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A STUDY ON THE ROLE OF MSMEs IN SUSTAINABLE DEVELOPMENT OF INDIAN ECONOMY**Mateen Ahmed Siddiqui**

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Abstract: *The MSME sector is considered as a vibrant and dynamic sector in the industrial scenario of India and the sector acts as an engine for the economic growth of the country by means of its involvement towards employment creation, export earnings, production and supporting in satisfying the requirement of medium and large-scale industries. Countries like India that are densely populated and industrially progressive are extremely depending on this sector for promotion of employment opportunities for the masses of the country and attaining the balanced economic and regional development. The key focus areas for the growth of MSMEs are finance, technology, infrastructure, marketing, entrepreneurship development and conducive regulatory environment. This paper analyzes the growth and development of Indian MSME sector in the contemporary scenario and its role in attaining sustainable development of the economy.*

Keywords: MSME, Employment, GDP, Entrepreneurship and Regional Development

Introduction

MSME sector has been playing a prominent role in the sustainable development of Indian economy for the past seven decades. This sector has emerged as a vibrant and dynamic sector and as an engine of growth. According to planning commission there are 3.6 crore micro, small and medium enterprises (MSMEs) units in India which account for 45 per cent of total gross value of manufacturing output, 30 per cent of direct exports and 15 per cent of indirect exports, provides employment to nearly 10 crore people, besides having an investment of 6.2 lakhs crores. In India Small and Medium Enterprises sector provides maximum employment next only to agricultural sector (Sivayya & Dass 1987). The MSME sector has the potential to spread industrial growth across the country and can be a major partner in the process of inclusive growth. In recent years, the MSME sector has consistently registered higher growth rate compared with the overall industrial sector. MSMEs are complementary to large industries as ancillary units. The growth of this sector also contributes extensively in the improvement of entrepreneurial skills amongst the people, decentralization of ownership, elimination of monopoly in the market, prevention of concentration of wealth and power and to make sure the balanced economic, social and regional development of the country.

Objective of the Study

- To analyze the growth and performance of Indian MSMEs in present scenario
- To find out the present problems faced by MSMEs
- To study the contemporary scenario of financing to the MSMEs

Review of Literature

An extensive review of literature forms an important part of the study; a review of few of the studies is discussed: Acs, Zoltan and Audretsch (1990) observed the fact that though SMEs account for a very small fraction of total business Research & Development (R&D), a large body of evidence shows that SMEs contribute greatly to the innovation system by introducing new products and adapting existing products to the needs of customers. Small firms account for a larger share of new product innovation given their low R&D expenditures. Maillat (1990) observed that the major problem for Small and Medium Enterprises (SMEs) is to create a generation of true entrepreneurs, characterized by qualities of responsibility, spontaneity, imagination, capacity to predict and to adapt to change by detecting new opportunities, development strategies, identifying new resources and relational know-how with people and environment. Armstrong and Taylor, (2000) assessed that

SMEs are able to create a diversified and flexible industrial base by creating a pool of entrepreneurs willing and able to take risks leading to an energetic enterprise culture. Yoki Nikaido (2004) evaluated that the government role of protecting Small Scale Industries (SSI) from large and foreign firms by reserving products and ensuring them with markets has hindered the growth of SSI, as SSI lacked any incentive to innovate, improve technologically and compete with large firms and prosper to become large. The government's policy from "protection" to "promotion" of SSI will help them in their growth. Constantin Mitrut & Daniela Iuminita (2006) emphasized that SMEs role in regional development cannot be overruled in spite of large firm's key role in production system. It was concluded that SMEs should utilize the funding opportunities for their development, and the regulatory bodies should remove of any administrative, financial, legal, barriers that still hinder SME start-up and development. Armstrong and Coyle, (1999) in their study observed that the main hurdle for lack of competitiveness of SMEs is outdated technology, unavailability of in-house human expertise and poor financial resources. Bhavani (2002) studied the impact of globalization on the different sub-sectors in small enterprises and viewed that, in order to survive SSI should improve productivity, quality, reduce cost and should substantially improve their technology. Gohill, Mike (2009) evaluated the problems faced by Indian small business sector in this transformation era, and viewed that less than 5 percent of the small businesses are successful remaining continues to function with various problems, prominent among them is lack of managerial experience of entrepreneurs.

MSMEs in the Developing World

In much of the developing world, MSMEs are the only pragmatic employment opportunity for millions of impecunious communities. As per the data available with the planning commission in their eleventh five-year plan (2007-2012) A significant percentage of MSMEs in developing countries are involved in traditional activities serving small, localized markets with little or no technological dynamism. In reality, few 'graduate' into larger or more modern technologies. The role of MSMEs in the economic growth need not be over-emphasized and their vivacity is a clear pointer to the health of the economy. The importance of small and medium enterprises has not diminished even in the developed economies, in fact it has found to be highly steady in many of them. A composition of small and medium enterprises in different economies in Asia pacific region is shown in Table 1. It is evident from the above table that small and medium enterprises are gaining distinction in the global developmental efforts and is not confined to one country or continent. They constitute towards more than 90 per cent of the total units and contribute a major share in the output of these countries.

