

A Study of Micro, Small and Medium Enterprises; the Backbone for Economic Development of Indian Economy

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Abstract: Industrialization is an effective means to lead the economic and social progress in developed as well as developing countries around the world. Throughout the world MSMEs have been considered as a backbone for industrial development by contributing about 90 per cent of the world business. For all developing countries like India where poverty, unemployment and underemployment are the major problem of millions of people, the Micro, Small & Medium enterprises (MSMEs) has often been act as a growth engine by providing immediate large-scale employment, with lower investments. Apart from generating employment in large scale, this sector is able to occupy a prominent position Indian economy due to its contribution in reducing regional disparities, bringing economic growth in equitable manner, enhancing export capability of the Indian economy, and encouraging rural entrepreneurship. The main objective of the present this paper is having the objective to focus on the growth and contribution of MSME in Indian economy as well as to highlight the various policy measures adopted by the government of India for up gradation of MSMEs sector. This paper is quite descriptive in nature and data used for the present study have been collected mainly from secondary sources especially from the annual report published by Ministry of Micro, Small And Medium Enterprises for various years. The findings of this paper can give the scope to the entrepreneurs and the policy-makers must initiate and act collectively to facilitate growth in this sector.

Keynotes: Economic Development, Employment, Fixed investment, regional disparities, MSMEs, GDP,

I. INTRODUCTION

Worldwide Micro, Small and Medium Enterprises (MSMEs) are acting as economic growth specialist in developed as well as developing countries. For any country, MSMEs have been largely considered as a foundation stone for its notable contribution in the field of industrial development as well as employment generation. Globally this sector contributes more than 90% in the industrial development and more than 50% in the field of employment of workforce. Particularly in the developing countries like India, Small and Medium Enterprises is considered a highly integral part of business scenario. This sector is able to achieve unprecedented importance due to its distinctive feature of less capital investment and high labor absorption. As per the Development Commissioner of MSME (2001), the

sector has occupied the world second highest position in generating employment, which stands next to agricultural sector. This sector also plays an important role to alleviate poverty and encourage sustainable growth and equitable distribution of income, efficiently allocating the enormous labor supply and scarce capital by implementing labor intensive production processes, triggers private ownership, and boosts entrepreneurial skills in India. India has witnessed a remarkable growth of small scale sector which further helped to bring decentralized industrial development, better distribution of wealth, investment and encouraging entrepreneurial talent throughout the country. In India, nearly 40% of industrial production, 95% of the total industrial units, 35% of exports and manufacture of more than 6000 products have come from this sector. They also include various types of units ranging from traditional crafts to modern high tech industries and ancillaries that supply components to most modern large-scale industries. Thus, it can be said that Micro, Small and Medium Enterprises are the backbone for economic growth of a country.

II. DEFINITION OF SMEs

Prior to the MSME Act 2006 the Industrial Development and Regulation Act 1951, was defined SMEs sector, as Small Scale Industries and its constituent tiny and auxiliary units. The Micro Small and Medium Enterprises Development Act have broadened the definition as well as coverage of the micro and small enterprises. According to this Act MSME includes both manufacturing as well as service sector on basis of investment limit. In case of manufacturing sector, investment limit for micro enterprise does not exceed twenty five lakh rupees; for the small enterprise the investment in plant and machinery is more than twenty five lakh rupees but less than five crore rupees; whereas investment limit for medium enterprise should more than five crore rupees but should not exceed ten crore rupees.

In case of the services sector, the investment limit for the micro enterprise should not exceed ten lakh rupees; for small enterprise the investment in equipment should more than ten lakh rupees but should not exceed two crore rupees and for medium enterprise the limit should range between two crore

rupees and five crore rupees. The investment limit of MSMEs in both manufacturing as well as service sector has been summarized in the Table no.1

Table 1: Classification of enterprises

Enterprises	Investment in Plant& Equipment of Manufacturing unit(Rs)	Investment in equipment of Service unit(Rs)
Micro Enterprises	> 25 Lakh Rupees	>ten lakh Rupees
Small enterprise	25 lakhs to below five core	10 lakh rupees to less than 2 crores
Medium enterprises	Five core rupees to less than ten crore rupees	2 crores to less than five crore

Source: Micro Small & Medium Enterprises Development (MSMED)Act 2006

III. STUDY OF LITERATURE

To fulfill the objective of present study, a brief literature review has been done. Few of them have been presented following literature has been reviewed:

According to **Venkaresh and Muthiah [20]** the role of small & medium enterprises (SMEs) in the industrial sector is growing rapidly and they have the potential to be become a thrust area for future growth. They also focused that up gradation of SME sector is essential for the economic well-being of the nation.

