

## **A CRITICAL EVALUATION OF THE CONTRIBUTIONS MADE BY THE MICRO, SMALL AND MEDIUM ENTERPRISES IN INDIAN ECONOMY**

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### **ABSTRACT**

Micro, Small and Medium Enterprises have been playing a vital role in the balanced economic growth of India. Today, Micro, Small and Medium Enterprises are operating across the sectors utilizing available domestic resources and producing more than 6000 quality products. The sector contributes a formidable portion to the nation's GDP, export and industrial production. This paper primarily focuses on the contributions made by Micro, Small and Medium Enterprises. It also aims to analyse the present status and future prospects of the sector in India. The study concludes that the MSME sectors contribute greatly to the overall balanced growth of the economy and it is suggested that the government should take measures to create environment which is conducive to smooth operation of the units.

**KEYWORDS:** Balanced economic growth, Domestic resources, Export, GDP, Industrial production, Micro, Small and Medium Enterprises.

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### **INTRODUCTION**

Indian economy has been witnessing economic deregulation in many ways since 1991. The policy makers implement the liberalization policies in all the sphere of the economy despite strident criticism from every nook and corner of the country. The very purpose of the loosening the economic policy is to achieve the targeted economic growth and to cope up with the global economic needs. Employment generation is top among the important aims. No economy can economically sustainable until and unless it generates adequate employment opportunities to its people. India like developing countries are concerned employment is crucial problem which hinder the economic growth of the country. SMEs plays an inevitable role in growth both in developing countries as well as developed countries as SMEs have been the important source of employment generation, output growth , ( Tambunan 2008). In India, role of SMEs have become very crucial as SMEs have potential to balanced distribution of income, reduction of poverty, generation of employment and growth in export, development of entrepreneurship, development of industry and rural economy. With over 44 million units SMEs contributes around 9% GDP, 45% of manufacturing output, 40% of the export of the country, SME units estimated to employ about 101million people.

Though the SMEs contribute a commendable portion o the nation's economy, it strives for adequate and timely support from government or from financial institutions. The major problems faced by SME are lack of sophisticated technology, low production capacity, lack of skilled managers, ineffective production and distribution strategy etc. As SMEs have great

potential to contribute much more to the economic growth, they should be necessarily provided financial, technical and other supports. The entrepreneurs should be empowered giving education and training so that acquires necessary skills to stand with global development.

SMEs help the countries having low level investment by contributing to socio-economic benefits (Gamage 2003). The SMEs had to face many challenges as well as they have got many opportunities due to the globalization of the country. SMEs faced problems such as lack of management efficiency, poor skill of employees, poor marketing strategy, lack of R&D and innovative technology (Grimsholm & Pobelete, 2010). Other problems faced by the SMEs were lack of finance ( Hussain, Farooq and Aktar 2012). There were lack of corporate governance and legal & regulatory framework are also hindering the growth of SMEs.

On this back ground, the researcher critically evaluates contributions and role of MSMEs in Indian economy.

### MEANING OF MSME

The term MSME encompasses a broad spectrum of definition and it varies from country to country. In India it is classified under Micro, Small, and Medium Enterprises on the basis of investment. The criteria like number of employees, sales and investment level are commonly used internationally to define SMEs. In India MSMEs are defined on the basis of their investment level as per MSME Development Act 2006. Manufacturing units are classified according to their investment in plant and machinery and service units are classified based on investment in equipment.

The table delineates the definition of MSMEs clearly

Description	Manufacturing Enterprises – Investment in Plant & Machinery	Service Enterprises – Investment in Equipments
Micro Enterprises	upto Rs. 25Lakhs	upto Rs. 10Lakhs
Small Enterprises	above Rs. 25 Lakhs & upto Rs. 5 Crores	above Rs. 10 Lakhs & upto Rs. 2 Crores
Medium Enterprises	above Rs. 5 Crores & upto Rs. 10 Crores	above Rs. 2 Crores & upto Rs. 5 Crores

### OBJECTIVE OF THE STUDY

The primary objective of the study is to evaluate critically the contributions made by the MSMEs to the balanced growth of the economy. The study also analyzes present status and future prospects of the MSMEs in India.