Table 01: Comparison of SMEs in Asia-Pacific Region

Country	SMEs as percent of all enterprises	SME employees as percent of the total employed population
Hong Kong	98.0	60.0
Japan	98.9	69.2
Malaysia	96.1	45.0 (manufacturing)
Philippines	99.6	70.0
Korea	99.8	86.7
Singapore	99.7	57.0
Taiwan	97.7	68.8
Thailand	99.7	60.0

Source: White Paper on Small and Medium Enterprises in Taiwan, 2006. Taiwan Ministry of Economic Affairs <http://www.moeasmea.gov.tw/eng/2006whitepaper/2006white.asp>

Growth and Performance of MSMEs in India

MSMEs play a principal role in Indian economy in terms of employment, production and export potential. These enterprises have developed appreciably since 1960, when there were only 12,000 small and medium enterprises, providing employment to nearly 10 lakh people of which, direct employment was 1.85 lakh; annual production level was Rs. 8.75 crore. (DC MSME, 2001-02). MSMEs recorded a high rate of growth since liberalization in spite of solid contest from large scale sector and the multinational corporations. Employment generation is the main purpose of starting industries. Government considers that, one of the fundamental objects of industrialization is to provide high and stable level of employment. The survey of World Bank conducted as early as in

1978 revealed that a big push to small scale industries is the way to generate employment opportunities in the developing countries like India. In India Small and Medium Enterprises sector provides maximum employment next only to agriculture sector (Sivayya & Dass 1987). The overall performance of MSMEs is shown in Table 2.

Table 02: Overall Performance of MSMEs between 2006-07 to 2014-15

#	Year	Total Working Enterprises (in lakh)	Employment (in lakh)	Market Value of Fixed Assets (in crore)
1	2006-07	361.76	805.23	868,543.79
2	2007-08	377.36	842.00	920,459.84
3	2008-09	393.7	880.84	977,144.72
4	2009-10	410.8	921.79	1,038,546.08
5	2010-11	428.73	965.15	1,105,934.09
6	2011-12	447.64	1,011.69	1,182,757.64
7	2012-13	467.54	1,061.40	1,268,763.67
8	2013-14	488.46	1,114.29	1,363,700.54
9	2014-15	510.57	1,171.32	1,471,912.94

Source: Ministry of MSME, Annual Report 2015-16

The MSMEs not only generate the highest employment per capita investment, but they also provide employment to villagers and people living in remote areas so that they do not migrate to the urban areas. The growth in production of MSMEs has been one of the most encouraging features of Indian industrial economy since independence. There has been a twenty-fold increase in production for MSMEs which indicates that MSMEs have faced the global challenges bravely and have performed tremendously in the present scenario. The MSME share in the gross industrial output as compared to manufacturing and services is shown in Table 3.

Table 03: Contribution of MSME sector in GDP and Output

#	Year	Gross value of output of MSME manufacturing sector(in crore)	Manufacturing sector MSME	Services sector MSME	Total	Share of MSME manufacturing output in total manufacturing output (percent)
1	2006-07	1198818	7.73	27.40	35.13	42.02
2	2007-08	1322777	7.81	27.60	35.41	41.98
3	2008-09	1375589	7.52	28.60	36.12	40.79
4	2009-10	1488352	7.45	28.60	36.05	39.63
5	2010-11	1653622	7.39	29.30	36.69	38.50
6	2011-12	1788584	7.27	30.70	37.97	37.47
7	2012-13	1809976	7.04	30.50	37.54	37.33

Source: 1. Fourth All India Census of MSME 2006-07, MSME, Annual Report 2015-16.

2. National Account Statistics (2014), CSO, MoSPI. 3. ASI, CSO, MoSPI.

The MSMEs contributes extensively to the country's manufacturing output, employment and exports and is accredited with generating the highest employment growth as well as accounting for a major share of industrial production and exports. The labour intensity of the MSME sector is much higher than that of large enterprises. MSMEs comprise more than 80 percent of total enterprises in most of the economies. The MSME sector constitutes a major share in total value added in Gross Domestic Product and there has been a structural relationship between the MSME sector's growth and overall growth of the industry and the economy as shown in Table 4. According to the survey carried by the ASSOCHAM, the Small and medium enterprises contribution to the Gross Domestic Product would increase to 22 per cent in the next 3 years, on account of increased production owing to technological up gradation. The GDP contribution of MSME sector and total industrial sector is shown in Table 4. Accordingly, the Government initiated the policy of de-reservation and the number of reserved items declined from 836 in 1991 to 21 in 2009 and presently there are no items which are reserved for production for MSMEs. This policy has helped the segment in enlarging the scale of operations and also paved the way for entry of large enterprises in the manufacture of these products in keeping with the global standards.

