



Commerce

ECONOMIC REFORMS AND MICRO, SMALL AND MEDIUM ENTERPRISES

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Abstract

Micro, Small & Medium enterprises (MSMEs) have played a crucial role in the overall economic development of every developing economy in the world. In India, MSMEs have helped in creating a favourable environment of growth by serving as ancillary units to large scale industries. They not only create huge employment opportunities for the public but also address other challenges faced by the economy like poverty and removing regional imbalances. Keeping in view the crucial role of MSMEs in our economy, the present paper is an attempt to analyze the definition of MSMEs, the role and performance of MSMEs in Indian economy and government policies towards MSMEs as well as the various challenges and opportunities associated with MSMEs in India. The study reveals that over a period of time notable growth has been shown by the MSME sector which has been a leading contributor to export, employment and Gross domestic product in India. Therefore, some sincere action plan and their proper implementation is must for the encouragement of the MSMEs in the Indian economy.

Keywords: Micro, Small & Medium Enterprises; MSMEs; Economic Development; Indian Economy.

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1. Introduction

MSMEs have a crucial role to play in the development of the Indian economy along with ensuring a fair, equitable and employment friendly growth. Being the second largest employment-generator in India after agriculture, they are a key source for various skilled and unskilled citizens of the country. Even our then PM Dr. Manmohan Singh stated that "the key to our success in employment lies in the success of manufacturing in the small scale sector" (Selvaraj, 2005).

The estimated contribution of manufacturing sector Micro, Small and Medium Enterprises (MSME) to GDP, during 2012-13, is 7.04%. However, taking into account the contribution of services sector MSME, which is estimated at 30.50% during 2012-13, the share of MSME sector in GDP of the country, during 2012-13, is 37.54%. With a share of 42.38% in India's total export for the year 2013-14, MSMEs have contributed significantly to the future growth of the Indian economy. The development of this sector lies in the hands of the government as the development of industries requires capital. In a country like India where capital is limited and unemployment is high, growth of MSMEs is essential to achieve balanced economic growth.

The key challenge here for the government is to ensure that penetration of MSMEs not just at the urban level but also semi-urban and rural areas. For the purpose of this study, secondary data from various sources including issues of Annual Reports on MSMEs and Handbook of Statistics on the Indian Economy published by Ministry of MSMEs and Reserve Bank of India (RBI) respectively have been used. In order to better understand the role of MSMEs in India, the available data have been processed and presented in suitable tables. The study considers the time period from 2001 to 2012.

2. Literature Review

The review of the broad literature available through various sources highlights the pivotal part MSMEs have played in the growth and development of nations all over especially India. To justify the need of present study, following literature has been reviewed:

- **Mali (1998)** observed that in the current scenario of globalization, small and medium enterprises (SMEs) and micro enterprises encounter stiff competition thereby adding to the pressure of constantly adapting themselves to the changing environment around them. The areas need substantial improvements include diversification of products, marketing, infrastructural development, management among others. As times are changing, the shift of MSMEs to high growth areas is inevitable. There has also been felt a need for data on various industries which shall enable prospective entrepreneurs including investors from abroad for better planning and implementation.
- **Bala Subrahmanya (2004)** examined globalization and its impact. He also studied the impact of domestic reforms on SSI sector and how this sector has suffered in terms of growth of units, employment, output and exports. He suggested the need to shift focus to technological advancements and a stronger financial infrastructure to ensure the development of the SSI sector.
- **Singh et al. (2012)** observed that improvement in the SSI sector in terms of SSI units, production and employment level has shown progress. The study also analyzed the policies which led to the emergence of new opportunities for this sector. A recommendation for strengthening the financial infrastructure and improved technology for the growth of this sector was also felt.
- **Sudan (2005)** highlighted the various challenges faced in the development of the Micro and Small Scale Enterprises Development and policy issues by raising different questions related to Micro and Small Enterprises. The study also highlighted the concept, advantages, issues and policy options of MSE sector.

- **Venkatesh and Muthiah (2012)** examined the MSMEs in the industrial sector were showing positive growth and also highlighted the need of initiatives in this sector to ensure continued development.

