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### A study on the growth and evaluation of MSMEs in India

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#### **Abstract**

Micro, Small and Medium Enterprises (MSMEs) provide the stimulus to the economic development of the country. The MSMEs have contributed majorly to the output, exports, job creation and the like. They have enhanced industrialization and helped the agricultural sector. The local talent have been nurtured and have got the employment opportunities. The MSMED Act 2006 was a very important milestone in upgrading the MSME units. The present article traverses through to examine the growth of the MSME sector in the background of various policy reforms. The study also attempts to critically evaluate the performance of MSMEs given the developmental reforms over the years.

**Keywords:** Ordinary least squares (OLS), health care expenditure, national income, Togo

#### **Introduction**

Micro, Small and Medium Enterprises (MSMEs) not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. Micro, Small and Medium Enterprises are complementary to large industries as ancillary units and contribution of this sector has been tremendous on social-economic development of the country as well. MSMEs help in rural industrialization thereby reducing regional imbalances and assuring equal distribution of national income. In terms of value, the sector accounts for about 45 percent of the manufacturing output and 40 percent of the total exports of India. The MSME sector employs about 42 million persons in over 13 million units throughout the country.

#### **MSMEs-Conceptual Framework**

MSMEs constitute over 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. In recent years, the MSME sector has consistently registered higher growth rate compared to the overall industrial sector. In accordance with the provisions of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 MSMEs are classified in two categories manufacturing and service.

#### **Manufacturing Enterprises**

The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and Regulation) Act, 1951. The Manufacturing Enterprise are defined in terms of investment in Plant & Machinery.

**Service Enterprises:** The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

#### **Evolution and performance of the MSME sector in India**

Micro, Small and Medium Enterprise (MSME) sector, also known as Small and Medium Enterprise (SME) sector has a prominent role to play in ensuring that growth is inclusive and regionally balanced.

In the context of liberalisation from 1991, the sector has been integrating itself with globalization and global trends in a phased manner as part of the overall strategies adopted for industry and trade at the national level. The liberalization policies of the government provide the small and medium enterprises challenges and opportunities.

### Pre-Liberalization

- During the post-Independence period, small firms were expected to play an important role in the development process, especially in absorbing surplus labor and achieving an equitable income distribution. This is the traditional stylized role assigned to small industries.
- At the beginning of the industrialization process, flexibility in production and the ability to offer differentiated products allow smaller firms to grow rapidly.
- Later, large-scale firms come to dominate the size distribution, making up a greater share of output, employment, and value-added because of scale economies, managerial efficiency, better access to finance and infrastructure, and a favorable tariff structure.

### Review of literature

Rupali Sharma and Zia Afroz (2014) finds that Micro, Small and Medium Enterprises (MSMEs) play a catalytic role in the development process of most economies of any country. Similarly, MSMEs form the backbone of the Indian economy and have become engine of economic growth in India. Today, MSME occupies a very important position in Indian Economy System due to its very significant and important contribution in terms of output, exports and employment. The MSMEs are the biggest employment provider after agriculture, providing employment to nearly 32 million people. The author closely analyses the growth and development of the Indian MSME sector since opening of the economy in 1991. It also looks into the present scenario of MSMEs and the challenges they face like lending, marketing, and license raj issues.

Mateen Ahmed Siddiqui (2015) <sup>[3]</sup> propounds that the MSMEs contribute extensively to the country's manufacturing output, employment and exports and is accredited with generating the highest employment growth as well as accounting for a major share of industrial production and exports. The labour intensity of the MSME sector is much higher than that of large enterprises. MSMEs comprise more than 80% of total enterprises in most of the economies. In recent years, the MSME sector has consistently registered higher growth rate compared with the overall industrial sector. MSMEs are complementary to large industries as ancillary units. The key focus areas for the growth of MSMEs are finance, technology, infrastructure, marketing, entrepreneurship development, sickness and conducive regulatory environment.