Table 04: Contribution of Micro, Small and Medium Enterprises in GDP between 1999-2000 to 2011-12

Year	Contribution of MSMEs (percent) at 1999-2000	
	percent of Total industrial production	percent of GDP
1999-00	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	42.02	7.44
2007-08	41.98	7.81
2008-09	40.79	7.52
2009-10	39.63	7.49
2010-11	38.48	7.42
2011-12	37.52	7.26

Source: Ministry of MSME Annual Report 2009-10. (The data for the period up to 2005-06 is Only for small scale industries (SSI), Subsequent to 2005-06, data with reference to micro, small and medium enterprises are being reflected)

MSME and total industrial Exports

One of the most significant achievements of the MSMEs has been its contribution in the exports for the country. The share of MSME exports in overall exports of the country increased rapidly from 15.6 per cent in 1973-74 to 33.12 per cent in the year 1992-93. The exports from this sector has increased from Rs. 17,784 crores in 1992-93 to Rs. 2,02,017 during the year 2007-08, showing more than eleven-fold increase. Moreover, it is a fact that even after allowing MNCs due to globalization of economy; the MSMEs were able to compete with them even in the export market. It shows that MSMEs sector is able to face the competition boldly, and had best utilized the opportunities available on account of liberalization. The export performance of the MSME sector could also be judged from the point that the quality of exports has improved, as the present industrial scenario in India compels an organization to be quality conscious.

Table 05: MSME and total industrial Exports between 1992-93 to 2008-09

#	Year	Total exports (Rs. Crores)	MSME Exports (Rs. Crores)	percent share of MSMEs Exports
1	1992-93	53688	17784	33.12
2	1993-94	69751	25307	36.28
3	1994-95	82674	29068	35.15
4	1995-96	106353	36470	34.29
5	1996-97	118817	39248	33.03
6	1997-98	130100	44442	34.16
7	1998-99	139752	48979	35.04
8	1999-00	159561	54200	33.96
9	2000-01	203571	69797	34.28
10	2001-02	209018	71244	34.08
11	2002-03	255137	86013	33.71
12	2003-04	293367	97644	33.28
13	2004-05	375340	124417	33.14
14	2005-06	456418	150242	32.91
15	2006-07	571779	182538	31.92
16	2007-08	655864	202017	30.80
17	2008-09	840755	NA	NA

Source: 1. Ministry of MSME, Annual Report 2009-10, 2. Economic Survey 2009-10.

As seen from Table 5 that MSME exports have maintained a growth rate of above 30 per cent throughout the study period. There was a gradual increase in exports from MSME sector and also an increase in the percentage share of MSME sector in the exports of the country. The direct

exports of MSME sector is 30 per cent of the total exports', apart from this nearly 15 percent exports are indirectly contributed by them. (TANSTIA, 1995)

Comparative Growth Rates of SME Sector and Total Industrial

This contribution of SME in the total industrial sector is very impressive in view of the fact that from the year 1992-93, the economy on account of the liberalization, privatization and globalization has become an open economy and the SMEs were exposed to the global environment. According to a study by the ASSOCHAM, the MSME sector contribution will increase to 44 per cent of the total exports if the modernized technology is taken up. Since economic reforms started in 1991, the MSMEs have achieved a consistently higher rate of growth as shown in table 6.

Table 06: Comparative Growth Rates of SME Sector and Total Industrial Sector between 1993-94 to 2007-08

Year	SME growth rate	Industrial sector growth rate
1993-94	5.65	6.00
1994-95	10.44	9.10
1995-96	11.49	13.00
1996-97	11.29	6.10
1997-98	9.19	6.70
1998-99	7.84	4.10
1999-00	7.09	6.70
2000-01	8.04	5.00
2001-02	6.06	2.70
2002-03	8.68	5.70
2003-04	9.64	7.00
2004-05	10.88	8.40
2005-06	12.32	8.10
2006-07	12.60	11.5
2007-08	13.00*	8.0

Source: Ministry of MSME Annual report 2009-10, * Projected

Note: Growth rates from 2002-03 onwards are as per the Index of Industrial Production (IIP) base 2001-02 =100 and those for earlier years are as per IIP base 1992-93=100.

