MSMEs’ Role in Economic Growth – a Study on India’s Perspective

Dr. Surendar Gade
M.Com. MBA., UGC-NET, Ph.D.,
UGC Post-Doctoral Fellow, University College of Commerce and Business Management,
Kakatiya University, Warangal, Telangana State, India.
e-mail: dr.g.surendar@gmail.com Mobile: 09966701688

ABSTRACT
India’s Micro, Small and Medium Enterprises (MSMEs) sector has appeared as a vibrant and dynamic sector for the economy. It has been recognized as a catalyst in promoting the growth and development. MSMEs are playing a pivotal role in creating a huge amount of employment at meager cost of capital in comparison to large industries, helping in establishment of industries in economically backward regions and truncating regional inequalities, promising justifiable dispersion of national income and wealth. The MSME’s has steadily enumerated surpassing progress in comparison to the entire industrial sector. This paper attempted to examine the contribution of MSMEs Sector in the nation’s growth and also the areas which are required to strengthen the MSMEs sector to its continuous contribution to the development of India. It is found from the study that MSMEs can be boon and a hope for Indian economy in near future. The MSMEs are providing uniform development to the society and can be a strong mean to utilize the natural resources of India. The MSMEs are very helpful to remove the regional imbalances if it is establish in the underdeveloped areas. The MSMEs are providing more employment per unit. If this contribution is to be sustained, then their uniqueness needs to be nurtured in an overt and explicit manner.

Key Words: MSMEs Make in India Program, C, Challenges and Policy interventions.

Introduction:
India’s Micro, Small and Medium Enterprises (MSMEs) sector has appeared as a vibrant and dynamic sector for the economy. It has been recognized as a catalyst in promoting the growth and development. MSMEs are playing a pivotal role in creating a huge amount of employment at meager cost of capital in comparison to large industries, helping in establishment of industries in economically backward regions and truncating regional inequalities, promising justifiable dispersion of national income and wealth.

MSMEs are playing a commutual role to many industries as supportive organizations providing more opportunities of vertical integration in rural remote areas and thus this sector contributing tremendously to the fiscal progress of the nation. Beyond agricultural sector MSME provides huge opportunities for personal and wage employment. MSME is conjoined with superior rate of economic growth, constructing inclusive and tenable populace in numerous ways through promoting non-agricultural livelihood at least cost, unbiased regional development, equality in the society as well as gender, ecologically continuous up growth and apart from all, providing a protection against deflation, which MSME has always demonstrated.

Make-in-India concept was launched with a lot of flourish to inculcate new vitality in the manufacturing sector. It is an attempt to bridge the paramount gap between the Chinese and Indian market. ‘Make in India’ initiative needs active participation of all stakeholders from all the corners of the nation. Skill development for providing input support as factor services is most important for happening of the very purposeful initiative of Indian Government, which is ensured at grass root level from involvement of MSMEs.

In this connection, this paper attempted to examine the contribution of MSMEs Sector in the nation’s growth and also the areas which are required to strengthen the MSMEs sector to its continuous contribution to the development of India.

**MSME - The Backbone of Indian Economy:**

MSME has a crucial role to play in equitable development of India. According to the reports generated annually by the Ministry of MSME presents that 45% of the total Exports of the country are assisted by the sector, and are manufacturing more than 6000 quality products, which indicates immense opportunities for growth and venturing its support in different sectors. The report also indicates that most of the MSMEs are unregistered, on the whole there are 1.6 million registered MSME in India. According to the report MSME are dominated by very small scale enterprises constituting 94.9 and the remaining 4.9 percent by
small scale firms. Distribution of registered enterprises in urban areas account to nearly 8.57 lakhs of total active enterprises which occupy a share of 54.77%, whereas rural areas account to 7.07 lakh (45.23% of the working enterprises). Hence, it is contributing towards a laudable proportion for the equitable progress of Indian economy. According to the statistics generated on the basis of activity for registered firms, it is observed that 67.1 percent is contributed by manufacturing units, 16.8 percent service units and 32.9 percent by service side. The statistics for unregistered firms reveals that 69.80% is contributed by services, whereas 30.20% of the enterprises were involved in the manufacturing activities. From the following diagram we can see the distribution of 6000 units of MSME into their respective sectors.

