



GROWTH AND CONTRIBUTION OF MSMES IN INDIAN ECONOMY

ABSTRACT


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Micro, Small and medium enterprises (MSMEs) are a key driver for economic growth. The MSME Sector is credited for contributing around 40 percent in the overall exports of our country and around 45 percent of the total manufacturing output that our country is producing. In the last few years, the MSME sector has reflected a higher growth compared to the overall industrial sector. With its quick responsiveness, adaptability and innovative approaches in the recent years, this sector has shown a commendable endurance to survive the effects of recession. . The importance of MSME sector can be judged by the fact that around 50% of MSMEs in India are owned by underprivileged groups. MSMEs have played a commendable role in transition of India's economy from agrarian economy to an industrialized one. The MSME sector in India is the second largest employment generator just after agriculture. The present paper attempts to identify the history of MSMEs in India. The researcher tries to analyze the growth of SSI sector before and after the independence. This paper is based on extensive review of literatures on growth of MSMEs in India and their contribution in Indian economy. The review showed that the MSMEs have come a long way from being just labour intensive enterprises to modern Capital intensive enterprises whose contribution in Indian economy cannot be overlooked.

KEYWORDS: Growth, Contribution. Economy, MSME, Entrepreneurship.

INTRODUCTION

MSMEs are defined in different ways in different parts of the world. In some countries, they are defined in terms of assets, while few countries use employment as a parameter for defining MSMEs. The MSME Sector is credited for contributing around 40 percent in the overall exports of our country and around 45 percent of the total manufacturing output that our country is producing (MSME Annual Report, 2012). MSME Sector has helped in nurturing of thousands of entrepreneurs and they have setup a unit of their own. It is rightly known as the engine of growth as the share of contribution of this sector has registered a remarkable growth in the last decade. The main advantage of this sector is that it provides a large employment at a low capital cost.

Micro, Small and medium enterprises (MSMEs) are a key driver for economic growth and access to finance is a key constraint to development of micro, small and medium enterprises (MSMEs) in emerging economies. These factors have been widely recognized by Finance Ministers (in their Declarations of 2010) and in the report of the G20 MSME Finance Sub-Group of the Financial Inclusion Experts Group. The IFC was the technical advisor for the report.

Despite the significant contributions of the MSME sector, the sector continues to face certain constraints like, as pointed out in PM's Task Force Report, 2010, availability of adequate and timely credit, high cost of credit, collateral requirements, access



to equity capital and rehabilitation of sick enterprises, etc. It thus emerges that adequate, timely and affordable credit is one of the bigger issues for the MSME sector.

In the last few years, the MSME sector has reflected a higher growth compared to the overall industrial sector. With its quick responsiveness, adaptability and innovative approaches in the recent years, this sector has shown a commendable endurance to survive the effects of recession. In India too, the role of MSMEs is crucial in the overall industrial growth. With its quick responsiveness, adaptability and innovative approaches in the recent years, this sector has shown a commendable endurance to survive the effects of recession. The conventional wisdom argues that the inadequate financing of MSMEs is to a significant extent rooted in supply-side features. The manner in which the financial institutions and banks operate in the developing countries is biased when compare MSMEs with large enterprises. MSMEs find it relatively harder to get access to finance from these financial institutions. Banks generally show lack of interest when it comes to getting involved with MSMEs.

There are several factors which constrain financial institutions to get involved with the MSMEs. One of the major reasons, why banks shy away from granting loans to MSME sector is because they are opaque. Opaqueness basically means that it is relatively difficult to know about the pay back capability of the firm. Whether the firm has feasible and profitable projects with them and whether they have the interest to pay back the money to banks.

The importance of MSME sector can be judged by the fact that around 50% of MSMEs in India are owned by underprivileged groups. MSMEs have played a commendable role in transition of India's economy from agrarian economy to an industrialized one. The MSME sector in India is the second largest employment generator just after agriculture. It generated employment for 73.2 million people in FY11 and the figures are expected to increase to 85 million by 2014.