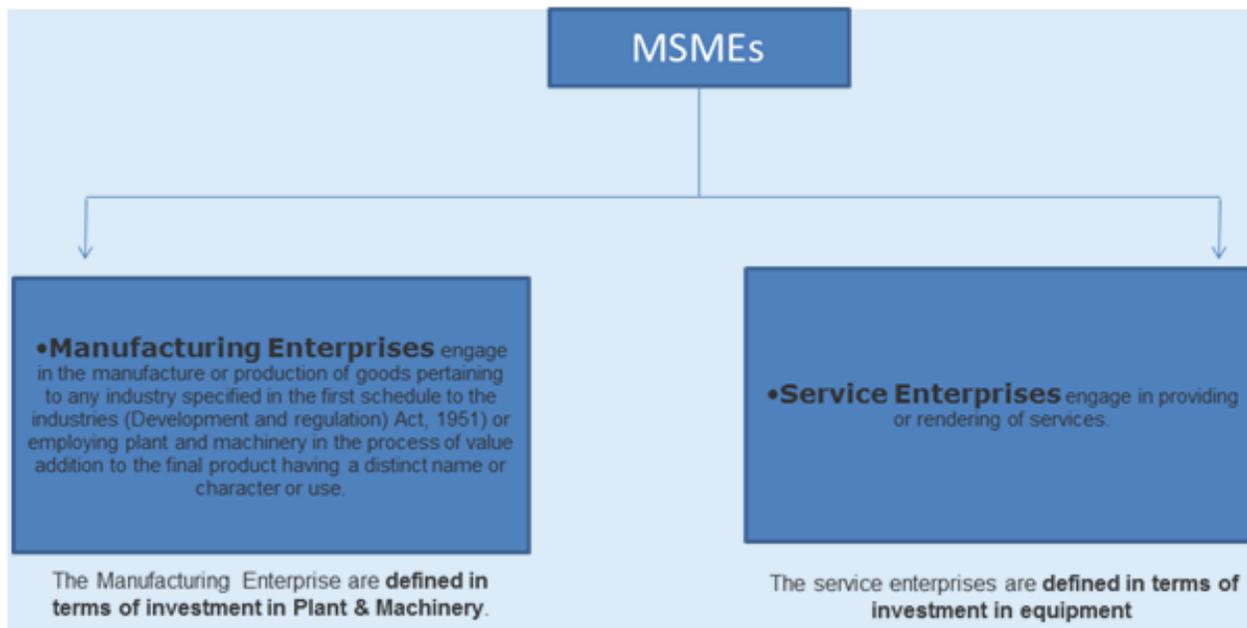
3. Objectives of the Study

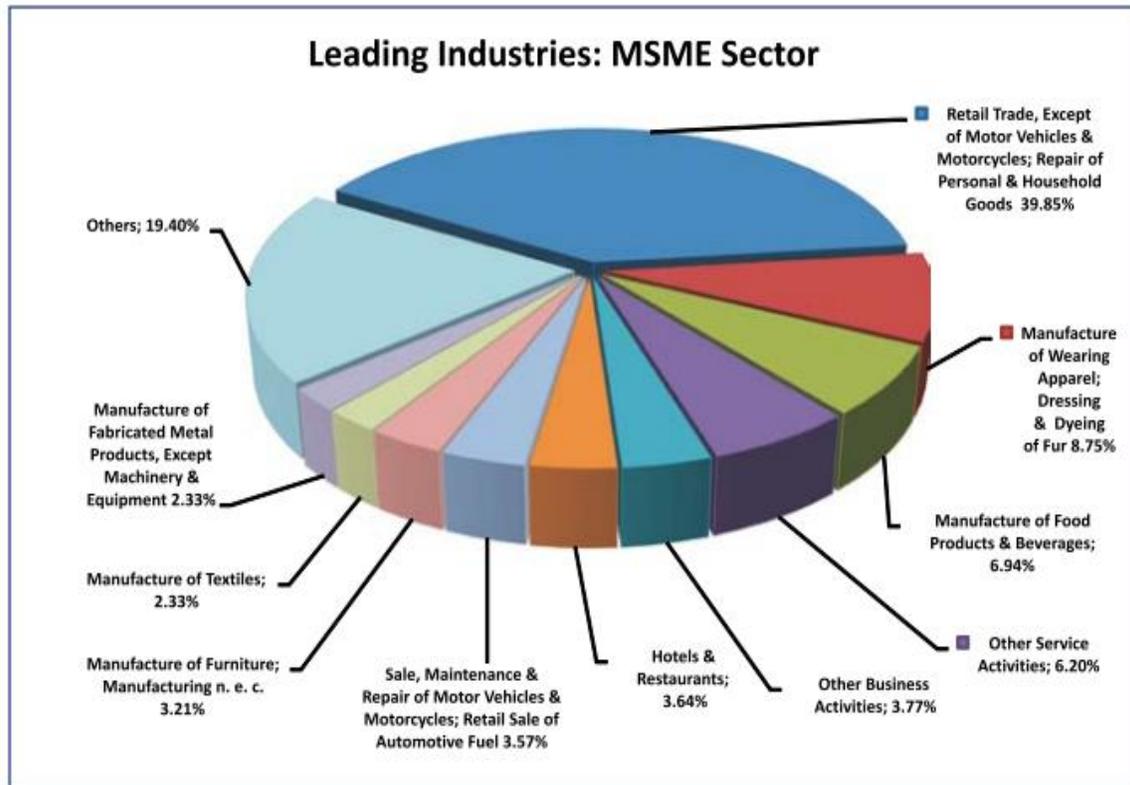
The major objectives of the present study are to

