

The Contribution of MSMEs to the Growth of the Indian and Global Economy

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ARTICLE DETAILS

Article History

Published Online: 13 March 2019

Keywords

MSMEs, Globalization, GDP, Employment, GVA, economy, India

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ABSTRACT

The objective of the study was to assess the performance and contribution of MSMEs to both the Indian and the global economy. Secondary data were collected for analysis. The data was qualitatively analysed and presented in the form of tables, and charts using Microsoft Excel.

The Analysis of the data gathered confirmed that MSMEs serve as a catalyst to the evenly distribution of development and wealth in the country. It was also found that, even though all states and union territories have their share of the MSMEs, the states of Uttar Pradesh, West Bengal followed by Tamil Nadu, Maharashtra, Karnataka, Bihar, Andhra Pradesh, Gujarat, Rajasthan, and Madhya Pradesh, are the 10 states with the highest number of MSMEs. The findings again indicated that, MSMEs that engage in trade activities dominate the industry. In addition, as much as 51% of Indian MSMEs operates from the rural areas whereas 49% operates from the urban cities.

The consistent growth of India's economy cannot be mentioned without acknowledging the contribution of the MSMEs. The MSMEs sector contributes as much as between 40 and 50 per cent of India's total export. Again, an average of 30% share of the Gross Domestic Product (GDP) of India is contributed by the MSMEs sector, and an average of 32% to the Gross Value Added (GVA).

The MSMEs sector is credited with about 40% of the total employments in the country during the study period. Out of these created employments, 55% are found in the urban cities whereas 45% emanates from the rural areas with 76% of them being male whiles 24% are female.

1. Introduction

Globalization is a term, which is broadly used to describe the growing interdependence of the world's economies, populations, and cultures brought about by cross-border trade in goods and services, technology and flow of investment, people and information. Nations around the globe have built economic partnerships to aid these movements over the centuries but the term globalization became popular after the 1990 cold war. The wide range effects of globalization benefits the general society while it harms certain groups of the society. It is therefore very important to understand the relative cost and benefits of globalization to pave way for the alleviation of the problems in order to sustain the wider payoff. From the definition of Globalization, it is obvious that globalization presents the following opportunities to MSMEs:

- Reduction of trade barriers to permit free flow of goods and services among nations
- Creation of an enabling environment for free flow of capital among nation states
- Creation of enabling environment for technology transfer
- Creation of enabling environment for free movement of labour force across borders

Micro, Small and Medium Enterprises plays a very important role in the development of the economies of both developing and developed countries across the globe. MSMEs serve as the nurseries for entrepreneurship and innovation in India. In view of the above, the government of India with the

agenda to promote the development and growth of MEMEs has created a ministry solely responsible for Micro, Small and Medium enterprises. The MSMEs in India are dispersed across the length and breadth of India, and produce over 6000 variety of products and services to meet the demands of the local as well as the global markets and integrating into domestic and global value chain. The MSME sector has evolved as a powerful engine of India's economic growth, which contributes around 45% of the total exports from India (MSME Insider, Jan. 2019).

MSMEs have become the heart of industrial revolution in India. India has more than 63 million MSMEs across the country, which account for 45% of all industrial productions and 30.5% of the services sector and employs about 110 million people. The MSME sector has helped reduced growth disparities at both inter-regional and rural-urban levels. It is therefore not surprising that MSME sector has become the catalyst aiding and propelling the socio-economic transformation agenda of the country. India's current economy according to IMF is the 6th largest in the world with the size of \$2.6 trillion and is expected to reach \$5 trillion by the year 2025 of which MSMEs have the potential to act as an engine for growth in achieving this target.

1.1 The MSMED Act 2006

The MSMED Act 2006 was enacted with a primary objective of promoting and developing the competitiveness of micro, small and medium enterprises. The Act, which became

operational on the 2nd day of October 2006, has been the most beneficial Act of all previous Acts that has earlier been implemented. The MSME development Act mandated the establishment of a National Board of MSMEs with clear responsibility of overseeing and regulating the development of the MSMEs in the country. The function of the board is to train entrepreneurs, manage cluster development, develop infrastructure, and promote financial access to the sector. Another very significant usefulness of the MSME Act 2006 is the removal of the cumbersome registration procedures making it easier for all unregistered MSMEs to enrol into the mainstream.