In their article **Subramanyam and Reddy [19]** has presented an overview of Micro, Small and Medium Enterprises (MSMEs) in India and at the same time analyzed the performance of MSMEs in India. Their study has made a comparison of the growth of MSME sector with overall industrial sector and also investigated into the reason for the sickness of MSMEs. The study found that MSME sector has made significant contribution in India’s Gross Domestic Product and export earnings.

Kumar and Gugloth [11] in their study evaluated the performance of MSMEs in pre and post liberalization era. At the same time the study also analyzed the impact of globalization on the performance of MSMEs. Further it made a comparative analysis to find out the key parameters for MSMEs growth between pre and post globalization period. The findings of the study indicate that the small scale sector has grown rapidly over the years.

Christopher J. Green, Colin H. Kirkpatrick, and Victor Murinde, [4] highlights the various ways through which financial policies gives support to the growth of micro and small enterprises (MSEs). According to their study by getting

help and support from financial sector development policy MSME may contribute to poverty reduction in a appropriate manner. There research also reveals the changing role of MSEs in the development process and the access of MSEs to informal and formal finance, including the role of microfinance.(4)

UNIDO [15] in its study has made a comparison between small and high capital intensive enterprises particularly in developing countries. As per their study, in developing countries small enterprises with low investment is achieving more productivity of capital than do the larger, more capital intensive enterprises.

Dixit and Pandey [5] has developed a study where co integration analysis has been applied to examine the causal relationship between SMEs output, exports, employment, number of SMEs and their fixed investment and India’s GDP, total exports and employment (public and private) for the period 1973-74 to 2006-07. The finding of their study revealed that there is a positive relationship between SMEs output and India’s GDP.

Sandesara [17] studied the performance of SSIs producing reserved items collecting data from the second census conducted by the Ministry of SSIs. The study result revealed that due to more SSI firms has entered into the protected areas ,the capacity utilization by SSI in 1987-88 and their aggregate production in 1987-88 were both lower for reserved item in comparison to unreserved items.

Bhavani T.A. [3] in his paper highlights the importance of quality in employment generation by the SSIs and negates the short term attitude of increasing the volume of employment generation compromising with quality. The author argues that employment generation by the SSIs may be high in quantitative term but very low in quality which can be up graded by technological up gradation in that sector. He further viewed that advanced technology enable the small firms to create quality employment improving remuneration, duration and skill. (3)

Bargal et al. [2] have compared the performance parameters of SSIs in the pre and post liberalization era as well as examined the performance of SSI in relation to three important variables like GDP, output and exports. The study has come to the conclusion that in the period of nineties vis-à-vis the pre-reform years the annual average growth rate of different parameters of SSIs have declined. Further it reveals that there is an absence of any lead-lag causal relationship between exports and production in small-scale sector and GDP of Indian economy.

Singh et al. [18] article analyzed the performance of Indian and focused on new opportunities through various government policies for this sector. The findings of their study came to conclusion that there is a remarkable progress in the performance of SSI sector in terms of their units, production & employment levels .They also recommended for technology

development and strengthening of financial infrastructure to develop SSI and to achieve growth target.

IV. RESEARCH METHODOLOGY

The present study is highly descriptive by nature and mainly based on secondary data. Most of the data has been collected from the several Annual Reports on MSMEs and Handbook of Statistics on the Indian Economy published by Ministry of MSMEs and Reserve Bank of India (RBI), various journals, newspapers and white papers on Micro, Small and Medium Enterprises respectively. The justify the study, the researcher considers the time period from 2001-02 to 2010-12. Further the available data have been processed and analyzed by help of Compound Annual Growth Rate (CAGR) technique to examine the performance and growth of MSMEs in India, and presented in the following tables.

