

## **GROWTH AND DEVELOPMENT OF MSME'S IN INDIA: AN EMPIRICAL STUDY**

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### **ABSTRACT**

MSME play pivotal role in Indian manufacturing sector and have become engine of economic growth in India with their effective, efficient, flexible and innovative entrepreneurial spirit. It is generating the highest rates of employment growth and account for a major share of industrial production. It is estimated that MSMEs account for almost 90% of industrial units in India and 40% of value addition in the manufacturing sector. This paper closely analyses the growth and development of the Indian Micro Small Medium Enterprises sector from opening of the economy in 1991. The Micro, Small and Medium Enterprises Act, 2006 is intended to boost the sector. The provisions of the Act are examined closely. The final part provides some future policy framework for the sustainability of the sector.

### **INTRODUCTION**

There is consensus among policy makers, economists and business experts that Micro Small and Medium Enterprises (MSMEs) are drivers of economic growth. A healthy MSME sector contributes prominently to the economy through creating more employment opportunities, generating higher production volumes, increasing exports and introducing innovation and entrepreneurship skills. MSMEs are the first step towards development in economies towards industrialization. The dynamic role of MSMEs in developing countries positions MSMEs as engines through which the growth objectives of developing countries can be achieved – a role that has long been recognized.

The Micro, Small and Medium Enterprises sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and contribute enormously to the socio-economic development of the country.

Fast changing global economic scenario has thrown up various opportunities and challenges to the MSMEs in India. While on the one hand, many opportunities have opened up for this sector to enhance productivity and look for new markets at national and international level, it has also, on the other hand, put an obligation to upgrade their competencies in various fields like marketing, finance, business development, operations, technology etc. For this purpose, MSMEs are required to make use of consultancy services.

### **DEFINITION**

MSMED Act 2006: According to Micro, Small and Medium Enterprises act the enterprises are broadly classified in terms of activity such as enterprises engaged in the manufacturing/

production and enterprises engaged in services. While the manufacturing enterprises were defined in terms of investments in plant and machinery, the service enterprises are defined in terms of investment in equipments. The Act has also defined medium scale enterprises for the first time. The enterprises are further classified into Micro, Small and Medium categories. The investment limits of these enterprises are shown in the Table given below.

**Table 1: Classification of MSMEs**

Classification	Manufacturing Enterprises*	Service Enterprises**
Micro	2.5 Million/25 lakh	1 Million/10 lakh (US \$ 20,000)
Small	5.0 Million/5 Crore	20 Million/2 Crore (US \$ 0.4 Million)
Medium	100 Million/10 Crore (US \$ 2 Million)	50 Million/2 Crore (US \$ 1 Million)

Investment Limit in Plant and Machinery

\*\* Investment Limit in Equipment

## OBJECTIVES

1. To facilitate the promotion and development of and enhancing the competitiveness of micro, small and medium, enterprises
2. To evaluate the economic growth of India
3. To evaluate the employment opportunities created by MSMEs
4. To identify and review what the government and support institutions are doing to facilitate and encourage entrepreneurship
5. To analysis the performance of MSMEs
6. To Provides benefit of the government schemes to the new entrepreneurs
7. To evaluate these policies, programmes and assistance by the government and support agencies

## IMPORTANCE OF MSMES IN THE ECONOMY

The value of the small business sector is recognized in economies world-wide, irrespective of the economy's developmental stage. The contribution towards growth, job creation and social progress is valued highly and small business is regarded as an essential element in a successful formula for achieving economic growth.

The contribution of MSMEs in their economy in selected country's shown in the Table given below.

Country Name	Structure of the MSMEs sector (% of all MSMEs)			MSMEs participation in economy	
	Micro	Small	Medium	Per 1000 People	Employment (% total)
Brazil	93.9	5.6	0.5	27.4	67.0
China	NA	NA	NA	6.3	78.0
India	94.0	3.3	-	0.3	66.9
Egypt	92.7	6.1	0.9	26.8	73.5
United Kingdom	95.4	3.9	0.7	73.8	39.6
Ghana	55.3	42.0	2.7	1.2	66.0
United States	78.8	19.7	1.5	20.0	50.9
South Africa	92.0	7.0	1.0	22.0	39.0

The World Bank (2007), however, estimated that the MSME contribution to employment generation was 66.9% in India. The China's MSME sector contributed highest 78% to its total employment and lowest is South Africa 39.6% it indicates India stood fourth place in the country's economy development.