The MSME Act clearly separates manufacturing enterprises from the services enterprises based on investment ceilings. The Act was implemented with the objective to:

- Enhance the competitiveness of the MSME sector in the global market
- Facilitate the overall development of the MSME sector in the country and
- Focus on all related issues to MSME sector

1.2 Classification of MSMEs

Not until October 2006 when Micro, Small, and medium enterprises Act came in to being, the medium category had never been formerly and clearly defined. According to the provision of micro, small and medium enterprises development (MSME) Act 2006, MSMEs are classified into two main categories namely: Manufacturing enterprises and Services enterprises.

(i). Manufacturing enterprises: these are enterprises that engage in the manufacturing or production of goods related to any industry specified in the first schedule to the industries (development and regulation Act, 1957) or employing plant and machinery in the process of value addition to the final product having a unique name or character or use. The manufacturing enterprises are defined based on investment in plant and machinery. Table 1 below illustrates the various definitions of the manufacturing enterprises.

Table1: Manufacturing Sector Classifications

Enterprises	Investment in Plant and Machinery
Micro enterprises	If the investment does not exceed 25lakhs rupees
Small enterprises	If the investment is more than 25lakhs but does not exceed 5crores
Medium enterprises	If the investment is more than 5crores but does not exceed 10crores

Source: Ministry of MEMEs

(ii). Services Enterprises: these are enterprises engaged in the provision and rendering of services which are defined based on investment in equipment. Table 2 below shows the various classifications of the services sector

Table 2: Services Sector Classifications

Enterprises	Investment in Equipment
Micro enterprises	If the investment does not exceed 10lakhs rupees
Small enterprises	More than 10lakhs investment but does not exceed 2crores
Medium enterprises	More than 2crores investment but does not

	exceed 5crores
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Source: Ministry of MEMEs

1.3 The Challenges of MSMEs

Themicro, small and medium scale enterprises in India irrespective of their success story still have a number of constraints they face in running their enterprises which hinder them from competing globally. The understated are some of the key problems the Indian MSMEs face:

- **Funding:** Access to finance has been a major hindrance to the growth capabilities of Indian MSMEs. Access to credit has always been a headache these enterprises as they mostly do not meet the credit requirements of the banks. The micro and small enterprises in particular are usually a sole proprietorship ventures and had to rely on their personal capital or depend on money lenders who charge exorbitant rates.
- **High importation tariffs on raw materials:** A substantial number of Indian MSMEs rely on imported raw materials for production but the tariffs slapped on these goods are very high despite the 1990s import liberalization. Raw materials such as non-ferrous metals, plastics, copper, steel, papers, industrial chemicals etc., still attract high tariffs compared to manufactured goods (Chandraiah and Vain, 2014).
- **Infrastructural problems:** It is an undeniable fact that infrastructural constraint is part of the numerous problems faced by MSMEs in India. A research conducted by Keshap Das and Sebastian Morris (as cited by Chandraiah and Vani, 2014) indicates that out of 1063 enterprises 716 representing 67.4% of the respondents had infrastructural problems. Power supply happens to be the major problem of these enterprises as they solely depend on state generated power, which often times are not regular and adequate. Another key problem they face is transportation and communication. Most firms in the manufacturing of drugs and medicines, paints and vanishes, beverages, and printing and publishing stated that inadequate water supply was a problem to them.
- **Competition:** The micro, small and medium scale enterprises are usually face with fierce competition from larger firms of both local and foreign origins which uses advance technologies, equipped with the managerial capabilities, technical knowhow, good finished products and marketing advantage.

1.4 The Government's Policies for MSMEs promotion

The government of India in the bid to grow the MSME sector has embarked on a host of initiatives to remove all bottlenecks affecting the sector. The main motive behind these initiatives was to transform India into global design and manufacturing hub in the sub region. Among these initiatives are Make-In- India and Digital India. The Make-In-India was launched in September 2014 along with other set of nation building initiatives. The Make-In-India initiative provides the framework for a vast amount of technical information on 25 industry sectors and reaches out to a vast audience through social media at both local and global front, which constantly provides updates about opportunities and reforms.

The Digital India initiative on the other hand provides enough opportunity for MSMEs promotion and greater participation of MSMEs in the ICT sector. The digital transition facilitated the emergence of globalization, which presents new opportunities for the MSMEs to gather their own market intelligence, spread scales without mass and have access to global markets, and acquires knowledge networks at affordable cost. Digital India provides entrepreneurs with new opportunities to help their competition in both local and global markets through products and services innovation.