- To analyse the conceptual framework of MSMEs
- To analyze the performance of MSME sector in the present scenario
- To examine the contribution of the MSME sector in GDP contribution
- To analyze the magnitude of employment generated by the MSMEs
- To examine the various challenges and opportunities associated with MSMEs in India

4. Micro, Small & Medium Enterprises in Indian Economy

As per the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006, MSMEs can be classified as follows:





Source: Annual Report 2013-14 by Ministry of Micro, Small and Medium Enterprises

This figure depicts the various industries that constitute a part of Micro, Small and Medium Industries in India. One common misconception is assuming that it is only the manufacturing sector that constitutes the MSMEs. Services like hotels and restaurants, trade, education are also a part of the MSME Sector.

Retail Trade, Except of Motor Vehicle & Motorcycle; Repair of Personal and Household Goods, is the largest contributor in the MSME Sector. The entire retail trade constitutes 39.85% of the total sector. The share of Sale and repair of motor vehicles & motorcycles, retail sale of automotive fuel in employment is around 5.7%. 6.94% of the entire MSME sector constitutes of manufacture of food products and beverage industry. Relaxation in policies and a change in the lifestyle of the people have helped this sector to grow. Manufacture of textiles and furniture stand at 2.33% and 3.21% respectively.

According to the MSME Development Act, 2006, the **limit for investment** in plant and machinery / equipment for manufacturing / service enterprises are as follows:

Table 1:

| Manufacturing Sector | |
|----------------------|---|
| Enterprises | Investment in plant & machinery |
| Micro Enterprises | Does not exceed twenty five lakh rupees |
| Small Enterprises | More than twenty five lakh rupees but does not exceed five crore rupees |
| Medium Enterprises | More than five crore rupees but does not exceed ten crore rupees |

| Service Sector | |
|--------------------|---|
| Enterprises | Investment in equipments |
| Micro Enterprises | Does not exceed ten lakh rupees: |
| Small Enterprises | More than ten lakh rupees but does not exceed two crore rupees |
| Medium Enterprises | More than two crore rupees but does not exceed five core rupees |

Source: MSMED Act, 2006

5. Growth and Performance of the Indian MSMEs

In spite of the stiff competition from the large, organized sector and the lack of government attention and support to MSMEs, they have managed to achieve a high growth rate over the years.

