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Introduction to MSME

Micro, Small and Medium Enterprises (MSME) are crucial for India's industrialisation, contributing significantly to production, employment, and exports. MSMEs form a vital link in the economic development process by widening the entrepreneurial base and utilizing local raw materials and indigenous skills.

MSMEs contribute approximately 29.7% of India's GDP and 49.66% of exports, employing nearly 60 million people through 28.5 million enterprises, second only to agriculture. They complement large industries as ancillary units and are integral to the value chain, fostering grassroots innovation and entrepreneurship.

The MSME sector in India includes traditional and modern small industries, comprising eight subgroups: handlooms, handicrafts, coir, sericulture, khadi and village industries, small scale industries, and power looms. The Khadi and Village Industries and Coir segments are significant contributors to MSME growth.

MSMEs have contributed to major national projects such as the Mars Orbiter Mission and Chandrayaan missions by supplying critical components, highlighting their role beyond small business to national development.

Key Definitions and Features

- **Micro Enterprises:** Investment up to ₹1 crore and turnover up to ₹5 crore.
- **Small Enterprises:** Investment up to ₹10 crore and turnover up to ₹50 crore.

- **Medium Enterprises:** Investment up to ₹50 crore and turnover up to ₹250 crore.

These classifications help understand the scale and market presence of different MSME types.

Example

MSME Tool Rooms provided components for India's Mars Orbiter Mission, demonstrating MSME's capability in high-precision manufacturing.

Practice Set

- **Level 1:** Define MSME and list its subgroups.
- **Level 2:** Explain the contribution of MSMEs to India's GDP and employment.
- **Level 3:** Discuss the role of MSMEs in national space missions with examples.

Answer Key

1. MSME stands for Micro, Small and Medium Enterprises, including subgroups like handlooms, handicrafts, coir, sericulture, khadi and village industries, small scale industries, and power looms.
2. MSMEs contribute about 29.7% of GDP and employ nearly 60 million people, making them vital for economic growth.
3. MSMEs supplied components for Mars Orbiter Mission and Chandrayaan, showing their advanced manufacturing capabilities.

Quick Reference

- MSME = Micro, Small, Medium Enterprises
- GDP Contribution \approx 29.7%
- Employment \approx 60 million people
- Key sectors: Handlooms, handicrafts, coir, sericulture, khadi, small scale industries, power looms

Glossary

- **MSME:** Enterprises classified by investment and turnover limits.
- **Khadi:** Hand-spun and hand-woven cloth.
- **Coir:** Fiber from coconut husk used in products like mats and brushes.

Definitions and Classification of MSME

The Government of India defines MSMEs based on investment in plant and machinery and turnover, reflecting India's socio-economic environment where

capital is scarce and labor abundant.

The classification is as follows:

Type of Enterprise	Investment in Plant & Machinery (₹ crore)	Turnover (₹ crore)
Micro	Up to 1	Up to 5
Small	Up to 10	Up to 50
Medium	Up to 50	Up to 250

Market share percentages indicate Micro enterprises dominate with 99.4%, Small enterprises 0.52%, and Medium enterprises 0.1%.

Village and Cottage Industries

Village Industries: Industries located in rural areas producing goods or services with specified fixed capital investment per worker.

Cottage Industries: Also called rural or traditional industries, not defined by capital investment but by traditional methods and scale.

Practice Set

- **Level 1:** State the investment and turnover limits for Micro enterprises.
- **Level 2:** Differentiate between village and cottage industries.
- **Level 3:** Analyze the market share distribution among MSME categories.

Answer Key

1. Micro enterprises have investment up to ₹1 crore and turnover up to ₹5 crore.
2. Village industries are rural-based with specified capital limits; cottage industries are traditional, not defined by capital.
3. Micro enterprises dominate the MSME sector with 99.4% market share, indicating the prevalence of very small businesses.

Quick Reference

- Micro: ≤ ₹1 crore investment, ≤ ₹5 crore turnover
- Small: ≤ ₹10 crore investment, ≤ ₹50 crore turnover
- Medium: ≤ ₹50 crore investment, ≤ ₹250 crore turnover

Glossary

- **Turnover:** Total sales or revenue of a business.

- **Investment in Plant & Machinery:** Capital invested in physical assets for production.

Role of MSME

MSMEs play a vital role in India's socio-economic development by promoting industrial growth, employment, and balanced regional development.

- They prevent rural-urban migration by providing local employment.
- Account for 95% of industrial units, contributing to balanced regional development.
- Second largest employer after agriculture, generating more employment per unit capital than large industries.
- Produce a wide variety of products from consumer goods to sophisticated electronic items.
- Can be set up anywhere due to reliance on local resources, aiding dispersed industrialisation.
- Provide opportunities for entrepreneurship with low capital and minimal formalities.
- Enjoy low production costs due to local resources and low overheads.
- Quick decision-making due to small size enables capturing new business opportunities timely.

Example

MSMEs produce goods ranging from soaps and detergents to electronic teaching aids and pharmaceuticals, showcasing their diverse capabilities.

Practice Set

- **Level 1:** List three roles of MSMEs in India.
- **Level 2:** Explain how MSMEs contribute to balanced regional development.
- **Level 3:** Discuss why MSMEs are considered labour intensive.