The ministry of Micro, Small and Medium Scale enterprises has taken numerous steps in the promotion of the MSMEs sector. Some of these include making available credit facilities for technological up gradation, stand up India, MUDRA, offering quality improvement and marketing support, increased coverage of credit guarantee fund for MSMEs and higher credit limits provided by the banks has improved upon their credit support to them.

2. Literature Review

SurendarGade (2018) attempted to examine the contribution of MSMEs sector towards the growth of India and highlighted the areas, which needs to be strengthened for the sector to continue with its contribution to the development of the nation. The author found out from the study that the MSMEs could be the boon and future hope of the economy. In addition, MSMEs were found to provide equal development opportunities to the society and can also be a strong means of utilizing the available natural resources in India. **Rajib Lahiri (2012)** also analysed the definitional aspects of MSMEs and again explored the opportunities enjoyed as well as the constraints they face. The author concluded that despite the numerous opportunities presented to MSMEs by globalization, it has some constraints that hinder its growth. Among these constraints are extreme competition from larger industry players, challenges on product standardization and total quality management, inadequate infrastructure, anti-dumping policy as well as subsidy withdrawal.

Shivani Mishra(2012) conducted a study to throw lights on the role MSME play in promotion of socially disadvantaged group and also highlighted the position of MSMEs in the era of globalization. The research in the conclusion affirms that SMEs contribute greatly to the Indian economy. The MSMEs help in distribution of industries evenly and again promote rural development as well as decentralization of economic power. Another finding was that the MSMEs create a lot of employment and contribute significantly to industrial production and export. **Aarti Deveshwar (2014)** in a study made an attempt to analyse the impact of globalization on the growth of MSMEs and factors affecting the Indian MSMEs. The Researcher concluded that per the analysis of some growth parameters of pre and post globalization period indicates that globalization has negatively affected the growth of MSMEs with regards to number of units, employment creation, production and export. Globalization according to the research poses a major threat and challenges to the MSMEs in India.

Sonia Mukherejee (2018) researched about the challenges faced by MSMEs in India and observed that more

efforts on the part of both the government and the entrepreneurs have to be invested into the sector for improvement of the competitiveness of the MSMEs in India. The researcher opined that efforts in the form of investing in advanced technology, and R&D, higher usage of technology and digital enabled platforms, technology transfer, investing in human resource, improving access to finance, closing the infrastructure gap, and reducing the cumbersome and stringent business regulations. The researcher was of the view that if the above measures are paid attention to, it will improve Indian MSMEs to have access to the global market. **Khurud B.S. (2015)** examined how the removal of protective measures affected the exports of the MSMEs sector. The findings showed that after the removal of the protective measures, the exports of the MSMEs increased at a higher rate than the total exports of India. The researcher also indicated that globalization has presented certain constraints to the MSMEs in India. Notable among them are the unfair competition the sector face from larger domestic and multinational companies. In addition, the MSMEs lack modern technologies and managerial expertise, which result to higher overhead cost.

3. Objectives of the study

The broad objective of the study is to assess the contribution of MSMEs to the economic growth of India. Specifically, the study seeks to:

1. Assess the contribution of MSMEs to the GDP growth of India
2. Assess the contribution of MSMEs to job creation in India
3. Assess the contribution of MSMEs to India's export

4. Methodology

The study made use of secondary data, which was collected from various sources including annual reports of ministry of micro, small and medium enterprises, website of ministry of statistics and programme implementation, and journals. Data on the distribution of MSMEs in the country, the number of employment created by the MSME industry, and the growth and performance indicators of the sector was collected for analysis. The data was qualitatively analysed and presented in the form of tables, and charts using Microsoft Excel.