Table 07: Distribution of Number of MSMEs by their Type of Formation

#.	Year	Micro	Small	Medium	Total
1	2007-08	1,53,110	16,730	467	1,72,703
2	2008-09	1,70,262	18,792	702	1,93,026
3	2009-10	1,85,180	23,870	1,409	2,13,206
4	2010-11	2,05,112	29,125	1,263	2,38,429
5	2011-12	2,42,539	34,225	2,949	2,82,428
6	2012-13	2,75,867	41,502	5,449	3,22,818
7	2013-14	2,96,526	59,127	7,338	3,62,991
8	2014-15	3,46,206	70,933	8,219	4,25,358
9	2015-16	1,15,540*	14,582*	571*	2,17,854*

Source: The state/UT Directorates of industries & MSME development institutes

Problems faced by MSMEs

The MSME problems could be broadly classified into internal and external. The internal problems are those which are the outcome of internal course of management of an enterprise and are related to a single unit whereas external problems are those which are generally faced by all enterprises in the industry and are beyond their control (Desai, V. 2006). The internal and external problems as assessed from different studies are shown below in Table 8. MSMEs face a tough competition from their global counterparts due to liberalization, change in manufacturing strategies, technological changes, turbulent and uncertain market scenario. The central issue of concern for the growth of small industry is how to strengthen its competitiveness. To sustain their key role, MSMEs need support in defining their specific technological and organizational needs and in finding the right approach to finance to these needs.

Table 08: Internal and External Problems of MSMEs

Problems	External	Internal
Finance	Non-availability of finance Access to finance Excessive collateral security	High cost of borrowings Inadequate finance Recovery from debtors Low promoters' contribution
Managerial	Locational disadvantage Government price controls.	Lack of technical know-how Absence of long term planning Lack of management skills
Marketing	Market saturation. Weak market demand Competitive environment of market	Lack of sales promotion Limited local market Price of the product is high Dependency on large scale industries Lack of marketing research
Raw material	Raw material not available Imports are difficult	Poor inventory management
Technological	Delay in delivery of machines	Obsolete Plant and Machinery Poor capacity utilization. Inadequate maintenance Transport bottleneck
Labour	Unavailability of skilled Labour	Labour Absenteeism / turnover High rates of wages / salaries Inefficient handling of labour problems

Financing of MSMEs Sector

From a financial institution point of view the purpose of extending developmental credit facility to the MSMEs is to ensure that these enterprises utilize the amount for the productive purposes, generate surplus profits and repay the loans to the banks and financial institutions from the surplus generated. Since the liberalization of the Indian economy in 1991, MSME financing has broadened and its services intensified. With the entry of private banks, local area banks, foreign banks, regional rural banks and cooperative banks, increased competition has led to a rush for lending to small and medium sector. The rapidity and extent of financial assistance granted by banks and financial institutions in meeting the term requirements of industrial sector over the years has become a huge structure of credit arrangement spread over the length and breadth of the country as shown in table 9. Industrial financing has thus been envisaged as a long term and continuous strategy for channeling the flow of credit for the expansion of the MSME sector. Though, the institutional network for industrial credit has grown substantially in quantitative terms but not qualitatively.

Table 09: Outstanding Bank Credit to MSMEs

Year	Public Sector banks	Private Sector banks	Foreign banks	All Scheduled commercial banks
2005	67800	8592	6907	83498
2006	82434 (21.6)	10421 (21.3)	8430 (22.1)	101285 (21.3)
2007	102550 (24.2)	13138 (26.1)	11637 (38.0)	127323 (25.7)
2008	151137 (47.4)	46912 (257.1)	15489 (33.1)	213538 (67.7)
2009	191408 (26.6)	46656 (0.0)	18063 (16.6)	256127 (19.9)
2010	278398 (45.4)	64534 (38.3)	21089 (16.6)	364001 (42.1)
2011	376625 (35.3)	87857 (36.1)	21535 (2.2)	486017 (33.5)
2012	396343 (5.24)	110514 (25.79)	21760 (1.05)	528617 (8.77)
2012 P	500250 (26.22)	152554 (38.04)	31993 (47.03)	684797 (29.55)

Source: Annual Report 2012-13 Ministry of MSME

Conclusion

It can be concluded that MSMEs play a mounting role in sustainable development of Indian economy. This role could be evaluated from their mammoth contribution in terms of GDP, employment, output, turnover, and exports. Indian economy which was sheathing at the time of independence, could gain adequate thrust on account of the increasingly role of MSMEs. This sector provides employment next to agriculture with 62 per cent of the population dependent on it. The government of India has given top priority to this sector as by increasing the investment limit for MSMEs and revising the policy of reservations which has given a boost to this sector. Though globalization has produced plentiful opportunities for this sector, but the severe competition has also brought up the risk of survival. One the biggest problem of Indian MSME sector is lack of adequate finance resulting in large sale sickness. It is true that much of the problems of the MSMEs could be healed if finances are available on time to SME sector. The government must instigate more steps for encouragement and development of the MSME sector, as they are labour intensive and their conception period is small.

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