**Figure-1: Leading Industries in MSME Sector**

Source: Annual Report Fy 2014-15, Ministry Of Micro, Small And Medium Enterprises, Govt. of India.

**Employment of Opportunities through MSMEs:**

According to various economic surveys organized, MSMEs are providing good employment opportunities to youth. The good growth of MSME sector is making backward and forward linkages strong inviting more investments in this sector. As per the annual report of Ministry of MSMEs there were near 362 lakhs enterprises in the year 2006-07 providing around 805 lakhs employment and it has increased to 510.57 lakhs enterprises 1,171.323 laksh employees in the 2014-2015 an increase of 45.5% in employment and 41%
in number working enterprises. This increase has clearly indicates the significant contribution of MSMEs in creating employment opportunities.

**Table-1: MSMEs and Employment Opportunities**

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Year</th>
<th>Total Working Enterprises (In Lakh)</th>
<th>Employment (in Lakh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2006-07</td>
<td>361.76</td>
<td>805.23</td>
</tr>
<tr>
<td>2</td>
<td>2007-08</td>
<td>377.36</td>
<td>842</td>
</tr>
<tr>
<td>3</td>
<td>2008-09</td>
<td>393.7</td>
<td>880.84</td>
</tr>
<tr>
<td>4</td>
<td>2009-10</td>
<td>410.8</td>
<td>921.89</td>
</tr>
<tr>
<td>5</td>
<td>2010-11</td>
<td>428.73</td>
<td>965.15</td>
</tr>
<tr>
<td>6</td>
<td>2011-12</td>
<td>447.64</td>
<td>1011.69</td>
</tr>
<tr>
<td>7</td>
<td>2012-13</td>
<td>447.54</td>
<td>1061.4</td>
</tr>
<tr>
<td>8</td>
<td>2013-14</td>
<td>488.46</td>
<td>1114.29</td>
</tr>
<tr>
<td>9</td>
<td>2014-15</td>
<td>510.57</td>
<td>1,171.32</td>
</tr>
</tbody>
</table>

-Projected figures and estimated on the basis of per enterprise value obtained from sample survey of unregistered sector for activities wholesale/retail trade, legal, education & social services, hotels & restaurants, transport and storage & warehousing (except cold storage) which were excluded from Fourth All India census of MSME, unregistered sector.

**Source:** Annual Report Fy 2015-16, Ministry Of Micro, Small And Medium Enterprises, Govt. of India.

**Growth and Performance of MSMEs:**

One of the important indicators to know the successful development of MSME sector in an economy is the new MSMEs that are opening, it explains not only favorable environment for the opening and growth of MSMES in an economy but also shows the high morale of the entrepreneurs in the economy.

Prior to enactment of MSMED Act, 2006 Small Scale Industries were used to register with District Industries Centers (DICs). There was system of submitting a file Entrepreneurs Memorandum (Part-I) by MSMEs to DICs before starting an enterprise. After commencing the firm they used to submit Entrepreneurs Memorandum (Part-II). Since 2015, EM-II has been replaced by Udyog Aadhaar Memorandum (UAM)

Information about growth and performance of MSMEs collected from the EM-II available with DICs:
MSME has shown consistent growth in terms of number of EM-II filed. 1.73 lakh EM-II were filed across the country with DICs during 2007-08. Thereafter increased to 1.93, 2.13, 2.38, 2.82, 3.23, 3.63 and 4.25 lakh during 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14 & 2014-15 respectively. It is evident that there is a continuous increment up to 2014-15 (Figure-2).

MSME has shown constant growth rate around 11% every year till 2010-11. The highest growth was recorded during 2011-12 (18.45%). It jumped to 17% in 2014-15. However, recent data for April-September, 2015 shown amazing growth of 18.74% (Figure-3).

