

The Impact of MSMEs on India's Economic Development: A Pragmatic Analysis

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Micro, Small and Medium Enterprises (MSMEs) have played a very significant role in ensuring the process of economic growth in our country. It provides not only the much needed boost for growth, employment and exports but more significantly, contributes to geographical and social equity. MSMEs are contributing towards the sustainable and inclusive growth of the nation. The 'inclusive growth' as a strategy of economic development receives the attention aroused from the benefits of economic growth of a nation. There must be a rigorous and continuous need to progress the factors that furnish a congenial entrepreneurial climate to surpass major obstacles. The present paper deals with the growth of micro, small and medium enterprises, the impact of MSMEs for the development of Indian economy by judging the performance of MSMEs with various indicators like export and employment generation. It also intends to emphasize the contribution of MSME to over all GDP and industrial sector of India.

Keywords: MSMEs, GDP, Indian economy, Inclusive growth, Economic development

Introduction

MSMEs contributes significantly to the manufacturing output, employment and exports of the country and is credited with generating the highest rates of employment growth along with accounting for a major share of industrial production and exports. These enterprises have been globally considered as the engine of economic growth and credited with promoting equitable development. The major advantage of the sector is its employment potential at low capital cost. The labour

intensity of this sector is much higher than that of the large enterprises. In India too, the MSMEs play an essential role in the overall industrial economy of the country. In recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector. According to the MSMED Act, MSMEs are defined on the basis of their investment in plant and machinery and equipment for enterprise rendering services. (Rai and Dinesh, 2010)

Classification	Manufacturing Enterprises	Service Enterprise
Micro	Rs.2.5 million/ 25 lakh (us\$ 50000)	Rs. 1 million/ 10 lakh (us\$ 20,000)
Small	Rs. 50 million/ 5 crore (us\$ 1 million)	Rs. 20 million/ 2 crore(us\$ 0.4 million)
Medium	Rs.100 million/ 10 crore (us\$ 2 million)	Rs. 50 million/ 5 crore (us\$ 1 million)

Organizations associated with MSMEs

The MSME sector has slowly come into the limelight,

with increased focus from the government and other government institutions, corporate bodies and banks.

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Policy based changes; investments into MSMEs; globalization and India's robust economic growth have opened up several latent business opportunities for this sector. There are various organizations which are associated with MSME. Such organizations are as follows:

- Small Industries Development Organisation (SIDO)
- Small Scale Industries Board (SSIB)
- National Small Industries Corporation Ltd. (NSIC)
- Confederation of Indian Industry (CII)
- Federation of Indian Chamber of Commerce and Industry (FICCI)
- PHD Chamber of Commerce and Industry (PHDCCI)
- National Institute for Entrepreneurship and Small Business Development (NIESBUD)
- Small Entrepreneurs Promotion and Training Institute (SEPTI)
- Small Industries Development Bank of India (SIDBI) etc.

Literature Review

Many authors through their literature throw light on the various aspects of MSMEs. Chakrabarty, K. C (December 21, 2011) in his speech focuses on the needs of small and medium enterprises, and emphasizes on providing highest priority to this sector in order to achieve balanced, sustainable, more equitable and inclusive growth in the country. Mathew P.K (Jan 2012) in his article explained the relevance of MSMEs in India during the twelfth five year plan. In his article it is described that apart from the entire challenges, MSME stand as the stepping stone to achieve inclusive growth in an economy. Mishra and Jain (2012) in their article about the relevance of Globalisation of SMEs has contributed production growth, the Growth of total exports of Indian economy. Santosh Kumar and et.al. (OCT 2011) in their article explain the role of small and medium enterprises. MSME is playing a vital input in creating dynamic market economies in the economic

and social development of a nation. They also highlight the view regarding entrepreneur who acts as the key promoter of economic growth, innovation, and regional development of an economy.

Objective

With the introduction and literature review part this paper has followed by the following objectives:

- To analysis the impact of MSMEs on Indian Economic Development by analysing its performance through various indicators.
- To make a comparative analysis of the MSME sectors with the overall Industrial Sector.
- To find out the contribution of MSMEs and GDP growth.

