

INDIAN MSMEs: A GROWTH DRIVER OF AN ECONOMY

Pushpa Hongal

Research Scholar, Singhania University, Rajasthan.

ABSTRACT

Indian MSMEs sector constitutes the backbone of the nation; since independence Small Industry has been one of the major pillars of India's economic development strategy. MSME in India is playing a predominant role, this sector helps for the economic development by generating employment, contributing towards domestic production and helps for the significance increase in foreign earnings. In recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector. With its alertness and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn. MSMEs in India constitute more than 90 per cent of the total number of industrial enterprises and form the backbone of industrial development. This sector contributes 8 per cent of the country's GDP, 45 per cent of the manufactured output and 40 per cent of its exports. The MSMEs provide employment to about 60 million persons through 26 million enterprises. But Indian MSMEs faces several challenges also. Indian MSMEs are facing tough competition from their global counterparts due to liberalization, change in manufacturing strategies, turbulent and uncertain market scenarios etc... . There is a need for MSMEs to come out with the new ways to develop themselves. Here in this article an attempt is made to focus on contribution made by Indian MSMEs and also challenges faced by them.

Key Words: *MSME, Competitiveness, Innovation.*

INTRODUCTION

Indian MSMEs have more encouraging outlook towards growth when compared to its counterpart. They are referred as the "Backbone" of an Indian economy. Indian economy is growing at a rapid speed. Especially Indian MSMEs are contributing towards nation's growth. It contributes nearly 45% of industrial output, 35% of exports, 42 million in employment, create one million jobs every year and produces more than 8000 quality products for the Indian and international markets. The role of micro, small and medium enterprises (MSMEs) in the economic and social development of the country is well established. This sector contributes 8 per cent of the country's GDP, 45 per cent of the manufactured output and 40 per cent of its exports. The MSMEs provide employment to about 60 million persons through 26 million enterprises. The labor to capital ratio in MSMEs and the overall growth in the MSME sector is much higher than in the large industries. The geographic distribution of the MSMEs is also more even. Thus, MSMEs are important for the national objectives of growth with equity and inclusion.

The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services produced and the levels of technology employed. While one end of the MSME spectrum contains highly innovative and high growth enterprises, more than 94 per cent of MSMEs are unregistered, with a large number established in the informal or unorganized sector. Besides the growth potential of the sector and its critical role in the manufacturing and value chains, the heterogeneity and the unorganized nature of the Indian MSMEs are important aspects for policy making and programme implementation. Overall, the small industry sector has done quite well and has enabled the country to achieve considerable industrial growth and diversification. Small scale industries are less capital intensive and suit the Indian economic environment with scarce resources and large population base.

What is MSME?

Under the MSME Act 2006, the definition of micro, small and medium enterprises was redefined as below:

For MSMEs in the **Manufacturing Sector**, criteria for categorization were the investment in plant and machinery, as follow:

- Micro Enterprises: Less than Rs. 25 lakh

- Small Enterprises: Between Rs. 25 lakh and Rs. 5 crore
- Medium Enterprises: Between Rs. 5 crore and Rs.10 crore

For Service Sector MSMEs, the criteria were in the investment range as follows:

- Micro Enterprises: Less than Rs.10 lakh
- Small Enterprises: Between Rs.10 lakh and Rs. 2 crore
- Medium Enterprises: Between Rs. 2 crore and Rs. 5 crore

OBJECTIVE OF THE STUDY

- To find out the contributions made by the MSME sector to the overall development of the economy.
- To find the challenges and constraints in the MSME sector.

HIGHLIGHTS OF MSMES

- As per the Report of the Working Group on Micro, Small and Medium Enterprises (MSMEs) Growth for 12th Five Year Plan (2012-2017), the sector accounts 45% of the manufacturing output and 40% of total exports of the country.
- The sector is projected to employ about 73 mn people in more than 31mn units spread across the country.
- MSMEs manufacture more than 6,000 products ranging from traditional to high tech items.
- For FY11, total production coming from MSME sector was projected at ` 10,957.6 bn, an increase of more than 11% over the previous year.
- The sector provides employment to about 69 million persons through 26 million enterprises throughout the country.
- Over 6000 products ranging from traditional to high-tech items are being manufactured by the MSMEs in the country.
- As per the quick estimates of 4th All-India Census of MSMEs, the number of enterprises is estimated to be about 26 million and these provide employment to an estimated 60 million persons. Of the 26 million MSMEs, only 1.5 million are in the registered segment while the remaining 24.5 million (94%) are in the unregistered segment.
- The State-wise distribution of MSMEs show that more than 55% of these enterprises are in 6 States, namely, Uttar Pradesh, Maharashtra, Tamil Nadu, West Bengal, Andhra Pradesh and Karnataka. Further, about 7% of MSMEs are owned by women and more than 94% of the MSMEs are proprietorships or partnerships.
- MSMEs in the country manufacture over 6,000 products. Some of the major subsectors in terms of manufacturing output are food products (18.97%), textiles and readymade garments (14.05%), basic metal (8.81%), chemical and chemical products (7.55%), metal products (7.52%), machinery and equipments (6.35%), transport equipments (4.5%), rubber and plastic products (3.9%), furniture (2.62%), paper and paper products (2.03%) and leather and leather products (1.98%).
- The importance and contribution of the SME sector to the economic growth and prosperity is well established. Towards this, Government's policy initiatives like enactment of the Micro Small and Medium Enterprises Development (MSMED) Act, 2006, pruning of reserved SSI list, advising Financial Institutions to increase their flow of credit to the SME sector, are all initiatives towards boosting entrepreneurship, investment and growth. Reservation of items for exclusive manufacture in MSME sector statutorily provided for in the Industries (Development and Regulation) Act, 1951, has been one of the important policy measures for promoting this sector.
- The growth trend in MSME sector which indicates an upward moving growth trend. Though in initial few years, there was steady growth rate of around 10-11% which shot up to 19% during the period 2010-11 to 2011-12. (Source: Ministry of MSME)