A total of 21,96,902 EM-II were filed during 2007-2015. By contrast 22,40,463 UAM filings have been taken place since discontinuation of EM-II

It may be noted that there is a progressive and healthy growth of MSME sector in various financial crisis and other issues have impacted the economy.

Figure -2: Number of EM-II filed during 2007-08 to 2014-15
Major Contributor to GDP:

MSME sector has become a major contributor to nation’s GDP. In the fourth quarter of 2012-13 (January to March 2013) witnessed a slid of GDP to 4.8 percent. MSME sector constitutes an inevitable portion of GDP and for this reason it needs attention of the policy makers. The statistics show that the contribution of MSME to GDP is ever increasing. The below given Table explains the percentage share of MSME in the nation’s GDP over the years. It has managed to increase from 35.13 percent in 2006-07 to 37.54 percent in 2012-13. Share of MSME manufacturing output in GDP is 7.73 and 42.02 in total manufacturing out of nation in 2006-07 and it has got slight decrease in 2012-2013 i.e., 7.04 share in total GDP and 37.33% in total manufacturing output.
Table-2: Share of MSME in Gross Domestic Product (GDP)
(at 2004-05 Prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Value of Output of MSME Manufacturing Sector (Rs. In Crore)</th>
<th>Share of MSME Sector in Total GDP (%)</th>
<th>Share of MSME Manufacturing output in total output (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Manufacturing Sector</td>
<td>Service Sector MSME</td>
<td>Total</td>
</tr>
<tr>
<td>2006-07</td>
<td>1198818</td>
<td>7.73</td>
<td>27.4</td>
</tr>
<tr>
<td>2007-08</td>
<td>1322777</td>
<td>7.81</td>
<td>27.6</td>
</tr>
<tr>
<td>2008-09</td>
<td>1375589</td>
<td>7.52</td>
<td>28.6</td>
</tr>
<tr>
<td>2009-10</td>
<td>1488352</td>
<td>7.45</td>
<td>28.6</td>
</tr>
<tr>
<td>2010-11</td>
<td>1653622</td>
<td>7.39</td>
<td>29.3</td>
</tr>
<tr>
<td>2011-12</td>
<td>1788584</td>
<td>7.27</td>
<td>30.7</td>
</tr>
<tr>
<td>2012-13</td>
<td>1809976</td>
<td>7.04</td>
<td>30.5</td>
</tr>
</tbody>
</table>

Source: Annual Report Fy 2015-16, Ministry of Micro, Small And Medium Enterprises, Govt. of India

**Contribution to Industrial Production and Export:**

MSME are, at present, operating in wide variety of sectors such as manufacturing, trade and services and there by constitute a terrifying component of country’s industrial production from last good number of years. If the state and central government pay little more attention towards this sector as a part of Make in India program R.Karthikeyan, C.Jothi Kumar (2014) it can reach its objective very soon.

Over the year MSME 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. MSME had an impact on various issues of the economy such as industrial progress, job creation, entrepreneurship, economic empowerment etc. MSME made possible an inclusive and balanced growth. Around 50% MSME are owned by rural people and hence increases the standard of living of people.
As per the MSME Annual Report of Financial Year 2011-12 published by Ministry of Micro, Small and Medium Enterprises MSME contributes 37% of the total manufacturing output. MSME experiencing a considerable increase in investment flows. The fixed investment in MSME is ever increasing. Following Graph shows the contribution of MSME 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. The graph shows 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 13513.83 billion in 2006-07 to Rs 18343.32 million in 2011-12

Figure-4: MSME Investment and Gross Output (Rs. In Billions)

Source: Annual Report Fy 2012-13, Ministry of Micro, Small And Medium Enterprises, Govt. of India

Scope of Service Opportunities through MSMEs:

MSMEs are playing a significant role in the growth of service sector from the significant years by creating service opportunity for rural elites, masses and for corporate also. The economy at one hand can grow due to surge in rural demand but due to unsustainable employment security systems this will remain low income segment. The push provided by loan waiver, NREGS led infrastructure creation activities and other rural associated agriculture activities are meager resources to make the rural households livelihood secured. There is an immediate need of creation of services in primary agricultural activities such as farming, composting, preparation and availability of inputs through self-sustained
farming systems and marketing and trading activities. Other service opportunities emerged from associated agricultural activities may be taken as support systems at the time of crop failure and needs to be installed as complimentary and supplementary farm enterprise. If these can be done the service sector may become one of the key contributors in the growth of nation.