5. Data analysis and discussion

5.1 Nationwide Distribution of MSMEs

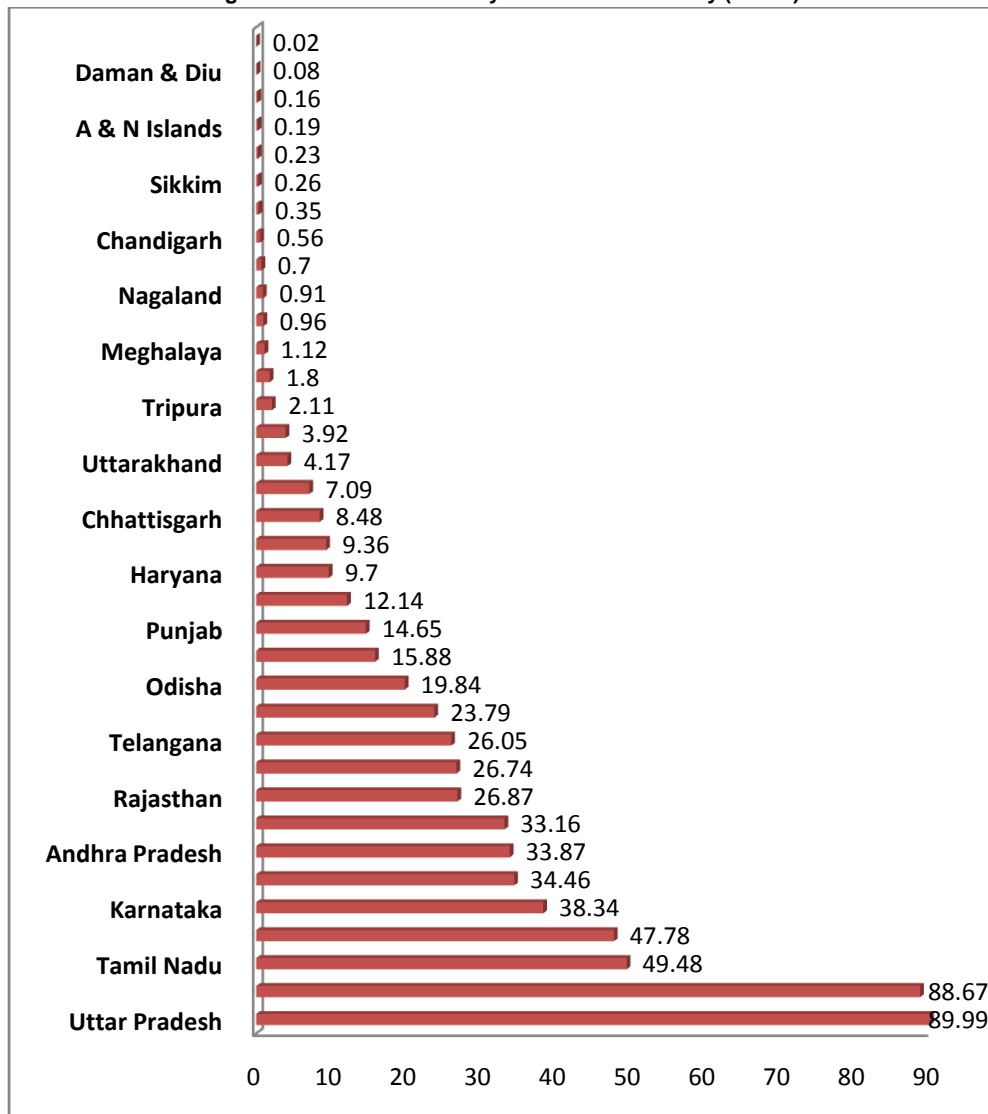
Table 3 and Fig.1 below indicates the nationwide distribution of MSMEs. It is observed from Fig.1 that the state of Uttar Pradesh has the highest number of MSMEs in the country with 89.99 lakhs enterprises followed by West Bengal, which followed closely with 88.67 lakhs. Tamil Nadu, Maharashtra and Karnataka followed with 49.48 lakhs, 47.78lakhs and 38.34 lakhs respectively. Bihar, Andhra Pradesh and Gujarat followed with 34.46 lakhs, 33.87lakhs and 33.16lakhs respectively. Puduchery, Nagaland, Goa, Chandigarh, Mizoram, Sikkim, Arunachal Pradesh, Andaman & Nicobar Islands, Dadra & Nagar Haveli, Daman & Diu, and Lakshadweep, have less than 1lakh units of MSMEs.

Table3: Distribution of MSMEs by state (NSS 73rd Round)