MSMES & INDIAN ECONOMY

World over, the Micro Small and Medium Enterprises or MSMEs have been recognized as engines of economic growth. In India, MSMEs are the second largest source of employment after agriculture. They account for almost 40 per cent of industrial production, 95 per cent of the industrial units, 34 percent of the exports and manufacture over 6000 products. It is estimated that to create one job in the MSME sector, only Rs 72,000 is required as against Rs 5.5 lakh required in the large organized sector.

In the present scenario of global recession, where several large industries are on the verge of collapse, the role of MSMEs assumes significance. It is estimated that to achieve the target of 10 per cent growth by 2011, the MSME sector needs to grow at 12%. However if we compare the growth of MSMEs in India with those in the neighbouring countries in South East Asia like Thailand, Malaysia, Japan, China, etc. it is found that we lag far behind. There are some major hurdles which do not allow this sector to flourish well.

MSME's contribution: Industrial Production & GDP

Year	Total Industrial Production	GDP
1999-00	39.74	5.86
2000-2001	39.71	6.04
2001-2002	39.12	5.77
2002-2003	38.89	5.91
2003-2004	38.74	5.79
2004-2005	38.62	5.84
2005-2006	38.56	5.83
2006-2007	44.12	7.44
2007-2008	45.00	8.00

Source: Annual Report 2008-09, Ministry of Micro, Small and Medium Enterprises.

The MSME sector in India is acting as a Fuel for an engine. The above statistics proves this growth has surpassed overall industrial growth. The period between 2004 to 2008 saw a double digit growth in the MSME Sector.

Comparative growth rates: Industry & MSME Sector

Year	MSME Sector[%]	Overall Industrial Sector [%]
2002-03	8.68	5.7
2003-2004	9.64	6.9
2004-2005	10.88	8.4
2005-2006	12.37	8.1
2006-2007	12.60	11.5
2007-2008	13.00	8

Source: Annual Report 2008-09, Ministry of Micro, Small and Medium Enterprises.

IMPORTANCE OF MSME

MSMEs are considered the engine of economic growth:

- Generates employment opportunities
- Small and Medium Enterprises can easily absorb new innovation and adapt new method. The cost of changing the existing system is also relatively less
- Assists in regional and local development by accelerating rural industrialization by linking it with more organized urban sector.
- Growth of MSMEs helps to achieve fair and equitable distribution of wealth by regional dispersion of economic activities.
- In Small and Medium Enterprises owner management is a possibility, which ensures quick decision making. This ensures speed and reduces redtops. (Dalu & Deshmuke)
- Contributes towards export revenue

- The main reason for sickness of large scale industry is its labor problem and escalating wage bill.
- Small and medium enterprises are labor intensive. Through proper utilization of resources Small and medium enterprises can keep low level of capital investment per unit of output .
- Small and medium enterprises strength is its cheap labor and less over head.
- Assist in fostering self-help and entrepreneurial culture by bringing together skills and capital through various lending and skill enhancement schemes.
- Helps to withstand economic upheavals and maintain a reasonable growth rate since being indigenous is the key to sustainability and self-sufficiency.
- Converts the raw material within the country into semi-finished items and later pass it on the Large Scale industries that have capital, skill and equipment to process these into finished goods. Thus supports large industries.
- Provide rural people an opportunity for income generation and personal growth since they can work at home. This helps to achieve fair and equitable distribution of wealth by creating nationwide non-discriminatory job opportunities.
- Attracts direct foreign investment since multinationals and big conglomerates have started to outsource from countries with strong SME sectors. The low labour cost makes production of semi finished goods very economical for large concerns operating in international markets.
- The SMEs act as engines through which the growth objectives of developing countries can be achieved.