Areas to be focused to strengthen the MSMEs Sector in India:

There are few areas where state and central governments are required to focus on to strengthen MSMEs sector, so that it can continue its contribution in the nation’s growth.

Technology and environment: The economy competitiveness depends on how efficiently all the resources in the process of production are utilized and how efficiently these are marketed, thus the entire chain of production has to be efficient. This means that the course of production has to be cost efficient and should meet quality needs of the consumers. This improvement can come through the use of latest technology. However India has a vast pool of technical talent with a well developed intellectual infrastructure, the country still lagging behind in the matter of developing and adapting new technologies in the MSME sector. The MSME sector presently needs an effective information system to support and deliver information to different users. Such information systems will be used to provide effective interface between users and computer technology and will also provide information for managers on the day-today operations of the enterprises

Access to markets: To face the competition from large enterprises within and outside, MSMEs are required to respond promptly to the evolving marketing needs and innovations. There is an immediate need to be provided better market access facilities in order to sustain and further increase its contribution towards output, employment generation and exports. A published research has highlighted that a massive opportunity exists for SMBs to reach their desired financial goals by optimizing their network presence and capabilities. It additionally pointed out that since the majority of India's MSMEs, especially the small businesses, generate a large amount of their revenue from the local market; they still rely on traditional media like telephone directories and newspapers to reach their customer base.
**Infrastructural bottlenecks:** One of the major concerns is lack of infrastructural facilities, which can cause serious damages to an enterprise's value chain process such as production, consumption, and distribution of the products. Besides, lack of finance, technological obsolescence, and inadequate marketing facilities that are already faced by MSMEs. Common infrastructure projects for MSMEs could be solutions for this. MSMEs coming together and sharing the costs of infrastructure, which are otherwise unaffordable for individual or single MSMEs, could benefit from economies of scale, synergy, and collective bargaining by collaborating with each other particularly in case of common infrastructure, common facilities, raw material procurement, marketing & transportation of finished goods, testing laboratory, common tooling/machining, Research & Development etc.

**Mentoring and Advocacy:** Entrepreneurs who are coming forward to establish the business organizations often have a product or service idea, a passion to hard work but limited money, knowledge about markets, Government or bank procedures, cash flows or how to manage man power. This is where mentoring a hand holding support becomes crucial. At times, this comes from different sources such as friends, relatives, NGOs, or parent units. This is interrupted and unable to meet the vast requirement of the country. This is required to be institutionalized through extension/outreach efforts Governments. Trained human resources are made available for this task, right down the district levels to act as a guide. These resource persons guide in setting up a unit, making it commercially viable, interacting with financial institutions, and understanding markets, as well as the impact of globalization with advancements in it. The Small Industry Development Organization now playing a direct promotional role of hand holding, advocacy, and facilitation. This encompasses the legislative support put in place, fiscal incentives, and protection from unequal competition.

**Access to Credit:** Credit is the lifeline of business. As risk perception about small businesses is high, investors are unwilling to invest in sole proprietorships, partnerships, or unlisted companies. Institutional credit, when available, requires collateral which in turn makes the owner of the unit even more exposed to foreclosure. Credit guarantee funds which assist lending institutions in mutual guarantee or advancing loans involving common guarantees from a group of people have not emerged in a significant manner. Unit finances come under severe stress whenever an occasional event such as a large order, rejection of consignment, and inordinate delay in payment occurs. Under these circumstances, not
surprisingly small enterprises prefer to first tap own resources or loans from friends and relatives and there’s look for external finance. In this connection, Micro Units Development and Refinance Agency Bank (MUDRA Bank), is a new institution setup by the Central Government for the development of micro units and refinace of MFIs to encourage entrepreneurship in country and to provide the funding to the non corporate small business sector. MUDRA Bank will need two type of product like refinace for the micro units having loan requirement from Rs 50 thousands to 10 lakhs and support of Micro Finance Institutions (MFI) for on landing. MUDRA will refinace to micro business under the scheme of Pradhan Mantri MUDRA Yojana.