Sl. No.	State/ Union Territory	Micro (Lakhs)	Small (Lakhs)	Medium (Lakhs)	Total MSMEs (Lakhs)
1	Andhra Pradesh	33.74	0.13	0.00	33.87
2	Arunachal Pradesh	0.22	0.00	0.00	0.23
3	Assam	12.10	0.04	0.00	12.14
4	Bihar	34.41	0.04	0.00	34.46
5	Chhattisgarh	8.45	0.03	0.00	8.48
6	Delhi	9.25	0.11	0.00	9.36
7	Goa	0.70	0.00	0.00	0.70
8	Gujarat	32.67	0.50	0.00	33.16
9	Haryana	9.53	0.17	0.00	9.70
10	Himachal Pradesh	3.86	0.06	0.00	3.92
11	Jammu & Kashmir	7.06	0.03	0.00	7.09
12	Jharkhand	15.78	0.10	0.00	15.88
13	Karnataka	38.25	0.09	0.00	38.34
14	Kerala	23.58	0.21	0.00	23.79
15	Madhya Pradesh	26.42	0.31	0.01	26.74
16	Maharashtra	47.60	0.17	0.01	47.78
17	Manipur	1.80	0.00	0.00	1.80
18	Meghalaya	1.12	0.00	0.00	1.12
19	Mizoram	0.35	0.00	0.00	0.35
20	Nagaland	0.91	0.00	0.00	0.91
21	Odisha	19.80	0.04	0.00	19.84
22	Punjab	14.56	0.09	0.00	14.65
23	Rajasthan	26.66	0.20	0.01	26.87
24	Sikkim	0.26	0.00	0.00	0.26
25	Tamil Nadu	49.27	0.21	0.00	49.48
26	Telangana	25.94	0.10	0.01	26.05
27	Tripura	2.10	0.01	0.00	2.11
28	Uttar Pradesh	89.64	0.36	0.00	89.99
29	Uttarakhand	4.14	0.02	0.00	4.17
30	West Bengal	88.41	0.26	0.01	88.67
31	A & N Islands	0.19	0.00	0.00	0.19
32	Chandigarh	0.56	0.00	0.00	0.56
33	Dadra & Nagar Haveli	0.15	0.01	0.00	0.16
34	Daman & Diu	0.08	0.00	0.00	0.08
35	Lakshadweep	0.02	0.00	0.00	0.02
36	Puducherry	0.96	0.00	0.00	0.96
	TOTAL	630.52	3.31	0.05	633.88

Source: Ministry of MSME annual report, 2017-2018

Fig.1: MSMEs Distribution by State/Union Territory (Lakhs)



Source: Ministry of MSME annual report, 2017-2018

6. Growth and performance of MSMEs in India

6.1 Activity wise and Geographical Distribution of MSMEs in India

Table 4 and Fig. 2 above shows activity wise distribution of MSMEs in the country with the trade industry having the elephant share of the sector. The trade industry had 230.35 Lakhs MSMEs representing 36% followed by 206.85lakhs MSMEs engaged in other services, manufacturing following with 196.65lakhs representing 31% of MSMEs and lastly Non-captive electricity generation and transmission with 0.03lakhs.

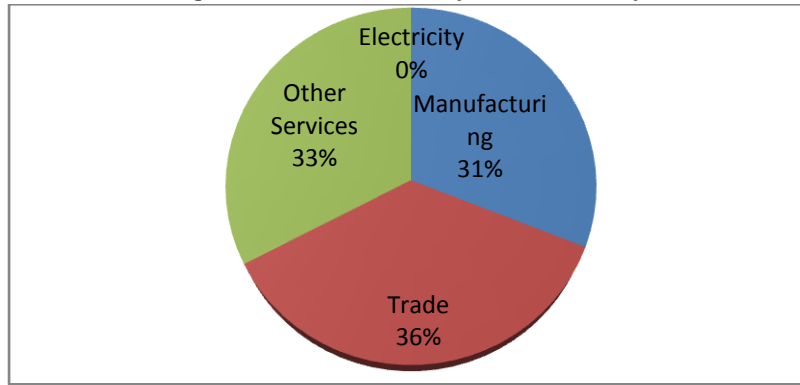
Fig.3 below also illustrates the urban and rural percentage share of MSMEs. The rural areas have the highest concentration of MSMEs representing 51%. The Urban areas in India have 49% share of the MSMEs in the country. This is good news as availability of industries in rural areas create employment thereby preventing rural-urban migration, uplifting standard of living of the rural dwellers, and equal distribution of wealth.