The number of functional and non-functional registered MSMEs in the country are 15,63,974 and 4,96,355 respectively. The size of the registered MSME sector in terms of their number is provisionally estimated to be 1552.5 thousand in the country. The break-up of this size in terms of micro, small and medium enterprises was 95.05%, 4.74% and 0.21% respectively. This comprises of 66.67% manufacturing enterprises and 33.33% services enterprises. (As per 4th All India Census of MSME conducted by the Ministry of MSME)

Table 2: Growth of Indian MSMEs

| Year | Total no. of working MSMEs Units (in lakhs) | Employment generated(in lakhs) | Market Value of Fixed Assets (in crores) | Gross Output (in crores) |
|---------|---|--------------------------------|--|--------------------------|
| 2001-02 | 105.21 | 249.30 | 154349.00 | 282270.00 |
| 2002-03 | 109.49 | 260.20 | 162317.00 | 314850.00 |
| 2003-04 | 113.95 | 271.40 | 170219.00 | 364547.00 |
| 2004-05 | 118.59 | 282.60 | 178699.00 | 429796.00 |
| 2005-06 | 123.42 | 294.90 | 188113.00 | 188113.00 |
| 2006-07 | 361.76 | 805.20 | 868543.79 | 1351383.45 |
| 2007-08 | 377.37 | 842.00 | 917437.46 | 1435179.26 |
| 2008-09 | 393.70 | 881.14 | 971407.49 | 1524234.83 |
| 2009-10 | 410.82 | 922.19 | 1029331.46 | 1619355.53 |
| 2010-11 | 428.77 | 965.69 | 1094893.42 | 1721553.42 |
| 2011-12 | 447.73 | 1012.59 | 1176939.36 | 1834332.05 |

Source: Annual Reports of MSMEs (2012)

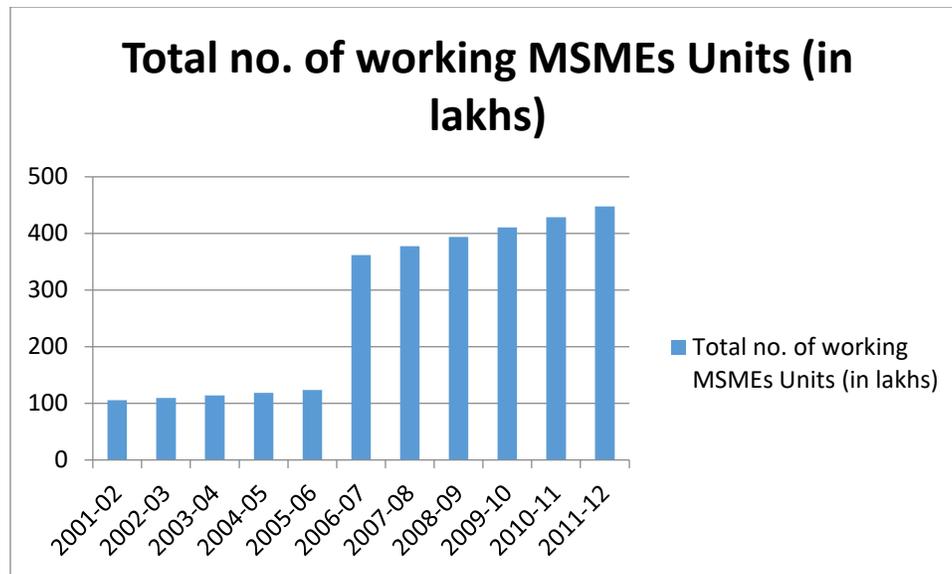


Figure 1: Total no. of working MSMEs Units (in lakhs)

Source: Compiled from MSME Annual Report (2012)

Figure 1 above exhibits an increase in the number of working MSME units in India. From 105.21 lakhs in the year 2001-02 to 447.73 lakhs in the year 2011-12, there has been a remarkable increase in these units. Government initiatives and successful implementation of various policies has been a critical role here. The easy availability of funds has contributed significantly in these increased numbers.