**Globalization:** The globalization of trade & commerce has been changed the business environment through WTO agreement. It has therefore become necessary to make aware SMEs about these changes and prepare them for the future. In India, a number of steps have been taken in this view. Apart from setting up a WTO cell in the nodal ministry, 28 awareness workshops were conducted across the country. Workshops have also been held on intellectual property rights and bar coding. Monitoring of imports in specific sectors where SMEs have a significant presence and initiation of anti-dumping action where dumping was noticed, are the other steps taken in this respect.

**Procedures:** A major hurdle in growth of Micro and Small units is Government and bank procedures and their inspections. There are more than 60 central, state and local laws which regulate small businesses in the areas of factory maintenance environment, labour, municipal bye laws, taxation, power etc. These need to maintain more than 100 registers and forms which are unnecessary burden on small units. To enforce these, there is an army of inspector who visit units leading to harassment, delay, hindrance and increase in cost of production. Many small units are one man shows and cannot satisfy the letter of the law. Rules and regulations must be streamlined if the creative genius of Indian entrepreneurs is to be fully unleashed. Few state governments have started initiatives in this regard. The Central Government has initiated a study to enact a single law for small businesses. This enactment should ease the situation considerably.
Exit Mechanism: A sound exit policy for MSMEs is must which will safeguards labour interests. Because, industries too have life cycles like products and there are small business units where bank loans have become bad and non-performing. The first steps in this regard have been taken recently by Reserve Bank of India where by one time settlement of dues as on 31 March, 1997 was allowed. The results have been encouraging.

Strategy Intervention for Revitalization and Growth of MSMEs:

Significant changes in economic environment are being heralded in by the WTO. The removal of QRs has led to increased competition with imports. Indian industries particularly MSMEs are facing competition from Asian countries like China or Taiwan in imports and Srilanka, Bangladesh or Nepal in exports. Indian Government is stood on policy that ‘promotion and not protection is the solution to the issues of survival and growth’. Hence, while reservation of goods for exclusive production continues, the focus must now be on strengthening competencies. This implies a holistic look at the concerns of industry. As part of this, the following strategic interventions have been initiated:

- Easing credit accessibility
- Introduction of options for limited partnership and factoring
- Subsidy in finance cost for upgrading technology
- Industry specific technology up gradation programmes
- support for developing and accessing overseas markets for export
- Expanding reach of infrastructure programmes
- Encouraging self declarations in lien of inspections for various regulations

Interventions should remove the hurdles for growth in future. They must encourage a flawless movement from small to medium to large. The Indian Government, therefore, is working on a new vision for the SSI sector through a flexible approach and a motivated team. The encouragement role of Government now involves new dimensions such as arguing cases before the world trade body or dispute redressal, communicating needs of small enterprises before decision makers and other agencies.

Conclusion:

Their role of MSMEs in economic activity is manifested in both tangible and intangible ways. MSMEs provide employment and ultimately self dependency. In country
like India, only self-dependency is the way, which can be a cure for devaluation of Indian Rupees. Therefore, MSMEs can be boon and a hope for Indian economy in near future. The MSMEs are providing uniform development to the society and can be a strong mean to utilize the natural resources of India. The MSMEs are very helpful to remove the regional imbalances if it is establish in the underdeveloped areas. The MSMEs are providing more employment per unit. If this contribution is to be sustained, then their uniqueness needs to be nurtured in an overt and explicit manner. There should not be two opinions about the priority that SME policies deserve for achieving the socio-economic goal of employment growth and social justice, along with the individual “aspirations”.

References:


13. Various Annual Reports of Ministry of Micro, Small And Medium Enterprises, Govt. of India