Pena Lama (2012) <sup>[8]</sup> propagates that the Micro, Small and Medium Enterprises (MSMEs) have emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. It has not only played crucial role in providing large employment opportunities at comparatively lower capital cost but also helped in industrialization of rural and backward areas. It has helped in reducing regional

imbalances and assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socioeconomic development of the country.

Suman Dahiya (2015) <sup>[13]</sup> contend that the Micro, Small and Medium Enterprises (MSMEs) have always been considered as growth engine of the Indian economy. MSMEs are well known for its lower investment and technology requirement. After agriculture, this sector holds second position in generating employment opportunities in Indian economy. MSMEs also enhance industrialization in rural and backward area thereby reduce regional imbalances and assure equitable distribution of national income and wealth. Despite its contribution and significance in the Indian Economy, the MSME sector has been facing various hurdles since long. After the liberalization and globalization in India since 1991, this sector is facing keen competition from domestic organizations as well as from the MNCs because of the improved technology in the market. The author presents the growth and development of MSMEs in India and also highlight the problem and prospects of MSMEs in India.

S.L. Gupta and R. Ramjan (2014) <sup>[10]</sup> makes an observation that the MSME sector accounts for around 45% of total manufacturing output and 43% of total exports of the country. However despite a sizeable proportion of workforce being engaged into this sector its contribution to GDP is meager 8.72%. Moreover, the protection availed during pro-business phase, which was drafted away with onset of pro-market phase from 1991 and enactment of MSME Act 2006 has not contributed to surge of MSME sector's growth significantly. The author makes an empirical study has been conducted to highlight whether the growth in number of MSMEs after liberalization has contributed to proportionate growth of MSMEs contribution in various parameters *viz* Production, Employment and Exports.

### Significance of MSMEs

Micro, Small and Medium Enterprises (MSMEs) contribute significantly to India's GDP and export earnings besides meeting the social objectives including that or providing employment opportunities to millions of people across the country. With the introduction of reform measures in India since 1991, the Government has withdrawn many protective policies for the MSMEs and introduced promotional policies to increase competitiveness of the sector. According to the fourth all India census of MSME, it has shown constant growth rate of more than 10% every year till 2010-11, whereas in the year 2011-12 the growth rate was 19% which is approximately twice the growth rate recorded for the previous years.

MSMEs contribute to the socio economic development of the country, by way of:

### Wide spread reach

There are around 12.34 million MSMEs; including 1.9 million registered one which are spread out across the length and breadth of India. They may be touching the lives of 123.4 million directly or indirectly which is roughly 10% of India's population.

**Major share in GDP**

MSMEs combined output is roughly 7% of country’s Gross Domestic Production (GDP).

**Big employment generator**

MSME sector is the second largest manpower employer in the country next only to agriculture sector. It provides employment to more than 20 million people which are roughly 2% of country’s population. From a social angle, it helps in solving the unemployment and under-employment problem in the society.

**Facilitates balanced regional development**

Dispersion of MSMEs in all parts of the country helps in removing regional imbalances by promoting decentralized development of industries. MSMEs can be found every where, which may be rural, urban, coastal, desert, mountains, forest, backward/ forward areas. This decentralized concept also helps in reducing the other problems like pollution, congestion, housing, sanitations etc.

**Helps in equitable distribution of wealth/ income**

When the entrepreneurial talent is allowed to grow in different regions and areas, the income is also distributed instead of being concentrated in the hands of few. This help in solving a big social issue of bridging the gap between rich and poor.

**Act as nursery for entrepreneurship**

MSMEs provide a natural habitat for entrepreneurs. Through this platform, the latent/ raw talent available locally can hone their skills and talents, to experiments, to innovate and transform their ideas into goods and services needed by the society.

**Problems of MSMEs**

**Absence of Banking Finance**

MSMES get very little percent of net bank credit. This sector mainly depends on personal savings, loan from

relatives and loan from local money lenders.