The objectives of the studies are as follows:

1. To highlights the contribution of SMEs with respect to total number of product, gross domestic product (GDP), employment, fixed investment in Indian economy.
2. To focus on the growth rate of MSME Sector in comparison to other sector in India.
3. To highlight the policy measures for the development of MSME by Indian government.

IV. CONTRIBUTION OF SMES IN INDIAN ECONOMY

A. Products of MSMEs

India has experienced more than 6000 products including both traditional as well as high-tech items, which are manufactured by the MSMEs sector.74% of the product include wood products, fabricated metal products, food and beverage, textiles, non metallic mineral, Product, wearing apparel, furniture, machinery and equipments, and personal and household goods while remaining 26% related to other category

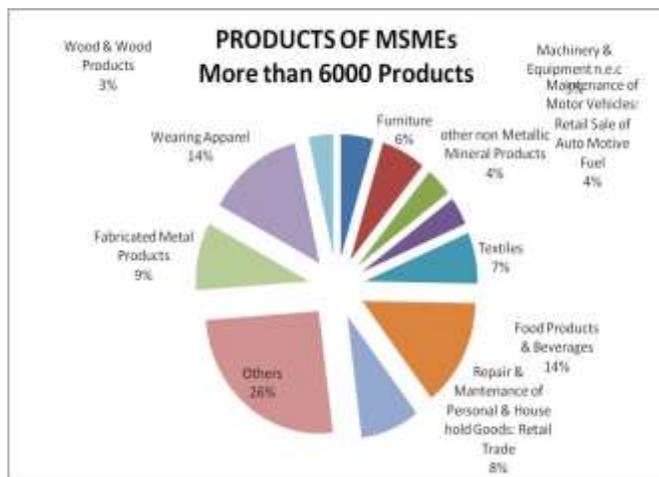


Chart-1: Products of MSMEs

(Source: - Final Report of the Fourth All India Census of Micro, Small & Medium Enterprises 2006-07: Registered Sector.)

B. Performance of MSME Sector in India

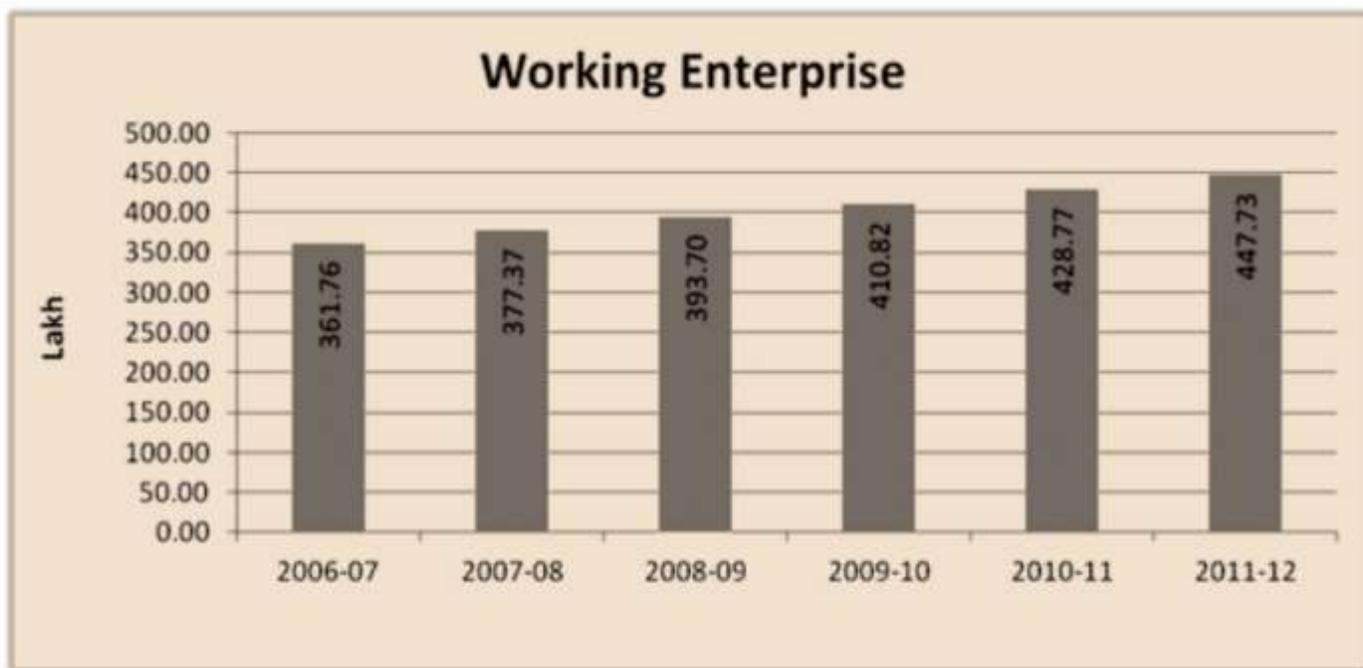
Table2. MSME Performance in terms of Units, Employment, Investments and Gross Output