Answer Key

1. MSMEs provide employment, prevent rural migration, and contribute to industrial growth.
2. MSMEs can be established anywhere using local resources, spreading industrialisation evenly.
3. MSMEs generate more employment per unit capital invested compared to large industries, making them labour intensive.

Quick Reference

- MSMEs = 95% industrial units
- Employment = 2nd largest after agriculture
- Low capital, high employment generation

Glossary

- **Labour Intensive:** Industries that require more human labour than capital.
- **Regional Development:** Economic growth spread across different regions.

Problems Faced by MSME

Despite their importance, MSMEs face several challenges limiting their potential:

- **Finance:** Difficulty in obtaining adequate finance due to small capital base and lack of collateral, leading to dependence on money lenders.
- **Raw Materials:** Procurement issues due to small purchase quantities, high prices, and storage limitations.
- **Managerial Skills:** Lack of professional management; entrepreneurs may have technical but not marketing skills.
- **Marketing:** Dependence on middlemen, lack of infrastructure, and weak marketing capabilities.
- **Quality:** Inability to maintain quality standards due to limited resources and technology.
- **Capacity Utilisation:** Operating below full capacity due to demand or marketing issues, increasing costs.
- **Global Competition:** Competition from large and multinational companies.

Practice Set

- **Level 1:** Identify two financial problems faced by MSMEs.
- **Level 2:** Explain why marketing is a challenge for MSMEs.
- **Level 3:** Analyze the impact of global competition on MSMEs.

Answer Key

1. Lack of adequate finance and dependence on money lenders.
2. MSMEs lack marketing infrastructure and rely on middlemen who may exploit them.
3. MSMEs face competition from large firms and multinationals, challenging their survival and growth.

Quick Reference

- Finance, Raw Materials, Marketing, Quality, Capacity Utilisation, Global Competition

Glossary

- **Capacity Utilisation:** Extent to which a firm uses its production capacity.
- **Middlemen:** Intermediaries in the marketing chain.

Entrepreneurship and MSME

Entrepreneurship is the process of setting up a business, distinct from employment or profession. The person who establishes the business is called an entrepreneur, and the business unit is called an enterprise.

Entrepreneurship is vital for economic development, providing self-employment and creating opportunities for others.

Characteristics of Entrepreneurship

- **Systematic Activity:** A purposeful, learnable process requiring skills and knowledge.
- **Lawful and Purposeful:** Focused on lawful business creating value for profit and society.
- **Innovation:** Involves new products, markets, technologies, and organizational methods.
- **Organisation of Production:** Mobilizes resources like land, labor, capital, and technology.
- **Risk-taking:** Involves calculated risks, balancing potential gains and losses.

Example

Khumbongmayum Dhanachandra Singh started 'Romi Bags' by innovating purses from leftover fabrics, exemplifying entrepreneurship.

Practice Set

- **Level 1:** Define entrepreneurship.
- **Level 2:** List three characteristics of entrepreneurship.
- **Level 3:** Explain the role of innovation in entrepreneurship.

Answer Key

1. Entrepreneurship is the process of setting up one's own business.
2. Systematic activity, innovation, risk-taking.
3. Innovation introduces new products, markets, and methods, creating value and competitive advantage.

Quick Reference

- Entrepreneur: Business founder
- Enterprise: Business unit
- Innovation: New ideas and methods

Glossary

- **Entrepreneur:** Person who starts a business.
- **Innovation:** Introduction of new ideas or products.
- **Risk-taking:** Willingness to face uncertainty.

Intellectual Property Rights (IPR)

Intellectual Property Rights protect creations of the human mind such as inventions, literary and artistic works, symbols, names, and designs used in business.

IPR encourages innovation by granting creators exclusive rights to their work, allowing them to control use and distribution.

Types of Intellectual Property Rights

- **Copyright:** Protects original literary, artistic, musical, and cinematographic works.
- **Trademark:** Identifies goods/services by words, symbols, or logos distinguishing them from competitors.
- **Geographical Indication (GI):** Identifies products originating from a specific location with unique qualities.
- **Patent:** Protects new inventions with technical advancement for 20 years.
- **Design:** Protects aesthetic features like shape, pattern, or color of an article.
- **Plant Variety:** Protects new plant breeds developed by farmers.
- **Semiconductor Integrated Circuit Layout Design:** Protects designs of electronic circuits.
- **Trade Secrets:** Confidential business information providing competitive advantage.

Examples

Copyright protects books and songs; trademarks protect brand logos; patents protect inventions like new medicines; GI protects Darjeeling Tea; trade secrets protect Coca-Cola's recipe.

Practice Set

- **Level 1:** Define copyright and give two examples.
- **Level 2:** Explain the importance of patents for entrepreneurs.
- **Level 3:** Discuss the role of IPR in promoting startups.

Answer Key

1. Copyright is the exclusive right to reproduce and distribute original works like books and songs.
2. Patents protect inventions, giving exclusive rights to inventors for 20 years, encouraging innovation.
3. IPR helps startups protect their innovations, monetize ideas, and compete effectively in the market.

Quick Reference

- Copyright: Literary and artistic works
- Trademark: Brand identification
- Patent: Inventions
- GI: Regional products
- Trade Secret: Confidential information

Glossary

- **IPR:** Legal rights protecting creations of the mind.
- **Patent:** Exclusive rights for inventions.
- **Trademark:** Symbol identifying goods/services.
- **Geographical Indication:** Product linked to a location.