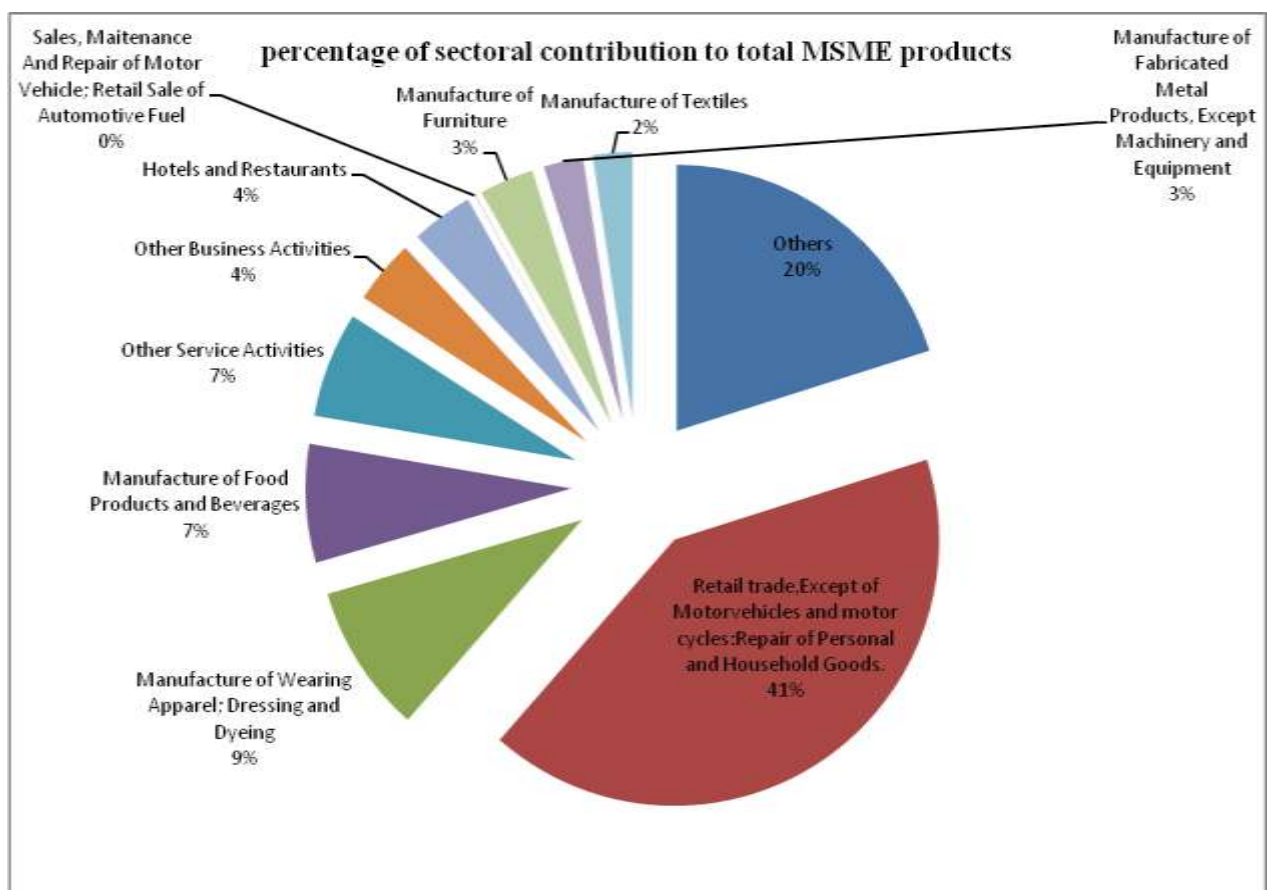
### SCOPE AND METHODOLOGY OF THE STUDY

The scope of the present study has been confined to the contributions made by the MSMEs to the Indian economy. The data for the present study have been collected from various secondary sources especially from the annual report published by Ministry of Micro, Small and Medium Enterprises for various years.