Table 4: the estimated number of MSMEs in terms of activity

ACTIVITY CATEGORY	ESTIMATES IN LAKHS			SHARE (%)
	RURAL	URBAN	TOTAL	
Manufacturing	114.14	82.50	196.65	31
Trade	108.71	121.64	230.35	36
Other Services	102.00	104.85	206.85	33
Electricity	0.03	0.01	0.03	0
TOTAL	324.88	309.00	633.88	100

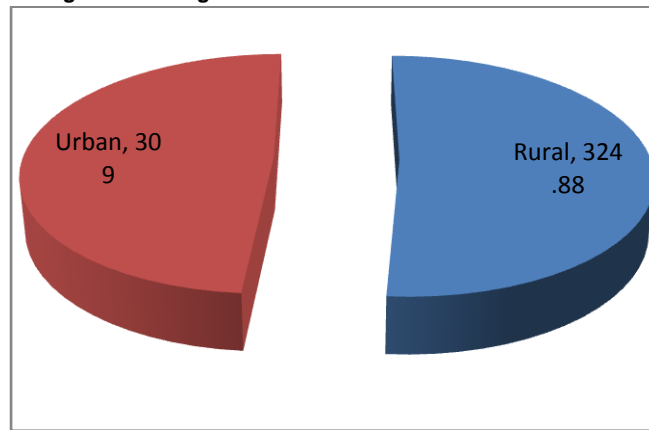
Source: Ministry of MSME annual report, 2017-2018

Fig.2: MSMEs Distribution by nature of activity



Source: Ministry of MSME annual report, 2017-2018

Fig.3: Percentage Urban and Rural Distribution of MSMEs



Source: Ministry of MSME annual report, 2017-2018

6.2 Contribution of MSME to Total Export

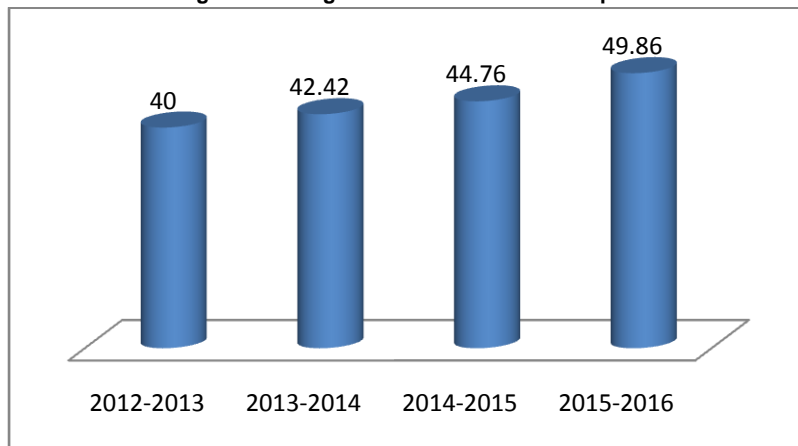
Table 5 and Fig.4 shows the percentage contribution of MSMEs to the total exports of India. It can be observed that the percentage share of MSMEs in India’s exports has been on ascendancy. There was a 40% contribution from the MSMEs to the exports in 2012-2013, 42.42% in 2013-2014, 44.76% in 2014-2015, and 49.86% in 2015-2016 financial years.

Table: 5: MSME share in India’s export

YEAR	PERCENTAGE SHARE IN EXPORT
2012-2013	40
2013-2014	42.42
2014-2015	44.76
2015-2016	49.86

Source: www.smetimes.in

Fig.4 Percentage share from MSMEs in export



Source: www.smetimes.in

6.2 Contribution from MSME Sector to GDP and GVA

Table 6 and Fig.5 illustrates the contribution of MSMEs to the Gross Product (GDP) and Gross Value Added (GVA). It could be seen that from 2011-2012 to 2015-2016 financial years,