Year	Total Working Enterprise (in Lakh)	Employment (in Lakh)	Market Value of Fixed Assets (In Crore)	Gross Output (In Crore)
II	III	IV	V	VI
2001-02	105.21	249.33	154349.00	282270.00
2002-03	109.49	260.21	162317.00	314850.00
2003-04	113.95	271.42	170219.00	364547.00
2004-05	118.59	282.57	178699.00	429796.00
2005-06	123.42	294.91	188113.00	497842.00
2006-07	361.76†	805.23†	868543.79*	1351383.45*
2007-08#	377.37	842.23	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
CAGR	12.83%	12.39%	18.45%	16.88%

(Source: Annual Report 2012-13, published by Ministry of Micro, Small and Medium Enterprises, Government of India)

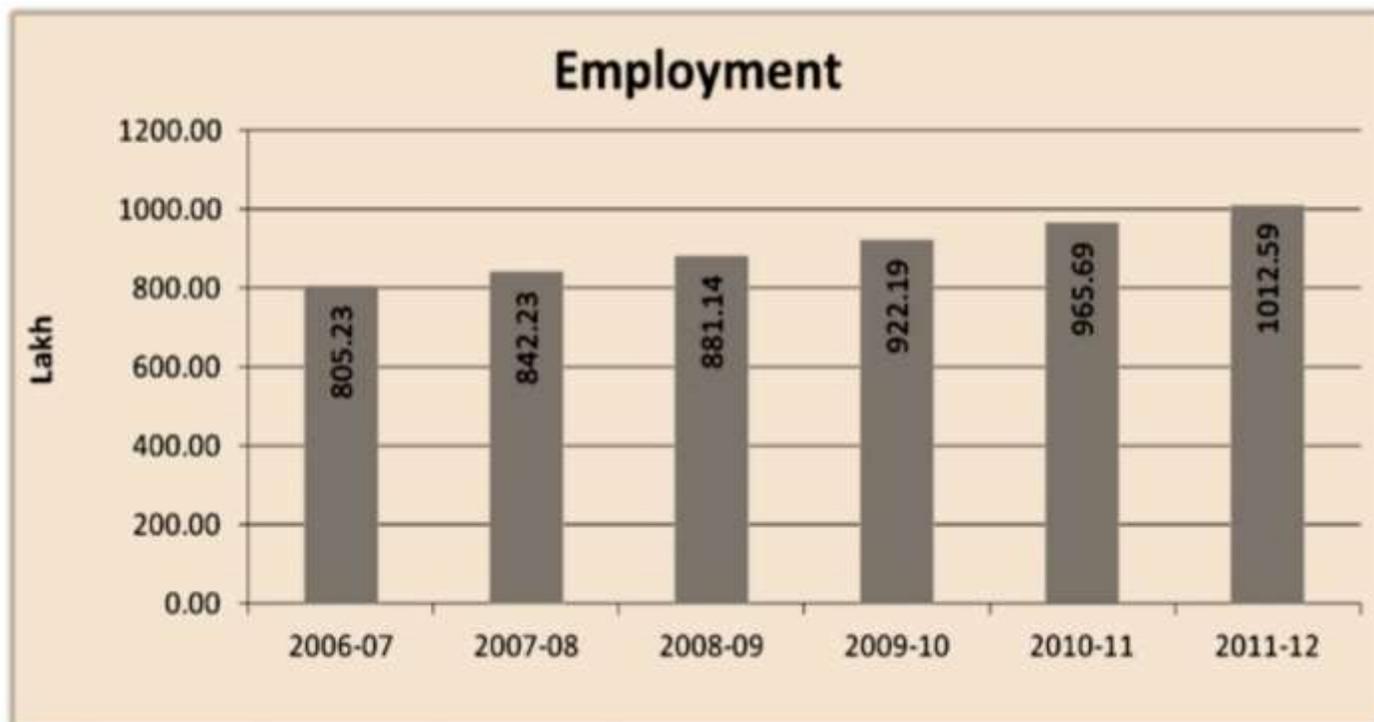
The data regarding the performance of MSME sector was collected from the assessment report of All India Census of the Sector. The Census was conducted in 2006- 07 whose and results published in 2011-12. It is clear from the table No. 2 that in India over the eleven years MSMEs have shown an increasing trend in terms of number of units, their investment in fixed assets, their gross output and employment generation. Following charts clearly shows that MSME has experienced approximately 14% growth in its performance with respect to number of enterprises and employment registered approx 20% growth in terms of fixed asset.