Performance of MSMEs

The micro, small and medium enterprises (MSMEs) play a crucial role in the economic and social development of the country often acting as a nursery of entrepreneurship. They also play a key role in the development of the economy with their effective, efficient, flexible and innovative entrepreneurial spirit. Worldwide, micro, small and medium enterprises (MSMEs) have been accepted as the engine of economic growth and for promoting equitable development. MSMEs constitute over 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. In India too, the MSMEs play a pivotal role in the overall industrial economy of the country. MSMEs in India account for more than 80% of the total number of industrial enterprises and produce over 8000 value-added products. It is estimated that in terms of value, the sector accounts for 45% of the manufacturing output and 40% of the total export of the country and employs over 6 crore people. Further, in recent years the MSME sector has consistently registered higher growth rate compared to the overall

industrial sector. The major advantage of the sector is its employment potential at low capital cost. As per available statistics, this sector employs an estimated 6 crore persons spread over 2.6 crore enterprises and the labour intensity in the MSME sector is estimated to be almost 4 times higher than the large enterprises.

This sector contributes 8 per cent to the country's GDP, 45 per cent to the manufactured output and 40 per cent to the country's exports. It provides employment to 60 million people through 28.5million enterprises. The performance of MSMEs can be measured with indicators like production, employment, exports etc. (Table 1.)

Table 1: Performance of MSMEs in India from 1999-2009

Year	Total MSME (million)	Fixed Investment Rs billion	Production Rs billion		Employment (million person)	Export (Rs billion)
			current price	constant price		
1999-2000	9.715	1399.82	2337.60	1703.792	22.910	542.00
2000-01	10.11	1468.45	2612.97	1844.014	23.873	697.97
2001-02	10.521	1543.49	2822.70	1956.13	24.933	712.44
2002-03	10.949	1623.17	3148.5	3067.71	26.021	860.13
2003-04	11.3954	1702.19	3645.47	3363.44	27.142	976.44
2004-05	11.859	1786.99	497.96	3729.38	28.257	1244.17
2005-06	12.342	1881.13	4978.86	4188.84	29.4941	1502.42
2006-07	26.101	5007.58	793.98	4716.63	59.461	1825.38
2007-08	27.279	5581.90	7907.59	5329.79	62.634	2020.17
2008-09	29.808	6217.53	8808.05	-----	65.935	-----
2009-10	29.808	6938.35	9829.19	-----	69.538	-----

Source: Annual Report, 2009-2010, Ministry Of Micro, Small And Medium Enterprise

By taking the above said indicators into account table 1 highlights the performance of MSMEs in India from 1999-2010. The table shows the time series data on various economic parameters of performance of this sector.

Significantly, the MSME sector has maintained a higher growth rate vis-à-vis the overall industrial sector during

the past decade. According to a survey, exports from these enterprises have been on the rising trend, despite increased cost of raw materials, sluggish global demand and stiff international competition. Today, the sector produces a wide range of products, from simple consumer goods to high-precision, sophisticated finished products. It has emerged as a major supplier of mass consumption goods as well as a producer of electronic

and electrical equipment and drugs and pharmaceuticals. An impetus to the sector is likely to have a multiplier impact on economic growth. MSME constitute over 90 per cent of total enterprises and generating high rates of employment. In India too, MSMEs play a pivotal role in the overall industrial economy of the country and it account for a major share of industrial production and exports. With its agility and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and

recession.

Comparison of the MSME sector with the overall Industrial Sector

The growth of MSMEs can also be measured by comparing the growth rate of it with overall industrial sectors. The increased growth rate of as compared to other industrial sector highlights that this sector has an increasing trend of development in the economy. (Table 2)

Table 2: Comparative Analysis of the MSME Sectors with the Overall Industrial Sector

Year	Growth Rate of MSME Sector (per cent)	Overall industrial sector (per cent)
2002-03	8.68	5.70
2003-04	9.64	7
2004-05	10.88	8.40
2005-06	12.32	8.2
2006-07	12.60	11.6
2007-08	13.00	8.5
2008-09	-----	2.8
2009-10	-----	10.4

Source: Annual Report of Ministry of MSME, 2010-11.

Table 2 focuses on this comparison. From the table it is found out that in the year 2002-03 the growth rate of other industrial sector is 5.70 and it is 8.68 in case of MSMEs. In 2007-08, the growth rate of MSME is much higher as compare to overall industrial sector. It is also found out that growth percentage is fluctuating randomly for different years but in case of MSME it is increasing in nature.