## ARE MSMEs THE BACK BONE OF INDIAN ECONOMY?

SMEs have great role in the balanced development of the economy. SME sector presently employs over 100 million people over 44 million units and SMEs accounts for 9% of the country's GDP. Annual report of Ministry of MSME states that the sector accounts for about 45% of total export of the country. SME sectors produce more than 6000 quality products. MSME sector, thus, shows greater opportunity for expansion and diversify its activities in various sectors. It is estimated that there are 1.6 million registered MSMEs in India and major portion of MSMEs working in India are not registered. MSMEs are dominated by micro enterprises with 94.9 percent share followed by small enterprises with 4.9 percent of share. These enterprises deployed throughout India by operating 55 percentages in rural India and rest operating in semi-urban and urban region of India. And hence the MSMEs contribute a commendable portion to the balanced growth of Indian economy. On the activity basis, if we are exploring, it can be seen that 67.1 percent of total registered units are manufacturing units, 16.8 percent of total registered units are service units and 16.1 percent units of total registered units are repair and maintenance units. From the diagram given below we can get some clearer picture about the distribution of 6000 units of MSMEs into their respective sectors.

**Figure 1**



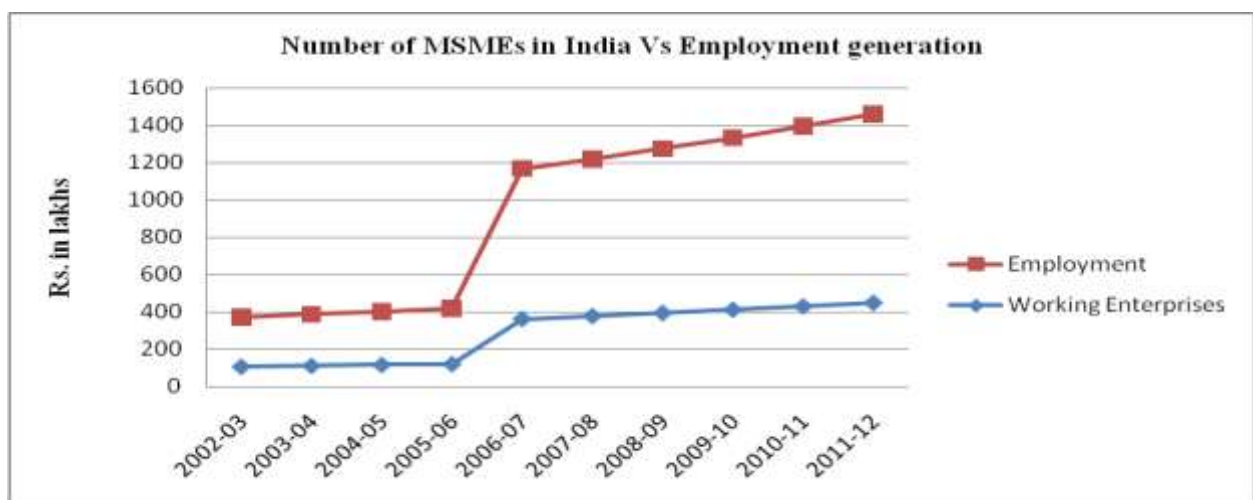
Source: Annual Report FY 12, Ministry of Micro Small and Medium Enterprises.

## GENERATING EMPLOYMENT OPPORTUNITIES

Employment opportunities are one among the important variables of economic growth of a country. Now a days, the Arab world is facing the problems created by its unemployed unrest people. No economy can economically sustain unless and until it provide lively hood to its local people. Traditionally the SMEs are labour intensive and alleviating unemployment problems to a great extent. Indian SME sector is the second largest employment generator next to agricultural sector. It employs about 101 million people and creates 4 million employment opportunities a year.

The number of MSMEs has been increasing steadily. In 1991 there were only 67.87 lakh units, but it increased multi folded by 2011- 2012. This change might be the result of conducive policy environment during the liberalization era. As MSMEs, generally are labour intensive, employment generation always follows the increase in the number of units. It seems to be a boon to rural people as MSMEs do not demand highly skilled employees and semi skilled and even unskilled people can be employed in such units.