MAJOR CHALLENGES OF MSMES

- **Lack of quality consciousness:** It is the major challenge of the small industries. Small and Medium Enterprises pay less attention to total quality programme and hence importance is less.
- **Lack of Financial Strength:** It is one of the major challenges for MSMEs. Most of them have less corporate brand image, they face problem in getting funds from banks and other financial institutions.
- **Lack of Industrial Work Culture:** MSMEs are labour driven. Most of the labours working here are illiterate and unskilled. Labour absenteeism, turnover, low quality of work is the basic problem here. SMEs should take immediate step to create quality awareness, and adoption of continuous improvement techniques.
- **Access to Markets:** MSMEs are facing cutthroat competition from large players. But they are still dependent upon old and conventional model of marketing. They lack proper marketing strategies to promote their product in local and global market.
- **Lack of Proper Infrastructure Facilities:** Lack of infrastructure creates severe problem for the growth of MSMEs. It basically affects supply chain of enterprises. Transportation, IT and Communication network are the basic infrastructure support for the growth.
- **Lack of Technological Knowledge:** With the increasing competition, globalization and uncertainty in the global market, it is essential for MSMEs to be technologically literate. Moreover lack of IT support, poor internet facility, and improper information and communication technology applications impedes the growth of this sector.
- **Lack of Professionalism:** Improper management in MSMEs. They lack proper policies, planning and strategic decision making. Many owner manger small firms lack strategic thinking.
- **Inadequacy of Managerial Personnel:** There is lack of experienced and trained employees as MSMEs cannot afford to have high salaried personals and at the same time they cannot spend on training and development of their employees. Therefore, they have to depend mainly upon their family members who do not have diversified skills.
- **Inadequate Market Information:** One of the factors which is limiting the growth of this sector is the lack of adequate information. Once MSMEs start the business they may be interested in knowing about the suppliers of specific machinery, raw material, technical information and marketing trends which suits their needs for their products. This information is rarely available at grass root level
- Due to globalization, increasing competitiveness among all fields it's a challenge for MSMEs to frame proper strategies by understanding internal and external environmental variables.

- Majority of SMEs have simple systems and procedures, which allows flexibility, immediate feedback, short decision-making chain, better understanding and quicker response to customer needs than larger organizations. In spite of these supporting characteristics of SMEs, they are on tremendous pressure to sustain their competitiveness in domestic as well as global markets.
- The pattern of global competition, technological advances and needs of consumers, competitive paradigms are continuously changing. These changes are driving firms to compete, simultaneously along different dimensions such as design and development of product, manufacturing, distribution, communication and marketing. It is one of the major challenges for MSMEs today in India.

INITIATIVES TAKEN BY GOVT. OF INDIA AND RBI

As MSMEs in India is a backbone for Economic Development it is necessary to come out with the strategies to develop them. The Govt. and RBI are proactively supporting the growth of MSMEs in every possible manner.

Some of the Govt. measures include

The Ministry of Micro, Small and Medium Enterprises have been implementing schemes of survey, study and policy research with a view to collect data on various aspects of MSMEs engaged in manufacturing and services. The purpose of this survey is to design appropriate strategies, measures to assist and enable these enterprises in facing the challenges to make use of opportunities with a view to enhancing their efficiency and competitiveness. Micro, Small and Medium Enterprises Development Act, 2006 has been enacted to facilitate the promotion and development of these enterprises. Under this Act, three types of enterprises i.e. Micro, Small and Medium have been defined for the very first time.

Credit is one of the crucial aspects for the promotion of MSMEs. Thus, various schemes have been undertaken to provide sufficient credit to these enterprises such as “Credit Linked Capital Subsidy Scheme” (CLCSS) which was launched to facilitate technology improvement in MSMEs including khadi, tiny and village units. Moreover finance to this sector by commercial banks has been classified under priority sector lending of the banks.

RBI Guidelines for MSMEs

In view of suggestions of the Prime Minister’s task force on MSMEs formed by Government. Banks are advised to achieve 20% year-on-year growth in credit to micro and small enterprises, with allotment of 60% of the MSMEs advances to Micro Enterprises which helps to make credit available to this sector.

RBI closely monitors the achievement of targets by banks on a quarterly basis and the non-achievers are advised to devise strategies to gear up the credit mechanism for this sector.

New Generation Entrepreneurs who do not have sufficient collateral securities to provide to the bank for availing the finance. To overcome this problem Govt has formed Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to facilitate this sector which will provide guarantees to the banks and banks are instructed to provide collateral free loans to this sector up to Rs 1 crore.

RBI also made it compulsory to acknowledge all loan applications which are submitted manually or online, by MSME borrowers.

To address the problems such as absence of financial literacy, working skills, business planning etc. which shows alarming situation to MSME borrowers. RBI advised commercial banks to play proactive role to supports MSME clients by providing them banking literacy and consultancy support in addition to financial services.

CONCLUSION

MSMEs constitute an important segment of our Indian Economy. Definitely they are growth driver of an economy. MSME’s contribution to the development of our economy is significant as it evident in terms of MSMEs being the major constituent sector in the production system, employment generation, GDP etc. MSMEs also have an aptitude for innovation, creativity, and flexibility which enabling them to respond with more quickly to structural changes and to adapt the dynamic demand patterns of consumers. It is also clear that MSMEs sector



has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and versification. Proper strategic planning and management will help MSMEs in future to compete in global market. Policy makers have to play a facilitator role and improve the performance of MSMEs.

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