Micro, Small and Medium Enterprises (MSMEs) in India have evolved considerably since independence. From being referred to merely as the Small Scale Industries (SSI) sector in the 60s and 70s, the MSME sector has progressed in scale and in the scope of business activities over the years. Today, MSMEs are present across sectors (manufacturing, trade and services) in India, thereby constituting a

formidable component of the country's outstanding economic growth. While a key achievement of MSMEs over time has been their talent in utilising available domestic resources to deliver quality products and services, these firms have made their presence felt across India's key sectors as well as in prominent export markets. MSMEs have made an impact on a range of issues, from industrial progress to entrepreneurship and from job creation to economic empowerment. During the 2nd and 3rd five year plan, India's main focus was on quick industrialization. The industrialization was capital intensive and overlooked the problem of unemployment in our country. Due to rapid industrialization in certain parts, there was a regional disparity. In the year 1955, Karve Committee Report suggested to have an environment for the small industries, which facilitates their growth and which is conducive for development. In the year 1951, Industries Development and Regulation Act was implemented, which clearly stated the reservation of certain items exclusively for manufacturing by the SSI sector.

REVIEW OF LITERATURE

Despite their important role in fostering economic growth, MSMEs often face financing difficulties. The theoretical and empirical literature supports the view that, for firms, external financing is more expensive than internal financing.

Dallago and McIntyre (2003) state that MSMEs are not themselves sufficient for growth without the proper development of institutions and support structures.

Gibb and Lyapunov (1996) suggest that an entrepreneurial culture needs to be nurtured to support MSMEs in areas such as values, beliefs, attitudes and behavioural norms. Gibb also argues that a personal network based on social value constitutes an important variable that influences transactions between firms and customers, marketing channels, suppliers, employees, family, regulatory authorities, banks, accountants, and competitors.

Pascale and Athos (1991) argued that 95% of Japanese and US managers are the same, as "they only differ in core issues," such as the management of soft matters like human resources. The soft aspects of management include style, staff, skills and shared values.

Storey (1994) argued that customer focus was a discriminate variable, explicitly stating that high

growth companies develop strategies that connect them to their customers. These systematic relationships and direct contacts with customers enable the development of differentiation strategies that, in many cases, create custom products and services. Moreover, this strong rapport with customers also allows high-growth companies to proactively meet customer needs by introducing innovations in products and services.

Bala Subrahmanya (2004) highlighted the impact of globalization and domestic reforms on small-scale industries sector. The study stated that small industry had suffered in terms of growth of units, employment, output and exports. The Researcher highlighted that the policy changes had also thrown open new opportunities and markets for the small-scale industries sector. He suggested that the focus must be turned to technology development and strengthening of financial infrastructure in order to make Indian small industry internationally competitive and contribute to national income and employment.

According to Batra and Mahmood (2003), MSMEs in developing countries in East Asia receive support from local governments in the form of micro finance, interventions to increase private sector training, technology development, and market information.

Gentry and Hubbard (2004) find that entrepreneurs comprise just fewer than 9% of households in the U.S., but they hold 38% of household assets and 39% of the total net worth. Not only are entrepreneurs wealthier, but also the wealthy are more likely to become entrepreneurs. Recent studies show (e.g. in India) that entrepreneurship programs have little if any effect on the rate of start ups. Poojary (1999) shows that entrepreneurs tend to come from traditional trading communities and tend to have little formal training and education. Instead, they are typically indoctrinated in the importance of economic success within their communities. Research in the farm equipment industry in the Punjab in Pakistan reveals that most entrepreneurs lack formal education and instead rely on each other for market and technical information (Romijn, 1999).

MEDHODOLOGY

The present study is majorly based on secondary data. The data has been mainly collected from various MSME Annual Reports, Statistical Abstracts of India, Reports of Ministry of MSMEs, etc. Extensive review of the literature provided useful insight about the History and growth of MSMEs in India.

MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) SECTOR: PROFILE

Table - 1 Quick Estimates of 4th Census (2006-07)

Number of MSMEs	26.1 million
Number of Manufacturing Enterprises	7.3 million
Number of Service Enterprises	18.8 million
Number of Women Enterprises	2.1 million (8%)
Number of Rural Enterprises	14.2 million (54.4%)
Employment	59.7 million
Per unit employment	6.24
Per unit fixed investment	Rs.33.78 lakh
Per unit original value of Plant & Machinery	Rs.9.66 lakh
Per unit gross output	Rs.46.13 lakh
Employment per one lakh fixed investment	0.19

Source: MSME Annual Report (2008-09)

Table – 2 Comparative Growth Rates

Year	Growth rate of MSMEs (%)	Overall Industrial sector (%)
2002-2003	8.68	5.70
2003-2004	9.64	6.90
2004-2005	10.88	8.40
2005-2006	12.32	8.10
2006-2007	12.60	11.5
2007-2008	13.00	8.0
2008-2009	11.58	7.54
2009-2010	10.58	8.59
2010-2011	11.73	7.45
2011-2012	9.49	7.11
2012-2013	12.48	9.15

Source: MSME Annual Report (2012-13)

The MSME sector has maintained a higher rate of growth vis-a-vis the overall industrial sector. It is evident from the data of table-2 that the MSMEs have grown at a much rapid pace as compared to the overall industry rate. The growth rate of MSMEs has increased from 8.68 % in the year 2002-03 to 9.15% in the year 2012-13 where as the growth rate in overall industrial sector has increased from 5.70% in the year 2002-03 to 9.15% in the year 2012-13. This indicates that the contribution of MSMEs has been much higher as compared to over all industrial sector in India. The father of nation, Mahatma Gandhi said that the small and micro enterprises are the backbone of Indian industrial sector. The sayings of the father of nation has been holding true in Indian economy. Therefore, the central as well as state governments should give priority in the development of this sector by making them more competitive.

HISTORY

Industries have been an integral part of the Indian Economy since the Harappan era. However, the entrepreneurial spirit of India was stifled during the long British rule, as also reflected in the GDP growth rate of 0.9% during the first half of the 20th century. During the British rule in India came the Swadeshi Movement which was a part of Indian Independence Movement in the early 20th century. This movement played a commendable role in removing the base of British Empire from India and also helped in improving the economic condition of India. People started boycotting the British products. This boosted the domestic market and encouraged setting of various local enterprises in India. Mahatma Gandhi believed that, in order to avoid foreign

exploitation, it is imperative to have a balance between the production and consumption. He focussed on establishment of local enterprises to strike a balance between production and consumption.

India got independence in the year 1947 and subsequently planning commission and Industrial Policy came into picture. The thrust of all the industrial policies was to promote small scale industries. Various incentives were given to small scale sector and various schemes were launched in order to promote them between 1951 and 1991. In the year 1991, our country opened the market for international players and adopted a policy of liberalization and globalization. As per the guidelines of various Industrial policies, certain products were exclusively reserved for small scale units but with the passage of time and change in the industrial policy and industrial environment, the number of products in this list is decreasing.

In year 1998, SSI Board came into existence with IIA (Indian Industries Association) as its member since inception. Later on, it was replaced by National Board of MSME (NBMSME). IIA was again nominated a member of this board. The two important changes that took place are:

- 1) The concept of 'enterprise' replaced the former concept of 'industry'
- 2) The resultant change was recognition & coverage of 'services' by the Ministry of MSME.

The latest landmark development has been the constitution of the High level Task force on MSMEs by the Honourable Prime Minister in the year 2009.