Contribution of MSMEs in GDP

MSME can be rightly called as the backbone of the GDP of India. This sector in India is growing at an

exceptionally fast rate due to which it is proving to be beneficial to the Indian economy. However, there are some important points that need to be considered for further development of the MSME sector. Let us first analyze the current figures related to the MSME sector in India. The contribution of the MSME sector to the entire output of the country is 40 per cent. Currently, there are over 11 million MSME units in India that produce more than 8000 products. 90 per cent of the industrial units in India belong to the SME sector. These enterprises or units contribute 35 per cent to the Indian industrial export. (Table 3)

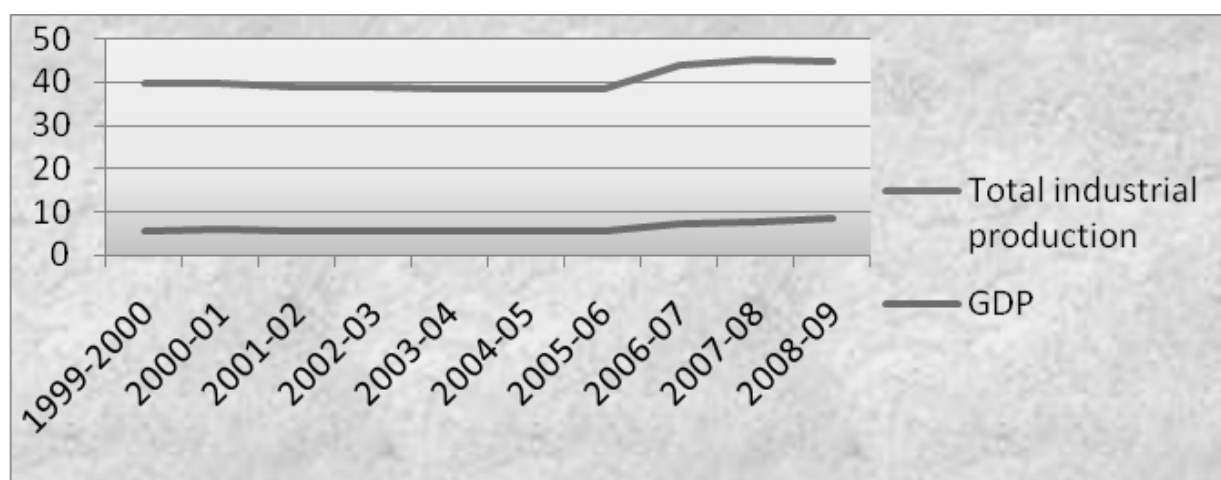
Table 3: Contribution of MSMEs and GDP

Year	Total industrial production	GDP
1999-2000	39.74	5.86
2000-01	39.71	6.04
2001-02	39.12	5.77
2002-03	38.89	5.91
2003-04	38.74	5.79
2004-05	38.62	5.84
2005-06	38.56	5.83
2006-07	44.12	7.44
2007-08	45.24	8.00
2008-09	44.86	8.72

Source: Annual Report of ministry of MSME, 2010-11

From the table it is found out that total production increases from 39.74 which is 5.86 GDP to 44.86 i.e., 8.72 GDP. From year to year the total industrial production of MSME and GDP is showing an increasing

trend. So, it is found out that the contribution is showing an increasing trend throughout the years. The graphical presentation of contribution of MSMEs and GDP is given. (Graph 1)

Graph 1: Contribution of MSMEs and GDP

Problems and Measures to Overcome the Hurdles
Despite constituting more than 80 % of the total number

of industrial enterprises and supporting industrial development, many MSMEs in India have facing a

number of problems like sub-optimal scale of operation, technological obsolescence, supply chain inefficiencies, increasing domestic and global competition, fund shortages, change in manufacturing strategies and turbulent and uncertain market scenario.

Due to various constraints the growth rate of MSME is affected. Some of these include:

- Fund and finance at cheaper rate is not available sufficiently.
- Skilled labour, research and developmental facilities and marketing channels are accessed limitedly.
- Difficulty in the part of lenders to perfectly assess the risk premium properly.
- Difficulty in accessing adequate and timely finance on competitive terms.
- Turnover for the purpose of presumptive taxation of small businesses rose to Rs 60 lakh.
- High cost of credit.
- Collateral requirements.
- Limited access to equity capital.
- Problems in supply to government departments and agencies.
- Procurement of raw materials at a competitive cost.
- Problems of storage, designing, packaging and product display.
- Inadequate infrastructure facilities, including power, water, roads etc.
- Low technology levels and lack of access to modern technology.
- Absence of a suitable mechanism which enables the quick revival of viable sick enterprises and allows unviable entities to close down speedily;
- Issues relating to taxation, both direct and indirect, and procedures thereof.