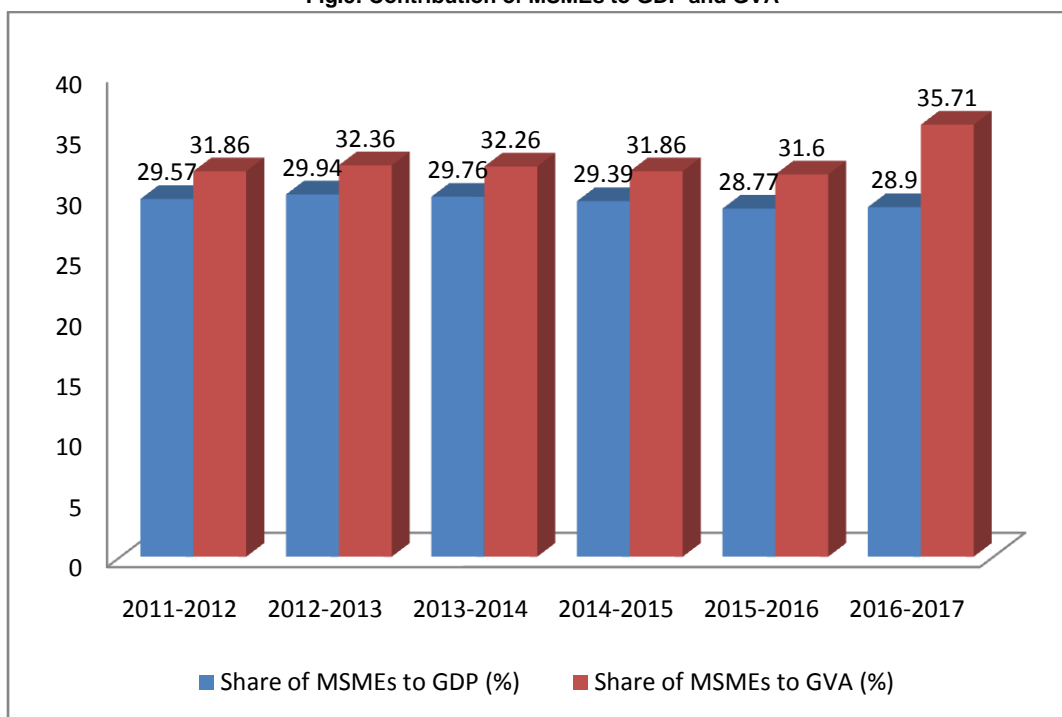
MSMEs contributed averagely 32% to the GVA of India and an average of 30% to the GDP growth of the country within the same financial years.

Table6. The Contribution of the MSME sector in the economic growth

YEAR	MSME GVA	TOTAL GVA	SHARE OF MSME IN GVA (%)	TOTAL GDP	SHARE OF MSME IN GDP (%)
2011/12	2583263	8106946	31.86	8736329	29.57
2012/13	2977623	9202692	32.36	9944013	29.94
2013/14	3343009	10363153	32.26	11233522	29.76
2014/15	3658196	11481794	31.86	12445128	29.39
2015/16	3936788	12458642	31.60	13682035	28.77

Source: Ministry of MSME annual report, 2017-2018

Fig.5: Contribution of MSMEs to GDP and GVA



Source: Ministry of MSME annual report, 2017-2018

6.3 Employment Created by MSMEs

The MSME sector contributes about 40% of the total employment in India becoming the second largest employer apart from agricultural (<https://evoma.com/business-centre/sme-sector-in-india-statistics-trends-reports/>). Table 7 and Fig.6 illustrate the percentage share contributed by the various categories of MSMEs to the employment quota. Trade leads with 35% followed by other services, Manufacturing, and

Non-captive Electricity generation and transmission with 33%, 32% and 0% respectively.

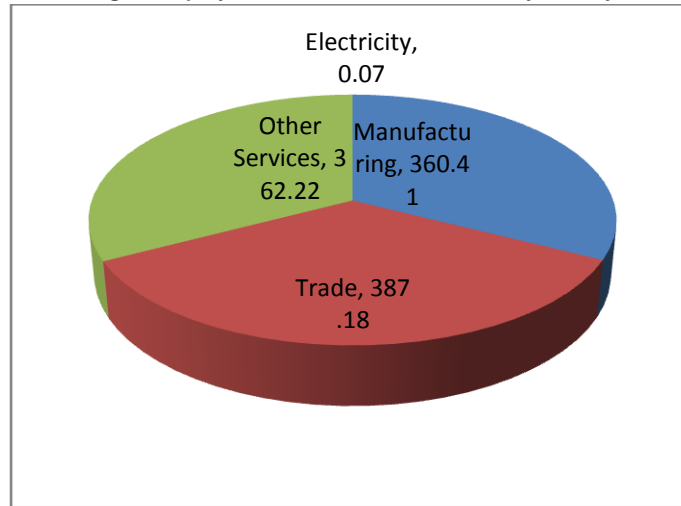
Table 8, Fig.7 and Fig.8 illustrates the share of the employment created by MSMEs according to gender, urban cities, and rural areas. MSMEs have created 55% employment in the urban areas whereas in the rural areas MSMEs have created 45% employment. From fig.8, it is observed that male have 76% share of the employment created by the MSMEs whiles the remaining 24% are female.