CONTRIBUTION AND IMPORTANCE OF MSMEs IN THE GROWTH OF ECONOMY

Micro, Small and Medium Enterprises (MSMEs) are a critical economic factor in poorer countries as well as the more developed economies in the world today. They make up a majority of the domestic business transactions and at the same time play an important role. They are highly adaptable in developed and developing economies, provided that they have a facilitating environment to grow.

With trade barriers falling, Indian MSMEs were initially apprehensive of their ability to survive in a globally competitive environment, but over a period of time, they realized that it also provided them with greater opportunity to become part of a global supply chain as large manufacturing companies are outsourcing their production to low-cost economies.

Globally, MSMEs constitute almost 90% of the total enterprises and they are responsible for generating the highest rate of employment all over the world. Apart from employment generation, they are credited for having a major share of industrial production as well as a high amount of contribution in exports as well.

In India, MSMEs play a remarkable role in creating a large number of employments. In fact, now MSME Sector has become the second largest employment provider just after agriculture. They are making an immense contribution to the National Income of our country by constantly increasing their share of exports. One of the major contributions of MSMEs is that, they use the local resources and provide employment to the locals and thus are responsible for a balanced regional development. They provide an opportunity to the people having entrepreneurial skills to setup a unit of their own and contribute to Indian economy.

CONTRIBUTION OF MSMEs IN INDIAN ECONOMY

MSMEs play a pivotal role in the economy of our country. Table-1 highlights the performance of MSMEs in India over the last decade. It reflects how the MSMEs have grown in the last ten years. It also depicts the major role played by MSMEs in the employment generation.

Table-3 Growth of MSMEs in the last decade

Sl. No.	Year	Total Working Enterprise (In Lakh)	Employment (In Lakh)	Market Value of Fixed Assets (In Crore)	Gross Output (In Crore)
1	2001-02	105.21	249.33	154349.00	282270.00
2	2002-03	109.49	260.21	162317.00	314850.00
3	2003-04	113.95	271.42	170219.00	364547.00
4	2004-05	118.59	282.57	178699.00	429796.00
5	2005-06	123.42	294.91	188113.00	188113.00
6	2006-07	361.76	805.23	868543.79	1351383.45
7	2007-08	377.37	842.23	917437.46	1435179.26
8	2008-09	393.70	881.14	971407.49	1524234.83
9	2009-10	410.82	922.19	1029331.46	1619355.53
10	2010-11	428.77	965.69	1094893.42	1721553.42
11	2011-12	447.73	1012.59	1176939.36	1834332.05

Source: MSME Annual Report (2012-13)

CONCLUSION

This study concludes that the MSMEs with effective use of networks, associations and government supports become more sustainable and make a greater contribution to the economy. MSMEs act as an engine for growth of any economy and their role in the development of nation cannot be overlooked. The study reveals that there has been a drastic increase in the number of MSME units over the last ten years. The employability of the MSME

sector has also increased tremendously and it has now become the second largest employer after agriculture. MSMEs play a pivotal role in our economy. From time to time, Government and Reserve Bank of India (RBI) have implemented several policies to improve the flow of credit to the MSME Sector. Ours is an industrializing economy which has been growing at a substantial rate over the last decade. MSME sector and small entrepreneurs are playing a very crucial role in the GDP of our country.



From traditional units with couple of labours to modern mechanized units, MSMEs have traversed a long path. With the passage of time and support from the government, MSMEs have fostered. Before independence, when British Empire ruled over India, the condition of small scale enterprises was not good. They didn't get any support from the British. After independence several industrial policies were implemented and SSI sector benefited a lot. After liberalization of Indian economy in 1991, MSMEs in India got exposed to world economy and they took on the challenge and adjusted themselves to compete with world economy. MSMEs now contribute a significant portion of Indian Exports.

Still there are various challenges which are to be addressed in this sector. Competition from large scale industries and increasing unit cost are to be minimized by adopting adequate strategies. Availability of raw material at reasonable price is an important problem faced by the sector. Hence government support in this regard will help the sector in facing the competition from the large scale industrial units.

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