**Figure 2**



*Source: Annual report FY 2012-13 , ministry of Micro, Small and Medium Enterprises, Govt. of India.*

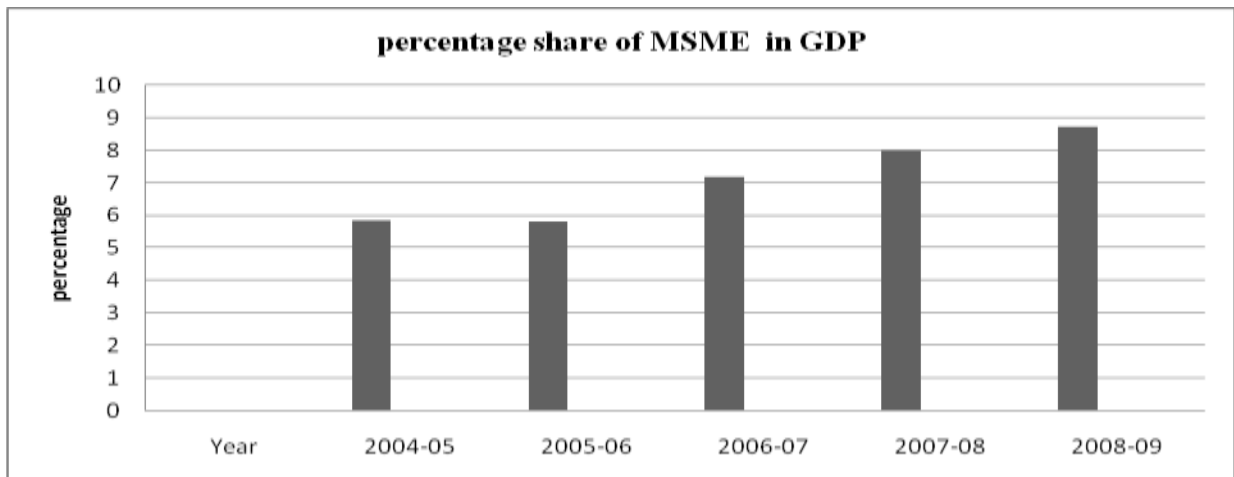
*Note: data up to FY 06 is for small scale industries and subsequently to which data is for MSMEs.*

The above plotted graph clearly shows that increase in number of units of MSMEs always followed by an increase in the employment generation.

## MAJOR CONTRIBUTOR TO GDP

MSME sector is a major contributor to nation’s GDP. News about GDP we listen to is alarming now a days. In the fourth quarter of 2012-2013 (January to March 2013) witnessed a slid of GDP to 4.8 percent. MSME sector constitutes an inevitable portion of GDP and hence it needs attention of the policy makers. The statistics show that the contribution of MSME to GDP is ever increasing. The below given graph delineates the percentage share of MSMEs in the nation’s GDP over the years. It has managed to increase from 5.8 percent 2004-05 to 8.72 percent in 2008-09

**Figure 3**



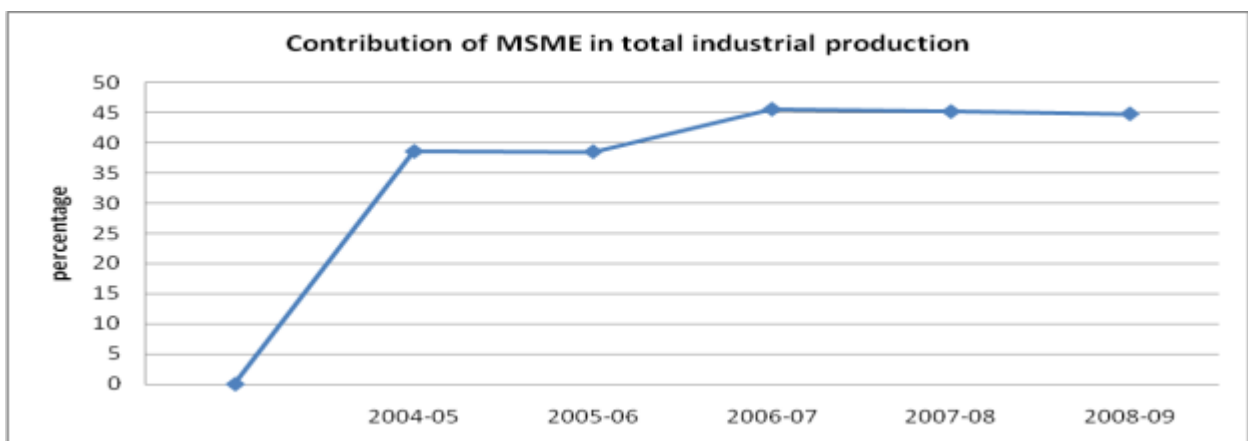
*Source: Annual report FY 12-13, Ministry of Micro, Small and Medium Enterprises, Govt. of India.*