Table 7: MSMEs Employment Generation by Activity

ACTIVITY CATEGORY	EMPLOYMENT IN LAKHS			SHARE (%)
	RURAL	URBAN	TOTAL	
Manufacturing	186.56	173.86	360.41	32
Trade	160.64	226.54	387.18	35
Other Services	150.53	211.69	362.22	33
Electricity	0.06	0.02	0.07	0
TOTAL	497.78	612.10	1109.89	100

Source: Ministry of MSME annual report, 2017-2018

Fig.6: Employment Generation of MSMEs by activity



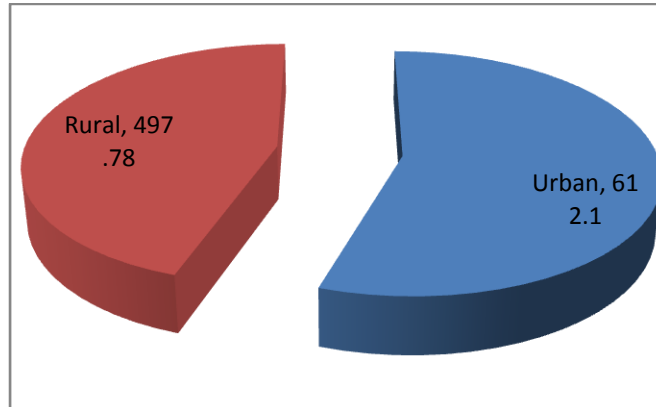
Source: Ministry of MSME annual report, 2017-2018

Table8: Employment share by gender

SECTOR	FEMALE	MALLE	TOTAL	SHARE (%)
Rural	137.50	360.15	497.78	45
Urban	127.42	484.54	612.10	55
TOTAL	264.92	844.68	1109.89	100

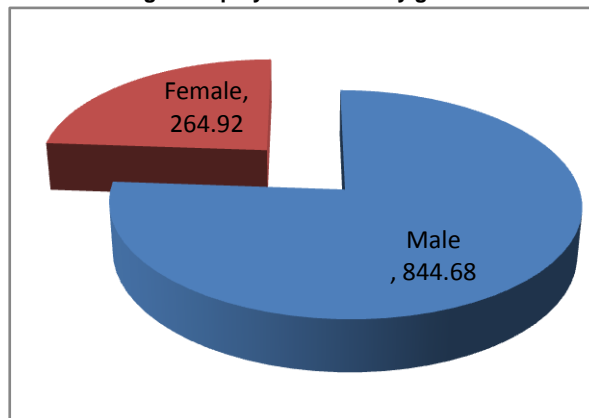
Source: Ministry of MSME annual report, 2017-2018

Fig.7: Rural and Urban Share of employment created by MSMEs



Source: Ministry of MSME annual report, 2017-2018

Fig.8: Employment share by gender



Source: Ministry of MSME annual report, 2017-2018

7. Conclusion and recommendations

7.1 Conclusion

The Analysis of the data gathered alludes to the fact that MSMEs serves as a catalyst to the evenly distribution of

development and wealth in the country. Even though all states and union territories have their shares of MSMEs the states of Uttar Pradesh, West Bengal followed by Tamil Nadu, Maharashtra, Karnataka, Bihar, Andhra Pradesh, Gujarat,

Rajasthan, and Madhya Pradesh are the 10 states with the highest number of MSMEs. MSMEs engaged in Trade activities dominate the industry. As much as 51% of Indian MSMEs operates from the rural areas whereas 49% operates from the urban cities.

MSMEs are playing a very vital role in this era of globalized market. The consistent growth of India's economic cannot be mentioned without acknowledging the contribution of the MSMEs. The MSMEs sector contributes as much as between 40 and 50 per cent of India's total export. The MSMEs averagely contribute 30% share of the Gross Domestic Product (GDP) and an average of 32% to the Gross Value Added (GVA).

Obviously, MSMEs comes in a package with employment creation. The sector is credited with about 40% of the total employments in the country. 55% of these created employments are found in the urban cities whereas 45% emanates from the rural areas. Out of these, 76% are male while 24% are female.

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7.2 Recommendations

From the findings of the study, we recommend the following as measures to help the MSMEs function well in order to contribute its quota to national development.

1. Since the majority of MSMEs operates in the rural areas, the government should provide reliable access to infrastructure such as electricity and water in these areas for smooth functioning of the industries.
2. Access to credit is still a problem faced by MSMEs especially those in the rural areas. The government should therefore embark on aggressive education and sensitization programme to increase awareness of the various available sources of funding.
3. There should be level playground for the MSMEs to be able to compete with the larger companies in the global market.
4. Since most of the small-scale industries depend on imported raw materials, the government should provide subsidy or remove some charges on importation of raw materials to enable the MSMEs to be efficient and sustainable.