in urban areas.

As per NSS 73rd round 2015-16, out of 633.88 lakhs estimated numbers of MSMEs, 324.88 lakh MSMEs (51.25 per cent) are functioning in rural areas and 309 lakh MSMEs (48.75 per cent) are functioning in urban areas. Under the Prime Minister's Employment Generation Programme (PMEGP,) the estimated employment generated (number of persons) in micro enterprises during the years 2014-15, 2015-16, 2016-17, 2017-18 and 2018-19 are 3.58 lakhs, 3.23 lakhs, 4.08 lakhs, 3.87 lakhs and 5.87 lakhs, respectively. The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) has launched by the Government of India to make available collateral-free credit to the micro and small enterprise sector. Under the PMEGP scheme, the estimated employment generation has increased from 3.58 lakh to 5.87 lakh during the year 2014-15 to 2018-19. The Ministry has established 18 Tool Rooms for integrated development of the industries by way of providing quality tools, trained personnel and consultancy in tooling and related areas and upgradation of technology. During the year 2017-18 and 2018-19, these 18 Tool Rooms provided training to 1.47 lakh and 2.08 lakh persons respectively, which has also helped them in self employment.

The following Table 1 shows the Distribution of Enterprises in India in 2018-2019

Table 1: Distribution of enterprises in India (in lakhs)

Sector	Micro	Small	Medium	Total	Share
Rural	324.09	0.78	0.01	324.88	51
Urban	306.43	2.53	0.04	309.00	49
All	630.52	3.31	0.05	633.88	100

(Source: MSME Annual report 2018-19)

The table 1 clearly shows the distribution of Micro, Small and Medium enterprises in India. Out of 633.88 estimated numbers of MSMEs, 324.88 lakh MSMEs (51.25%) are in rural area and

309 lakh MSMEs (48.75%) are in the urban areas. It reveals that the distributions of enterprises in rural areas are higher than the urban areas of the country. Also, among the enterprises in rural areas, Micro enterprises have been highly established (324.09), followed by Small enterprises (0.78) and Medium enterprises (0.01).

The following Table 2 shows the distribution of employment in rural and urban areas in 2018 -2019.

Table 2: Distribution of Employment in Rural and Urban Areas (Number in lakh)

Sector	Micro	Small	Medium	Total	Share (%)
Rural	489.30	7.88	0.60	497.78	45
Urban	586.88	24.06	1.16	612.10	55
All	1076.19	31.95	1.75	1109.89	100

(Source: MSME Annual report 2018-2019)

The table 2 clearly shows that the MSME sector in rural areas provides employment to 45 per cent and MSME sector in urban areas provide employment to 55 per cent respectively.

The following Table 3 presents the employment in MSME sector in India in 2018 -2019

Table 3: Employment in MSME sector in India

Broad Activity category	Employment in lakhs			Share (%)
	Rural	Urban	Total	
Manufacturing	186.56	173.86	360.41	32
Trading	160.64	226.54	387.18	35
Other services	150.53	211.69	362.22	33

(Source: MSME Annual report 2018-19)

From the table 3, it is understood that the rural manufacturing enterprises provide more employment opportunities than the urban manufacturing enterprises in India, because the rural manufacturing enterprises are labour intensive enterprises.

The following Table 4 shows the comparative analysis of Fourth All India MSME Census (2006-07) and NSS 73rd Round (2015-16)

Table 4: Comparative Analysis of Fourth All India MSME Census (2006-07) and NSS 73rd Round (2015-16)

Parameter	NSS 73 rd round, 2015-16	Fourth All India census of MSMEs, 2006-2007	Annual Compounded Growth rate (%)
No. of MSMEs	633.88	361.76	6.43
Manufacturing	196.65	115.00	6.14
Employment	360.42	320.03	1.33

(Source: MSME Annual report 2018-19)

The table 4 indicates that, compared to Fourth All India census of MSMEs, 2006-2007, National Sample Survey (NSS) 73rd round 2015-16 have more number of Micro, Small and Medium Manufacturing Enterprises, which has created more number of employment opportunities.

1.4.1 Performance Of Micro, Small And Medium Manufacturing Enterprises

The following Table 5 shows the contribution of MSME sector in the Gross Domestic Product

Table 5: Contribution of MSME Sector in the Gross Domestic Product (GDP)

Year	MSME manufacturing output (Rs. in crore)	Share of MSME sector in total GDP (%)		Share of MSME manufacturing output in total manufacturing output (%)
		MSME Manufacturing sector	Total	
2011-2012	2167110	6.16	29.97	33.12
2012-2013	2385248	6.27	30.40	33.22
2013-2014	2653329	6.27	30.64	33.27
2014-2015	2783433	6.11	30.74	33.40

(Source: MSME annual report 2017-18)

From the table 5, it is clear that the contribution of MSMEs in GDP is 6 per cent and 33 per cent in manufacturing sector. It shows the valuable contribution of MSME sector to the economy in terms of manufacturing sector.

1.5 SUGGESTIONS

- Government should come forward with suitable skill development programmes to encourage the rural women to become entrepreneurs.
- To strengthen the 'Make in India' programme, the District Industries Centre (DIC) can conduct the classes on Innovation viz., value addition to the goods manufactured by MSME entrepreneurs which will encourage them in augmenting the productivity, quality, and growth of enterprises.
- Rural Entrepreneurship Development Programs should be pro-active, broad based (in terms of target group) and of a continuous nature.
- The Government should also encourage setting up of Non-Governmental Organisations (NGOs) block wise, for the development of rural entrepreneurship in the country.
- Government should make adequate provision for strengthening and developing the infrastructural facilities (water, road, transportation, power supply) in the rural sector which helps to accelerate more number of industrial entrepreneurs.
This will solve the problems such as poverty and unemployment in rural areas.
- It is recommended to the Government that, Rural Business Zones (RBZ) in line with Special Economic Zones (SEZ) can be created for the promotion of business units in rural areas.

1.6 CONCLUSION

In a labour surplus rural economy, the manufacturing sector has an imperative role for the creation of employment opportunities in the forth coming decades. The Government has also accorded utmost importance for the growth of these industries through Five year plans and Industrial policies. Therefore, the robust growth of the manufacturing sector is ensured with favourable business environment for creating the overall growth and employment possibilities in the rural based Indian economy.

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