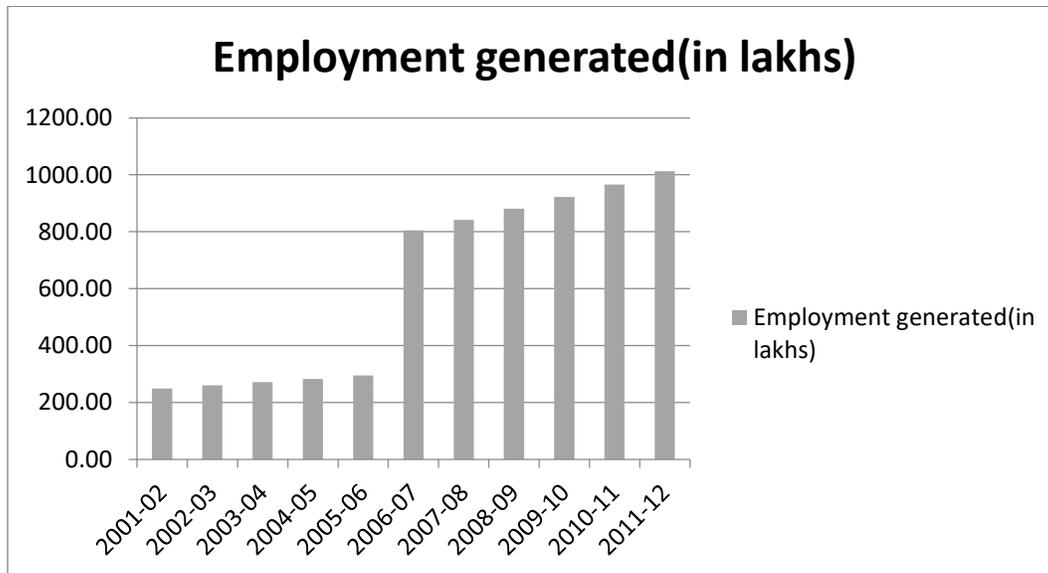


Figure 2: Total employment generated (in lakhs)

Source: Compiled from MSME Annual Report (2012)

In figure 2, the employment for the period 2001-02 stood at 249 lakhs and increased to a remarkable 1012.59 lakhs in 2011-12. For the period of 2002-07, the numbers changed significantly because of the inclusion of services sector in the definition of Micro, Small and Medium Enterprises, apart from extending the scope to Medium Enterprises post the enactment

of Micro, Small and Medium Enterprises Development Act, 2006 on 2nd, October'06. In 2007-12, the employment stood at 924 lakh jobs on average. The various initiatives of the government have helped foster the growth in terms of job creation in this sector. The latest initiatives like Make In India, Skill India, Digital India and others have only boosted the creation of jobs for MSMEs.

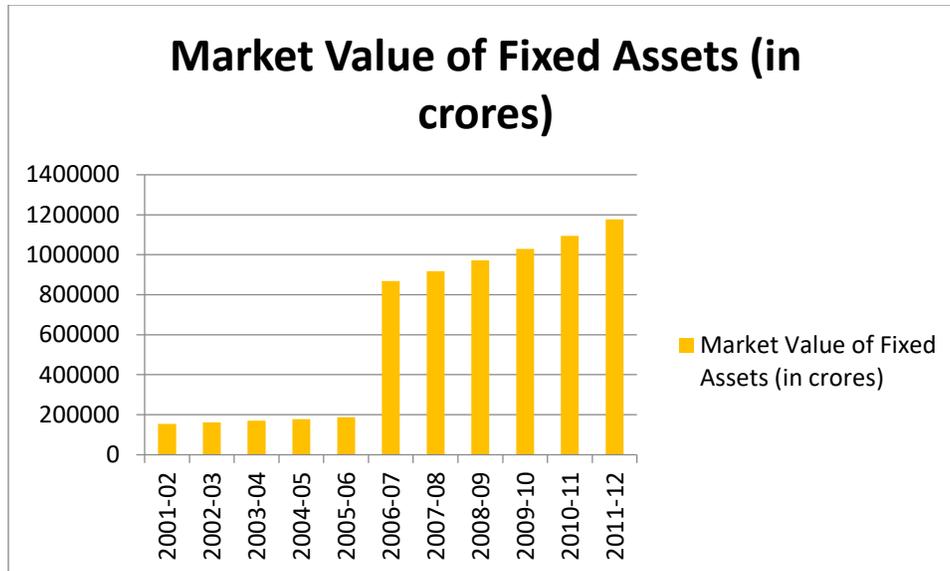


Figure 3: Market Value of Fixed Assets (in crores)

Source: Compiled from MSME Annual Report (2012)

Figure 3 shows the performance trend of the market value of fixed assets of the MSME sector in India. The market value of fixed assets of MSMEs increased from Rs.154349 crores in 2001-02 to Rs.1176939 crores in 2011-12. There has been an increase of 7 folds in the past ten years owing to the availability of latest technology and usage of heavy machines.