**Outdated Technology**

Most of the MSMES use poor technology base as a result of that they manufacture low quality products and face low productivity.

**Infrastructural Problem**

MSMES are facing infrastructural problem which includes inadequate power supply, water supply and roads etc.

**Storage Problem**

This sector does not have proper storage facility therefore quality of the products deteriorates and they have to bear a big amount of loss.

**Inadequate Marketing**

MSMES do not have proper marketing strategy and market research programme, even most of MSMES are not having their own website which is the biggest tool of marketing.

**Lack of Skilled Worker**

Most of the workers are unskilled who do not possess any diploma, degree and Growth & Performance of MSMEs in India: experience. At the early stage new entrepreneurs are not able to pay enough to skilled worker therefore they have to depend on the unskilled workforce.

**Withdrawal of Reservation Policy**

Earlier some items were reserved for the small scale industries but after liberalization such items has been opened for the domestic as well as for the MNCS.

**Extreme Competition**

This sector is facing keen completion from the large domestic firms and MNCS with improved technology, skilled workforce, marketing skills, better quality and wide range of products

**Table 1:** Internal and External Problems of MSMEs

Problems	External	Internal
Finance	Non availability of finance Access to finance collateral security	High cost of borrowings Inadequate finance Recovery from debtors Low promoters contribution
Managerial	Locational disadvantage Government price controls.	Lack of technical know-how Absence of long term planning Lack of management skills
Marketing	Market saturation. Weak market demand Competitive environment of market	Lack of sales promotion Limited local market Price of the product is high Dependency on large scale industries Lack of marketing research
Raw material	Raw material not available Imports are difficult	Raw material not available Imports are difficult
Technological	Delay in delivery of machines	Obsolete Plant and Machinery Poor capacity utilization. Inadequate maintenance Transport bottleneck
Labour	Unavailability of skilled Labour	Labour Absenteeism / turnover High rates of wages / salaries Inefficient handling of labour problems

Source: (Dr. Mateen Ahmed Siddiqui. (April 2015) [3]. Engines of Growth - A Study of the Growth and Performance of Indian MSMEs in the Present Scenario. International Journal of Core Engineering & Management (IJCEM), Volume 2, Issue 1 pp 44-59)

**Government policies and support measures for MSMEs**

**Brief history:** The evolution of the policy framework and support measures of the government can be broadly grouped into following three periods:

**1948-1991**

In the policy resolutions from 1948 to 1991, recognition was given to the tiny and small enterprises. They were termed as

an effective tool to expand employment opportunities, help ensure equitable distribution of the national income and facilitate effective mobilization of private sector resources of capital and skill. The Small Industries Development Organization (SIDO) was setup in 1954 as an apex body for sustained and organized growth of small enterprises. This is now known as the Micro, Small and Medium Enterprises Development Organization. In 1956, the National Small

Industries Corporation, The Khadi and Village Industries Commission and the Coir Board were also setup.

The era provided the supportive measures that were required to nurture the small enterprises in the form of reservation of items for their exclusive manufacture, access to bank credit on priority through the priority sector lending program of commercial banks, excise exemption, reservation under the government purchase program. The Small Industries Service Institute (SISI) now known as MSME Development Institute was setup all over India to train youth in skills, and the tool rooms were established with German and Danish assistance for providing technical services essential to small enterprises for skilled training. At the state level, District Industry Centers (DIC) are setup all over the country.

### 1991-1999

The new policy for small, tiny and village enterprises of August 1991 laid the framework for government support in the context of liberalization which sought to replace the protection with competitiveness to infuse more vitality and growth to small enterprises in the face of foreign competition and open market. Supportive measures concentrated on improving infrastructure, technology and quality. Testing centers and new tool rooms were setup. The Small Industry Development Bank of India (SIDBI) and a technology development modernization fund were created to accelerate technical and financial services to the small scale sector.