Chart-2: Performance of MSME Sector with respect to Number of Enterprises



(Source: Annual Report 2012-13, Ministry of MSME, Government of India)

Chart-3: Performance of MSME Sector with respect to Employment Generation



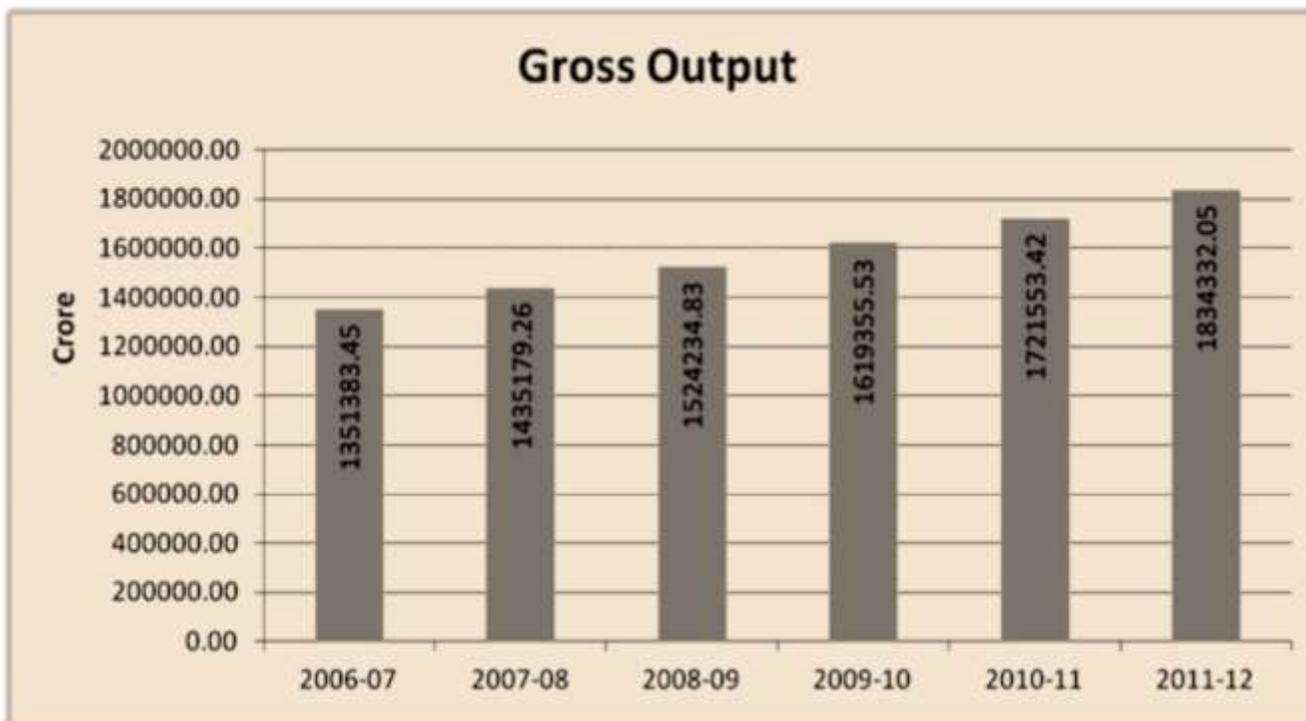
(Source: Annual Report 2012-13, Ministry of MSME, Government of India)