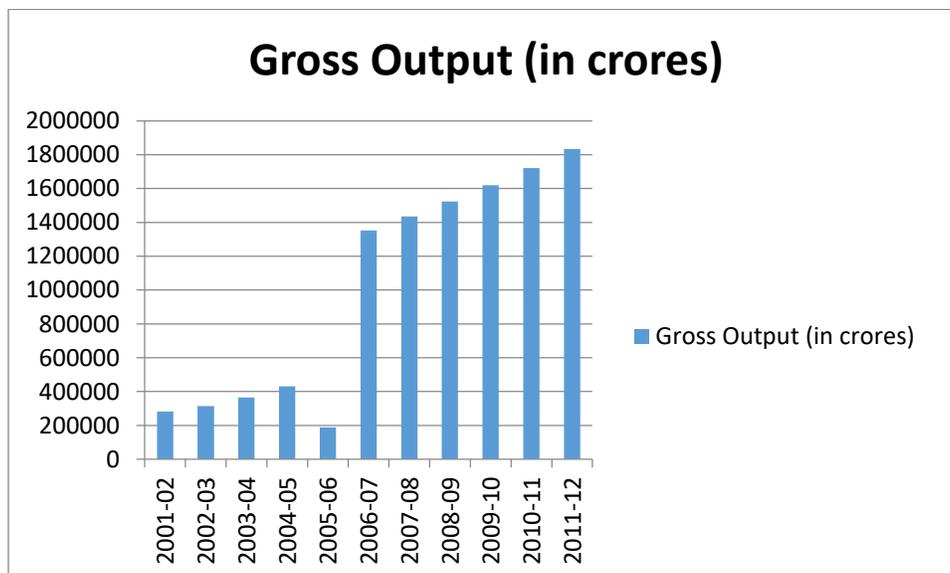


Figure 4: Gross Output by MSME Sector (in crores)

Source: Compiled from MSME Annual Report (2012)

The above figure exhibits the Gross output by the MSME sector in India over the past decade. The gross output of this sector increased from Rs.282270 crores to Rs. 1834332 crores in 2011-12. Use of superior technology and increased government initiatives towards the development of this sector created a favourable environment for growth of MSMEs in India.

Table 3: Exports by MSMEs in India

| Year | Exports (In US \$ Million) |
|---------|----------------------------|
| 2009-10 | 82,494 |
| 2010-11 | 1,11,403 |
| 2011-12 | 1,31,483 |

Source: Directorate General of Commercial Intelligence and Statistics (DGCI&S) data

The exports of this sector have seen an upward trend over the past few years. The total value of exports stood at USD 1,31,483 million.

The list of 20 most exported MSME (Shri K. H. Muniyappa, 2014) product groups is as follows:

| Sr. No. | Products |
|---------|--|
| 1 | Pearls, precious stones, metals, coins, etc |
| 2 | Electrical, electronic equipment |
| 3 | Pharmaceutical products |
| 4 | Articles of apparel, accessories, not knit or crochet |
| 5 | Articles of iron or steel |
| 6 | Machinery, boilers, etc |
| 7 | Articles of apparel, accessories, knit or crochet |
| 8 | Organic chemicals |
| 9 | Other made textile articles, sets, worn clothing etc |
| 10 | Vehicles other than railway, tramway |
| 11 | Plastics and articles thereof |
| 12 | Rubber and articles thereof |
| 13 | Footwear, gaiters and the like, parts thereof |
| 14 | Articles of leather, animal gut, harness, travel goods |
| 15 | Tanning, dyeing extracts, tannins, derivatives, pigments etc |
| 16 | Aircraft & spacecraft parts |
| 17 | Essential oils, perfumes, cosmetics, toiletries |
| 18 | Stone, plaster, cement, asbestos, mica, etc articles |
| 19 | Carpets and other textile floor coverings |
| 20 | Furniture, lighting, signs, prefabricated buildings |