### 1999 onwards

The ministry of MSME (earlier known as ministry of SSI and Agro and Rural Industries) came into being from 1999

to provide focused attention to the development and promotion of the sector. The new policy package announced in August 2000 sought to address the problems of credit, infrastructure, technology and marketing. A credit linked capital subsidy scheme was launched to encourage technology up gradation in the MSE sector and credit guarantee scheme was started to provide collateral free loans to micro and small entrepreneurs, particularly the first generation entrepreneurs. The exemption limit for relief from payment of Central Excise duty was raised to Rs 1 crore (\$0.25 million) and a Market Development Assistance Scheme for MSEs was introduced. At the same time, consultations were held with stakeholders and the list of products reserved for production in the MSE sector was gradually reduced each year.

In 2006, the long awaited enactment for this sector finally became a reality with the passage of the Micro, Small and Medium Enterprises Act. In March 2007, a third package for the promotion of Micro and Small Enterprises was announced which comprises the proposals/schemes having direct impact on the promotion and development of the micro and small enterprises, particularly in view of the fast changing economic environment.

### MSME and its impact on Indian economy with special reference to MSMED act 2006

The challenges arise in the form of competition and reduced protection, whereas opportunities arise in the form of better technology, scope for technical collaborations, availability of a variety of raw materials and components through global sourcing, guaranteeing better quality and means of higher efficiency and productivity.

**Table 2:** Performance of MSME sector under Pre MSMED Act 2006 (1991-2006)

Year	Total Working Enterprises (in Millions)	Employment (in Millions)	Market value of Fixed Assets (in Billions)	Gross Output (in Billion)
1990-91	6.79	15.83	935.55	788.02
1991-92	7.06 (4.07%)	16.69 (5.46%)	1003.51 (7.26%)	806.15 (2.30%)
1992-93	7.35 (4.08%)	17.48 (4.70%)	1096.23 (9.23%)	844.13 (4.71%)
1993-94	7.64 (4.05%)	18.26 (4.46%)	1157.97 (5.63%)	987.96 (4.71%)
1994-95	7.96 (4.07%)	19.14 (4.80%)	1237.90 (6.90%)	1221.54 (23.64%)
1995-96	8.28 (4.07%)	19.79 (3.41%)	1257.50 (1.58%)	1477.12 (20.92%)
1996-97	8.62 (4.07%)	20.59 (4.01%)	1305.60 (3.82%)	1678.05 (13.60%)
1997-98	8.97 (4.06%)	21.32 (3.55%)	1332.42 (2.05%)	1872.17 (11.56%)
1998-99	9.34 (4.07%)	22.06 (3.47%)	1354.82 (1.68%)	2104.51 (12.41%)
1999-00	9.72 (4.06%)	22.91 (3.88%)	1399.82 (3.32%)	2237.60 (11.07%)
2000-01	10.11 (4.07%)	23.87 (4.20%)	1468.45 (4.90%)	2612.97 (11.78%)
2001-02	10.52 (4.07%)	24.93 (4.44%)	1543.49 (5.11%)	2822.70 (8.02%)
2002-03	10.95 (4.07%)	26.02 (4.36%)	1623.17 (5.16%)	3148.50 (11.54%)
2003-04	11.39 (4.07%)	27.14 (4.31%)	1702.19 (4.86%)	3645.47 (15.78%)
2004-05	11.86 (4.07%)	28.26 (4.11%)	1786.99 (4.98%)	4297.96 (17.89%)
2005-06	12.34 (4.07%)	29.49 (4.37%)	1881.13 (5.26%)	4978.42 (15.83%)

In the post liberalization period, the sector has observed significant changes. From a protective environment in the pre-economic liberalization period with help of a wide range of concessions, incentives and institutional facilities, the focus shifted to promoting them through competition, both domestic and international.