Chart-4: Performance of MSME Sector with respect to Market value and fixed asset



(Source: Annual Report 2012-13, Ministry of MSME, Government of India)

Chart-5: Gross Output in MSME Sector



(Source: Annual Report 2012-13, Ministry of MSME, Government of India)

C. Growth Rate of MSME in Comparison to Other Industrial Sector

Table-3: Comparative Growth rate of MSME Sector to Industrial Sector

Year	Growth % of MSME	Growth % of Over Industry
2001-02	NA	NA
2002-03	8.68	5.70
2003-04	9.64	7.00
2004-05	10.88	8.40
2005-06	12.32	8.00
2006-07	12.60	NA
2007-08	13.00	8.70
2008-09	Due to revised definition of MSMEs Sector, methodological	3.20
2009-10		10.50
2010-11		7.80

Source: Annual Report of Ministry of MSME for the year 2011-12

Table no.3 clearly shows that this sector contribute maximum growth of 13% during financial year 2007-08, and growth of overall Indian industries was least in the year 2008-09 i.e. 3.20% because of sub-prime crises in the world economy.

D. Contribution of MSME towards GDP

Table 4: Contribution of MSME sector (other than services) to the (GDP)

Year	Contribution to Total Industrial Production %	Contribution to Gross Domestic Product (GDP) %
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	45.62	7.20
2007-08	45.24	8.00
2008-09	44.86	8.72

Source: Annual Report of Ministry of MSME for the year 2010-11

Table No.4 highlights the MSMEs contribution in total industrial production and GDP over eight years. The data in the table clearly shows an increasing trend of industrial production due to MSME. During the financial year ending

2001-02 the contribution of MSME sector in total industrial production is 39.12% and in GDP only 5.77% which had reach 45% approx and 9% approx of the overall GDP of the country by the financial year ending 2008-09 which is quite appreciable.

E. Flow of Bank Credit to MSME

Table 5. Status of Outstanding Bank Credit to MSME in India (in crores)

Sl. No	Year	Public Sector Banks	Private Sector Banks	Foreign Banks	All Scheduled Commercial Banks
01	2004-05	67800	8592	6907	83498
02	2005-06	82438	10421	8430	101285
03	2006-07	102550	13136	11637	127323
04	2007-08	151137	46912	15489	213538
05	2008-09	191408	46656	18063	256127
06	2009-10	278398	64534	21069	364001
07	2010-11	376625	87857	21461	485943
08	2011-12	395976	105085	19839	520900
	Avg.	205792	47899	15362	269077
	CAGR	25	37	14	26

Source: Annual Report of Ministry of MSME for the year 2012-13

Table no.5 throws the light on flow of bank credit to MSME. It clearly shows that in FY12, the total flow of banks credit to Indian MSMEs was Rs. 5, 20,900 cores, growing at a CAGR of 26% during FY04-FY12. With respect to PSBs, Prvt. SBs and FBs The average credit flow to MSME sector was Rs. 205792 Cr, Rs. 47899 Cr and Rs. 15 362 Cr respectively which account for 76%, 18% and 6% of total credit. Towards MSE lending public and private sector banks have registered impressive growth of 25% and 37% in FY12. However, in compared to private and foreign banks, Public Sectors Banks (PSBs) account for a major share.