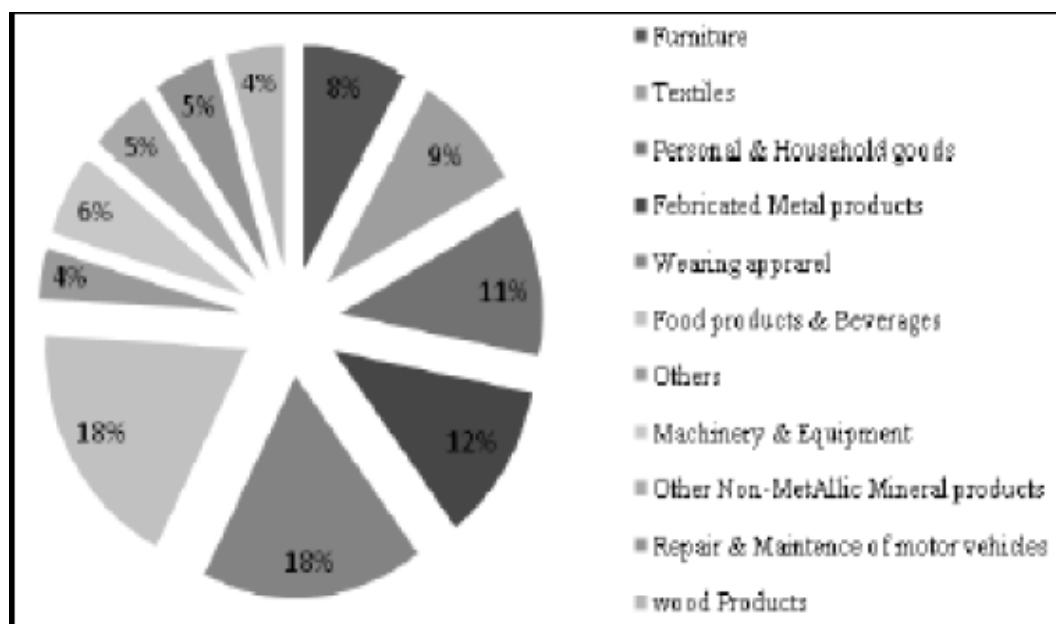
### CONTRIBUTION OF MSMEs TOWARDS ECONOMIC DEVELOPMENT OF INDIA

Contribution of MSMEs to economic development is highly remarkable comparing to any other sector of the economy. Its role towards Investment, employment generation, export, GDP, industrial production etc in every area is highly significant. The following chart more clearly exposes its significant towards economic development. It is clearly indicating that MSMEs sectors registered a very high growth rate. This is mainly due to its various advantages comparing to other sectors and Indian economy which is more close to MSMEs environment, like cheap local resources, local talent, high demand etc. Moreover the socio – economic policies adopted by India since the industries development & regulation Act, 1951 have laid stress more on MSMEs sectors as a vehicle to develop Indian economy. Second five-year plan also gave more emphasis on industrial development and adopt various policies for proper development of this sector. Investment and production are closely linked. More investment indicate more production or more production require more investment. Over the year investment in fixed assets by MSMEs are remarkable, which is clear from above table. Productions of MSME sectors (in value) are going to increases over the year. In 2001-2002 production of MSME was Rs. 2, 82,270 Crore where in 2010-11 were Rs.10, 95,758 Crore, so increases in ten year are 288.19%. Percentage wise increase than the previous year is also remarkable. MSME's contribution towards employment generation is remarkable comparing to any other sectors employment generation capacity. Average employment generated by this sector in last ten years is 466.734 lakh. Growth rate in employment generation is also mentionable for the same period. Contribution of MSMEs toward GDP is highly significant. This sector contributes 8.72% of country's GDP in 2008-09. An average contribution in GDP by this sector in last nine year is 6.5% (2001-02 to 2008-09) and towards total industrial production it is 41.04%.