The effect of this change can be seen from the below table. In 1991, there were 6.79 Million units in the country which increased to 12.34 Million units by 2005-06. Also the gross production increased to 4978.42 Billion from 788.02 Billion

in the same period. An important observation is that though the number of units, manpower and investment doubled during this phase, the gross output increased by almost 6.3 times.

### Growth and performance of MSME sector post MSMED Act 2006

MSMEs are, at present, operating in wide variety of sectors such as manufacturing, trade and services and there by constitute a formidable component of country's industrial

production. The year MSMEs reached at a level on the optimum utilization of available domestic resources and

produces quality products and services.

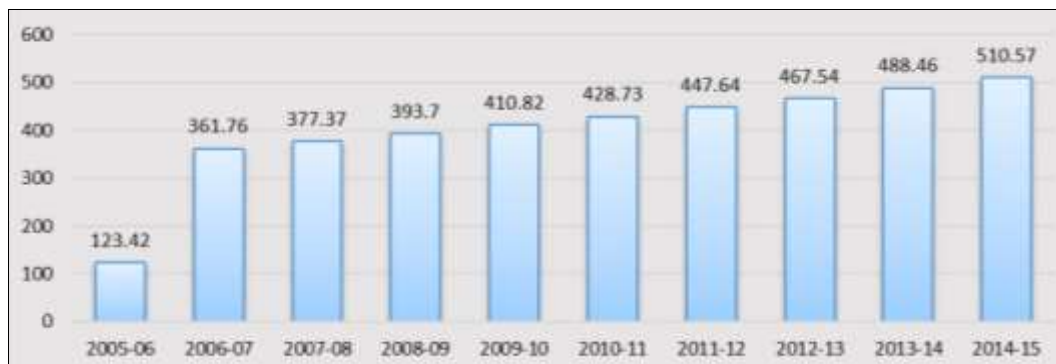
**Table 3:** Growth and performance of MSME sector post MSMED act 2006

Year	Total Working Enterprise (in Lakh)	Employment (in Lakh)	Market Value of Fixed Assets (in Crore)
2005-06	123.42 (4.07%)	294.91 (4.37%)	188113 (5.26%)
2006-07	361.76† (-193.11%)	805.23† (-173.04%)	868543.79*(-361.71%)
2007-08#	377.37 (4.32%)	842.00 (4.56%)	920459.84 (5.97%)
2008-09#	393.70 (4.33%)	880.84 (4.61%)	977114.72 (6.15%)
2009-10#	410.82 (4.34%)	921.79 (4.64%)	1038546.08 (6.28%)
2010-11#	428.73 (4.35%)	965.15 (4.70%)	1105934.09 (6.48%)
2011-12#	447.64 (4.41%)	1011.69 (4.82%)	1182757.64 (6.94%)
2012-13#	467.54 (4.44%)	1061.4 (4.91%)	1268763.67 (7.27%)
2013-14#	488.46 (4.47%)	1114.29 (4.98%)	1363700.54 (7.48%)
2014-15	510.57 (4.52%)	1171.32 (5.11%)	1471912.94 (7.93%)

Including activities of wholesale/retail trade, legal, education & social services, hotel & restaurants, transports and storage & warehousing (except cold storage) for which data were extracted from †Economic Census 2005, Central Statistics Office, M/o SPI and \*4<sup>th</sup> All India Census of MSME, unregistered sector. Table shows the immediate impact of the MSMED Act, 2006. Inclusion of service sector and medium enterprises and merging them with SSI sector along with new definitions for categorization of

enterprises were some of the major results of the act. The Fourth all India Census was done in the light of these new changes and included both, registered and unregistered units. To find out the trend of growth and performance of MSME sector and to understand the impact of the act, SSI data of 2005-06, just prior to the MSMED Act, 2006, has been also taken.