The government has been taking various initiatives and programmes in this direction to ensure the trend of exports seen an upward trend. Minister of State (Independent Charge) for Micro,

Small and Medium Enterprises, Shri K. H. Muniyappa shared this information in a written reply to a question in the Lok Sabha. He also mentioned some schemes/programmes undertaken by the government which included National Manufacturing Competitiveness Programme (NMCP); Credit Guarantee Scheme; Credit Linked Capital subsidy Scheme; Cluster Development Programme; Market Development Assistance Scheme; and Vendor Development Programme for Ancillarisation.

6. Problems Faced by MSMEs in Indian Economy

MSMEs face various issues and challenges which hinder the growth of the sector as a whole. The government plays a very important role here in ensuring the framing of right policies along with its successful implementation. The sector faces its own share of issues and challenges including:

- The lack of finance remains the biggest challenge for the sector. Firstly, there is lack of information available through organized sources to help access the limited available financial resources. The problem of lack of access of secondary markets is made worse due to the absence of any Venture Capitalists for this sector. The need for ready availability of affordable credit is extremely high.
- Due to the lack of effective marketing initiatives, the true potential of the products from this sector is never realized. The lack of funds to advertise the products and incur additional expenditure is a big challenge.
- Corruption and red tapism lead to procedural delays eventually leading to delayed entry in markets and lost business.
- Increased competition from global markets post 1991 has caused enough damage to these industries who don't have access to latest technologies

These enterprises face various challenges and thus their overall growth is hampered.

7. Government Initiatives

A sector which is projected to be worth \$5 trillion economy by 2025, MSMEs have only shown a positive performance trend. Creation of jobs, contribution to GDP and exports among other aspects, this sector has only helped a growing economy like India. The government realizes this and has undertaken various initiatives in this regard:

Some of the key initiatives include:

- **MSMED Act, 2006**

One of the key initiatives by the Government has been the enactment of Micro, Small and Medium Enterprises Development Act, 2006 on 2nd, October'06. The main aim of this Act is to facilitate the promotion and development and enhance the competitiveness of MSMEs. The Act provided for the inclusion of services sector in the definition of Micro, Small and Medium Enterprises, apart from extending the scope to Medium Enterprises.

- **Credit Guarantee Scheme**

One of the biggest challenges MSMEs face is the availability of funds. Some MSMEs are not able to pledge collateral security while applying for these loans to set up their businesses or for

further expansion. The government of India set up a Credit Guarantee Scheme to help such businesses.

- **Approval for Creation of ‘Indian Enterprise Development Service’ (IEDS)**

The government has sanctioned the setting up of ‘Indian Enterprise Development Service’ (IEDS) with its headquarters in Delhi. This new cadre shall complement the vision of initiatives like “Startup India”, “Make in India”.

- **Launched National SC/ST Hub**

A National level ‘SC/ST Hub’ has been launched in Ludhiana which shall be provided assistance by the NSIC, Delhi. A budget of Rs.490 crores has been allocated for 2016-20. This hub will not only provide financial support but also help in monitoring and understanding the MSME market better.

8. Conclusion & Policy Implications

In a nutshell, we can state that the MSMEs have played a crucial role in the development of the Indian economy post the trade reforms in 1991. Not only has the sector contributed to the GDP, but at the same time has played a critical role in creation of jobs and exports. This sector ranks second to agriculture when it comes to employment generation of jobs. Due to advancement in technology in the agriculture sector along with a slow growth, there has a slowdown in the creation of jobs. This puts a lot of pressure on the MSME sector to provide employment to the citizens. As we can see in the findings above that the MSME Sector shows immense potential and so far has been positively contributing to the growth. The government, however, has a crucial role to play here. The sector in order to continue on the path of growth needs to ensure efficiency and effectiveness in terms of resource allocation and availability of sufficient funds. The various problems that are being faced by the sector need to be addressed in terms of government initiatives. Successful implementation of these initiatives will not only boost the sector but at the same time contribute significantly to the overall growth of the Indian economy.

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