*Note: Data for the period up to 2005-06 is for SSI and subsequent to 2005-06 is for MSME.*

### CONTRIBUTION TO INDUSTRIAL PRODUCTION AND EXPORT

MSMEs are, at present, operating in wide variety of sectors such as manufacturing, trade and services and there by constitute a formidable component of country's industrial production. Over the year MSMEs reached at a level on the optimum utilization of available domestic resources and produces quality products and services. The sector contributes much to the industrial growth of the country. The sector account for more than 90 of the percent Industrial units in India and it has been increasing impressively for last many years. MSMEs had an impact on various issues of the economy such as industrial progress, entrepreneurship, job creation, economic empowerment etc. MSMEs made possible an inclusive and balanced growth. Around 50% MSMEs are owned by rural people and hence increases the standard of living of people.

**Figure 4**

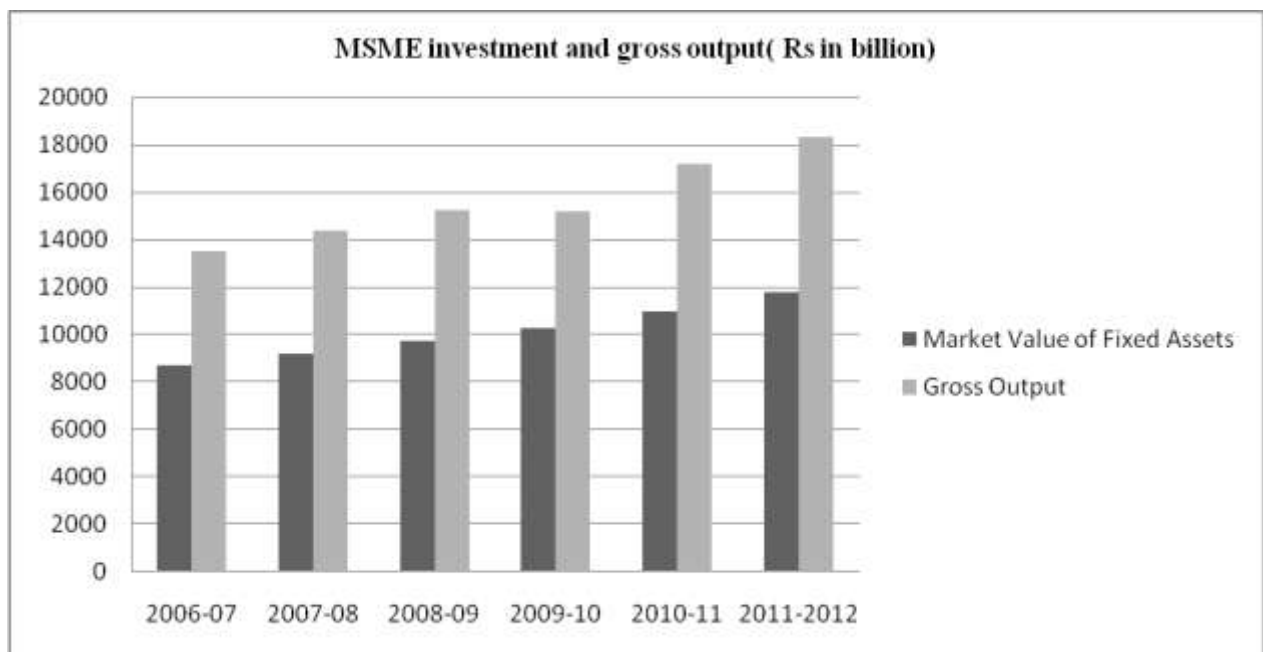


*Source: Annual report FY 12, Ministry of Micro, Small and Medium Enterprises, Govt. of India.*

*Note: Data for the period up to 2005-06 is for SSI and subsequent to 2005-06 is for MSME.*

As per the MSME Annual Report of FY 12 published by Ministry of Micro, Small and Medium Enterprises MSME contribute 45% of the total manufacturing output. MSME experiencing a significant increase in investment flows. The fixed investment in SME is ever increasing. Graph above shows the contribution of MSMEs to the total industrial production. It is very clear that around 50 percent of total industrial production is constituted by MSME. The total production of MSME sector is showing increasing trend. We can read it from the graph given below. The graph depicts that investment in fixed asset has increased from Rs 8685.44 billion in 2006 - 07 to Rs 11769.39 billion in 2011- 12 and total production shows an increase from Rs 13513.83billion in 2006-07 to Rs 18343.32 billion in 2011-12.