**Number of Enterprises**

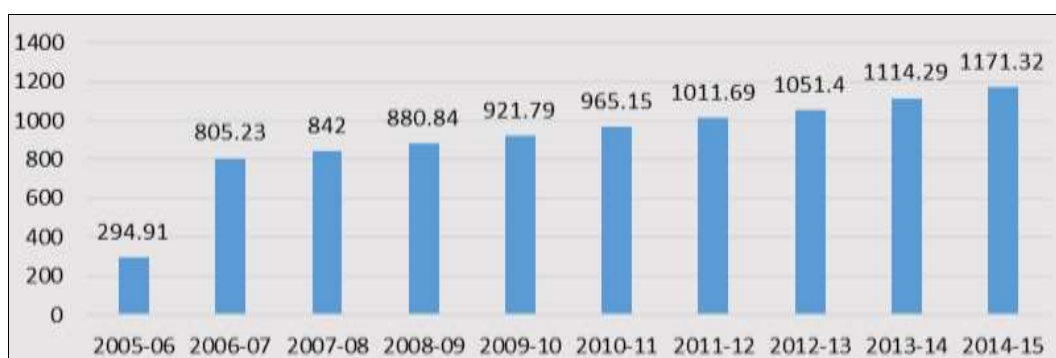


**Fig 1:** Total Working MSMEs (in Lakh)

After Implementation of MSMED act 2006, the numbers of working enterprises significantly increased. In 2006-07 the number of working enterprises was 36.18 Million which increased to 51.05 Million in 2014-15, average growth rate

in number of units during this period was 4.35 percent.

**Employment Generation**



**Fig 2:** Employment (In Lakh)

The number of employment generated by MSME sector was 80.52 Million in 2006-07 which increased to 117.13 Million

in 2014-15. During this period the annual growth registered was in the range of 4.5 to 5.11 percent, year on year.

**Table 4:** Real Growth Rates of GDP & Index of Industrial Production (2000-16) (in percent)

Year	Real GDP	Total Industry	Manufacturing	MSE Sector
1	2	3	4	5
2000-01	4.4	5.0	5.3	8.2
2001-02	5.8	2.7	2.9	6.1
2002-03	3.8	5.7	6.0	8.7
2003-04	8.5	7.0	7.4	9.6
2004-05	7.5	8.4	9.2	10.9
2005-06	9.5	8.0	8.9	12.3
2006-07	9.6	12.9	15.0	12.6
2007-08	9.3	15.5	18.4	13.0
2008-09	6.7	2.5	2.5	13.1
2009-10	8.6	5.3	4.8	13.7
2010-11	9.3	8.2	8.9	13.6
2011-12	6.2	2.9	3.0	18.5
2012-13	5.6	1.1	1.3	14.0
2013-14	6.6	-0.1	-0.8	12.0
2014-15	7.2	2.8	2.3	17.0
2015-16	7.6	2.4	2.0	Na

**Growth rate of MSME sector in comparison with the overall industrial sector**

MSMEs provide employment opportunities at comparatively lower capital cost and act as ancillary units for large enterprises to support the system in growth. Chart

It depicts the growth rate of MSME sector in comparison with the overall industrial sector during last sixteen years. The MSME sector has in many years registered a higher growth rate than the overall growth of industrial sector.

**Table 5:** Comparison of MSME sector Via-a-Vis Overall industry

Growth rate in percentage	Growth Rate of overall Industry Sector	Growth Rate of MSME Sector
2000-2001	5	8
2001-2002	2.7	6.1
2002-2003	5.7	8.68
2003-2004	7	9.64
2004-2005	8.4	10.8
2005-2006	8.2	12.32
2006-2007	11.6	12.6
2007-2008	8.5	13
2008-2009	12.8	10.3
2009-2010	10.4	6.7
2010-2011	7.4	4.4
2011-2012	7.8	4.4
2012-2013	6.85	5.6
2013-2014	6.76	9.1
2014-2015	6.54	8.56
2015-2016	6.6	7.62



(Source: Annual Reports of Ministry of MAME)

**Fig 3:** Comparison of MSME sector Via-a-Vis Overall industry

During 2000 to 2006, India witnessed industrial growth in the range of 5-8% annually. Subsequently, it recorded double digit growth for 4-5 years, before slowing down to around 6% growth during 2015-2016. The MSME sector improved its growth performance during 2003-2009 and recorded a growth of over 10% during 2008-09. Introduction of MSMED Act, 2006 apparently played a role here. However, post 2008 global financial crisis, MSME growth fell sharply and hovered around 4-7%.