V. GOVERNMENT INITIATIVE FOR THE GROWTH OF MSME IN INDIA

- With an intention to develop small and cottage industries a Cottage Industries Board was set up in 1947, which was divided into the following three boards like All India Handloom Board, All India Handicrafts Board, and All India Khadi and Village Industries Board during the First Five Year Plan. This board further added by three more boards like Small Scale Industries Board, Coir Board and Central Silk Board to carry the promotional and

developmental efforts for the entire field of small-scale and cottage industries.

- For long run and organized development of SSI Industries Development Organization (SIDO) was set up in 1954.
- National small Industries Corporation Ltd. (NSIC) was set up in 1955 to provide machinery and equipment support to small-scale units. It mainly provides its support on hire-purchase basis and helps to procure orders from government departments and offices.
- In order to provide technical help to SSI, number of branches of Regional Small Industries Service Institutes was set up.
- In 1955, with having the aim of providing factory accommodation and a number of common facilities like power, water, transport etc., at one place, the programme of Industrial Estates was initiated
- The programme of District Industries Centre (DICs) was introduced in May 1979 to facilitate a package which includes credit guidance, raw materials, training, marketing etc.
- In order to provide necessary technical assistance to rural industries, a Council for Advancement of Rural Technology (CART) was set up in October 1982.
- Several schemes like the Small Industries Development Fund (SIDF) in 1986, National Equity Fund (NEF) were introduced to provide financial assistance to small-scale industries in 1988 etc. and commercial banks were instructed to provide more preference to small-scale and cottage industries in terms of granting credit facilities.
- In 1989 the government has set up the Small Industries Development Bank of India (SIDBI) in 1989 with a specific aim of meeting the long standing demand of small-scale industries for which a separate Apex Bank has established to provide financial assistance to them,
- In 1991 government has made New Small Enterprise Policy to encourage the growth and development of small scale sector.
- To increase the expenditure limit on small-scale and cottage industries, Government has revised the expenditure plan According to Ninth plan (1997-2002), expenditure on small-scale and cottage industries was estimated Rs. 8,384 crore, which had revised to Rs. 10247 Crore in the 11th Plan. It has further been increased by 153.87 per cent in the 12th Plan.
- In order to face the competition from large-scale units, and give protection to small firms, Government has expanded reserved items from 77 to 124 in the Fourth Plan to 500 in 1977 to 799 items in 2001 to 2002.
- Purchase programme has launched give price and purchase preference to the SSI s to manufacture more and more product.
- The Integrated Infrastructure Development (IID) scheme has been extended to cover the entire country with 50 per cent reservation for rural areas.
- A new scheme named Market Development Assistance (MDA) was launched exclusively for the SSI sector to provide convenient and affordable market for their product.
- BSE and NSE has got approval from SEBI to create a platform for SME which is already in the operational mode. So that Indian SMEs can get an opportunity to raise funds from capital markets.
- To achieve the overall development of MSME National Council on Skill Development has set up. Under this council Ministry of MSME has conducted the skill development programmes for 478,000 people during FY12. Further this programme having the aims to train and create self employment opportunities as well as wage employment opportunities in the country by FY13.
- A cluster based approach has been adopted by Government of India to improve the productivity, competitiveness and capacity building of MSMEs. Approximately 477 clusters for diagnostic study, soft interventions and hard interventions and 134 infrastructure development projects has been taken by the government till January 2012

VI. CONCLUSION

Small and Medium Enterprises (SMEs) is a key to economic development by its remarkable contribution in manufacturing output ,employment, export , rural industrialization and, providing goods & services at affordable costs by offering innovative solutions and sustainable development to the economy as a whole. To make this sector to become more vibrant and significant player in development of the Indian economy the Government of India has taken various initiatives. This sector is having enough potential and possibilities to push-button accelerated industrial growth in our developing economy and well poised to support national programme like 'Make in India'. If the policy maker will realize the potential of this sector and show their interest and initiation to set up new strategies for the up gradation of this sector then surely MSMEs will be able to the emerging challenges of a globally competitive order.

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