To solve the various problems of MSMEs the government has taken necessary steps. The Government is planning to increase financial assistance for micro, small and medium enterprises (MSMEs) to

80 per cent of their capital requirements in the 11th Five Year Plan. This aid will go towards technology up gradation and plugging of financial gaps. It will be available for existing MSME clusters. Several banks have also focused on the MSMEs; in fact, some of them have launched specific funds to meet the capital requirements of MSMEs. Entrepreneurship development is one of the key elements for promotion of micro and small enterprises, particularly, the first generation entrepreneurs. Entrepreneurship involves the creation of employment and wealth, which is a major means for inclusive development. Hence, entrepreneurship development has been one of the priorities in countries the world over and it also serve as a catalyst for the commercialization of knowledge and contributes to economic growth over and beyond the contributions of R&D and human capital.

Globalization & MSMEs in India

With the liberalization and globalization of the Indian economy, the small enterprises in India have unprecedented opportunities on the one hand, and face serious challenges, on the other. While access to global market has offered a host of business opportunities in the form of new target markets, possibilities to exploit technological advantage, etc., the challenges in this process have flowed mainly from their scale of operation, technological obsolescence, and inability to access institutional credit and intense competition in marketing. The Government of India is fully aware of the challenges of globalization and has taken appropriate measures for preparing the Micro Small and Medium Enterprises (MSMEs) to meet the challenges of liberalization and globalization. Taking a view of the whole situation, the Government has put in place several measures to help small enterprises to become globally competitive. These include schemes /programmes for technology up gradation, development of clusters of such industries, making collateral free bank credit available up to US\$ 1, 25,000, creating

awareness among these industries regarding export-related issues, etc. The Ministry of Micro, Small & Medium Enterprises (MSME) in India also conducting workshops on various aspects of WTO, Anti-dumping seminars, IPR, etc. to sensitize the MSMEs entrepreneurs and other stakeholders about the likely impact of liberalization and globalization. The Micro Small and Medium Enterprises Development (MSMED) Act, 2006 has been formulated as a response to the long-standing demand of the MSMEs sector, the emergent need to provide a legal framework to address the developmental concerns of what is globally known as "small and medium enterprises". The Act, inter-alia, provides the first-ever legal framework to facilitate the promotion and development of micro, small and medium enterprises (MSME), which comprises both manufacturing and services entities. It defines 'medium enterprises' for the first time and seeks to integrate the three tiers of these enterprises, namely, micro, small and medium. Establishment of specific Funds for the promotion, development and enhancing competitiveness of these enterprises, notification of schemes/ programmes for this purpose, progressive credit policies and practice, more effective mechanism for mitigating the problems of delayed payments to MSEs, etc. are some of the other features of this Act. The Ministry of MSME has also taken a view, in the light of liberalized provisions of the MSMED Act, 2006 to do away with the restrictive 24 per cent ceiling prescribed for equity holdings by industrial undertakings, whether domestic or foreign, in the erstwhile Small Scale Industries (now SMEs). This coupled with an expected legislation on Limited Liability Partnership (introduced in the Parliament by the Ministry of Corporate Affairs) is expected to pave the way for greater corporatization of the Small & Medium Enterprises- thereby enhancing their access to equity and other funds from the markets of these products in keeping with the global standard.

Conclusion

MSMES have contributed significantly to the national income through industrial production and exports. It provides employment opportunities to different categories of skilled and semi skilled labours. The given objectives in this article are found to be true. It helps in creating and developing the entrepreneurial base of the nation by supporting the enterprises through supply of raw materials and various components required for the production. Therefore this sector must be given importance by the government and development of this sector should be enhanced by the government. The growth of MSMEs as a result of the growing economy will help the economy to be a big giant in the corporate world. They will need to retain their key people and ensure that they are shown a clear vision, goal and career prospect in order to keep contributing to the organization for a long time.

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