### Initiatives undertaken by the government

The Ministry of MSME implements the following schemes and programmes for the up gradation of technology to revitalize the promotion of MSMEs.

- i) ISO 9000/ISO 14001 certification reimbursement schemes-This scheme is introduced in March, 1994 to enhance the competitive strength of the MSMEs by way of technological up gradation, quality improvement and better environment or management. For acquiring quality management system-ISO 9000. Certification or environment management system ISO "14001 certification, this scheme reimburses 75% of the fees, subject to a maximum of Rs. 75,000.
- ii) Credit Linked Capital Subsidy Scheme (CLCSS)-It aims at facilitating technology upgradation by providing I 5% upfront capital subsidy to manufacturing MSMEs on institutional finance up to Rs. 1 crore availed by them for induction of well-established and improved technologies in the specified sub-sectors/products approved under the scheme.
- iii) The MSE-Cluster Development Programme (MSE-CDP)-This programme is implemented for holistic development of selected MSEs clusters through value chain and supply chain management (skill development, technology upgradation of the enterprises, improved credit delivery, marketing support, selling up of common facility centres) based on diagnostic studies carried out in consultation with cluster units on co-operative basis.
- iv) Laghu Udyami credit card scheme (LUCCS)-It was introduced and implemented by the banks for providing borrower friendly credit facilities to small business, retail traders, artisans, small entrepreneurs, professionals and other self-employed persons including those in the small sector in November, 2001. Credit limit per enterprise has been increased from Rs. 2 to Rs. 10 lakhs having satisfactory record only.
- v) National Equity Fund Scheme (NEF)-This scheme provide equity type (Cost should not exceed Rs. 50 lakhs) support to entrepreneurs for setting up new projects in small industrial sector for undertaking expansion, modernization, technology up gradation and diversification of existing MSEs and for rehabilitation of viable sick units.
- vi) Credit Guarantee Fund Trust Scheme for Micro and Small Industries (CGFTSI)-This scheme covers collateral free credit facility to new and existing MSMEs upto a maximum limit of Rs.50 lakh to realize the small entrepreneur's dream of making it big and successful.
- vii) Scheme of Fund for Regeneration of Traditional Industries (SFURTI)-To establish a regenerated,

holistic, sustainable and replicable model of integrated cluster-based development of traditional industries in khadi, village and coir sectors with an intention to make more productive and competitive and increases the employment opportunities in rural and semi-urban areas, this scheme was launched in 2005.

### Conclusion

Indian economy has largely benefited through the MSMEs after the reforms of 1991 and the MSMED Act, 2006. The MSMEs have significantly contributed to the substantial GDP growth, export promotion and employment generation. The government policies have uplifted to the growth of MSME units. The Act has strengthened the upgradation of MSMEs. It has eased out movement of goods and services, dispute settlement, timely payment and the like. The CAGR of MSME over the years shows the positive growth. The technological upgradation and quality enhancement has helped MSMEs to combat global competition. The MSMEs face lot of problems as in infrastructure, capital insufficiency, skill set, economic and political problems and the like.

Despite these limitations, the MSMEs continue to play a significant role in the job creation, economic equality, reducing regional disparities, industrial expansion and the like. The policy impetus, government support, meeting infrastructural requirements and market upgradation would help rejuvenate the MSME segment. Government incentives, setting up of separate economic zones and provision of loans based on the different categories would take the segment a long way in the path of development.

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