**Figure 5**



*Source: Annual report FY 2012-13, Ministry of Micro, Small and Medium Enterprises, Govt. of India.*

When we talk about country's export, it is noticeable that MSME contribute 40 percent of the total export. The current account deficit ( CAD ) have been subjected to hot debate during the third and fourth courter of 2012 -13 financial year. The alarming decline in the CAD can be, to a great extent, arrested by promoting the MSME sector though CAD is influenced by many other variables like economic turndown. The data show that the MSME always showing an increasing trend in the contribution to the total export of the country. It has an increase from Rs. 71244 crores in 2001-02 to Rs. 202017 crores in 2007-08.

### **INDUSTRIAL CLUSTERS: AN OPPORTUNITY TO MSME**

Now the sector has been in transition from traditional products to much more hybrid product and to the value added service segment. This transition made possible by the consortium of approach of MSMEs. With the advent of the industrial clusters, MSMEs started to achieve benefit of economies of scale, specialization and innovation. These clusters enable the single

units to get the benefits of both advantages of running small units as well as the benefits of economies of scale, and specialization. At present, there are more than 600 SME industrial clusters and 7000 micro enterprise clusters in India. Some of these clusters are very large in size which account for around 80% of products of selected product. The network benefited the sector in many ways such as enabling to get advanced technologies, to adopt better supply chain, to withstand global competition, to overcome clusters given access to better production technique and which enable the entrepreneur to introduce innovative products and services. Thus the entrepreneur could enter now segments which remain untapped. There are numerous success stories of MSMEs have been recorded in India. Many industrial zones are coming together to reap the benefits of being together.

### **FUNDING GAP: A CHALLENGE TO THE SECTOR**

Finance is the life blood of any business. The availability and access to both short term as well as long term fund at competitive price is necessary to the existence of the sector. The availability of timely and sufficient fund should be ensured to the MSME sector. Many banks are reluctant to extent loans to MSMEs due to reasons such as risk perception, lack of collateral etc. Many measures are proposed to make sure the availability of funds to MSMEs. SIDBI has targeted disbursement of around Rs. 10 billion during FY 11 to the sector. Government is drawing attention of Venture Capitalists (VCs) and private equity firms to the sector as measure to attract more funds. The MSME is expected to have great exposure with the advent of SME exchange at BSE which was commenced operation in March 2012.

### **NEED FOR INFRASTRUCTURAL SUPPORT.**

Government infrastructural spending is proposed to \$ 1 trillion under current five year plan. Major portion of spending will be for the development of road, bridges, ports, power, railways, airports etc. Development of infrastructural facilities will boost the growth of the economy. All these infrastructural developments are very necessary to rurally located MSMEs to be more market closer. The government has to give special attention to improve the facilities to MSMEs such as promoting information and communication tools, marketing assistance and technology up gradation

### **FINDINGS, SUGGESTIONS AND CONCLUSION**

The very aim of the economic growth is not fulfilled until its fruits are reached to its lower class common people. The balanced economic growth of the country will increase the standard of living of people. This paper analysed the contributions made by the MSME sector to the economic growth of the country and its role in the balanced economic growth. The study found that the MSMEs contributions are considerably high in the balanced economic growth. It creates around four million job opportunities in a year and employs semi-skilled and unskilled rural people and thereby increasing the living standard of rural India. Contribution of MSME to the nation's total GDP, Export, Industrial productions are quite commendable. It accounts for more than 90 percent of the total industrial units and 55 percent of these units are operating in rural area.

Indian MSMEs are organizing themselves in to clusters. Such clusters will help the MSMEs for easy access of better technical assistance, to get innovative ideas and to adopt better marketing methods. As the government is trying to push the MSMEs forward with number measures to provide better infrastructural facilities, to ensure adequate and sufficient funds, the MSMEs sector expect conducive environment in the future. More support is needed for

MSMEs from the government in the form of priority sector lending, government procurement programme, credit and performance ratings and marketing support. The policy makers should focus on to provided possible help to the sector to utilize the potentials of the sector and to revive the sector to act as back bone of the country's economy and propel economic growth.

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