## GROWTH AND PERFORMANCE OF MSMES

The micro, small and medium enterprises (MSMEs) sector contributes significantly to the manufacturing output, employment and exports of the country. It is estimated those in terms of value, the sector accounts for about 45 per cent of the manufacturing output and 40 per cent of the total exports of the country. The sector is estimated to employ about 595 lakh persons in over 261 lakh enterprises throughout the country. Further, this sector has consistently registered a higher growth rate than the rest of the industrial sector. There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India. It is well known that the MSMEs provide good opportunities for both self-employment and wage employment. Recognizing the contribution and potential of the sector, the definitions and coverage of the MSE sector were broadened significantly under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 which recognized the concept of “enterprise” to include both manufacturing and services sector besides, defining the medium enterprises. For collecting and compiling the data for the MSMEs sector (including Khadi, Village and Coir

Industries), the Fourth All India Census of MSMEs with reference year 2006-07, was launched during 2007-08 in the country. Fourth All India Censuses 2006-07 covered both registered and unregistered sectors. The data collection of the Fourth All India Census of MSMEs for the registered sector was on complete enumeration basis (census) and for the unregistered sector, sample survey was adopted. In addition to “Quick Results: Fourth All India Census of Micro, Small & Medium Enterprises 2006-2007” published earlier, “Final Report: Fourth All India Census of Micro, Small & Medium Enterprises 2006-2007: Registered Sector” has been brought out. The data processing of the Fourth All India Census, unregistered sector is under process and draft report is being finalized.



**Fig. 1: Product of MSMEs**

Source: Final Report of the Fourth All India Census of MSMEs 2006-07: Registered Sector

## PERFORMANCE OF MSMES

The Office of the DC (MSME) provides estimates in respect of various performance parameters relating to the sector. The time series data in respect of the sector on various economic parameters is given in the following Table.

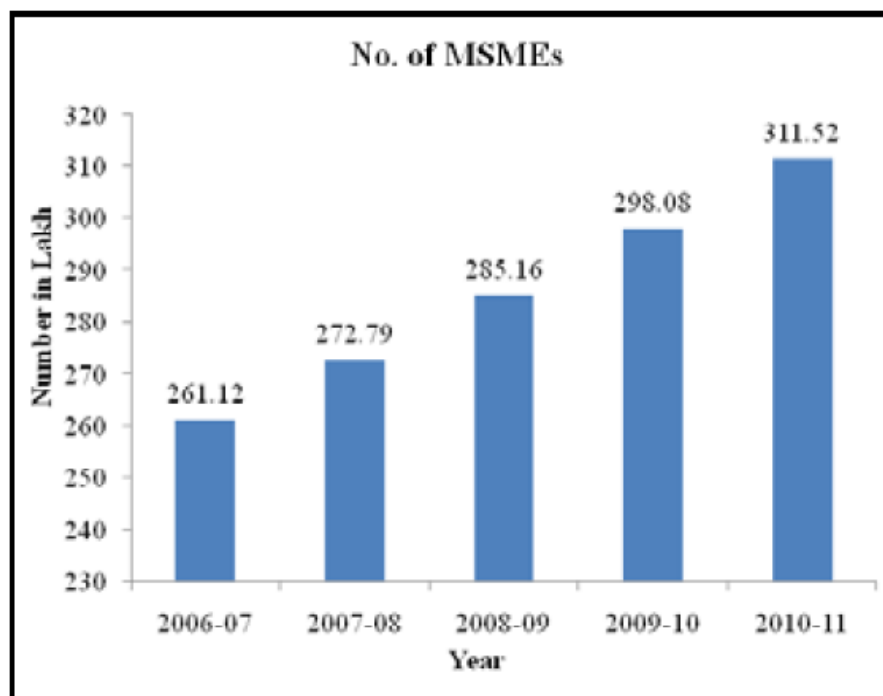
Table 3: MSMEs Performance: Units, Employment, Investments and Production

Sl. No.	Year	Total Working MSMEs	Employment	Average Employment	Fixed Investment	Average Investment	Production (Current Price)	Average Production
		(Lakh numbers)	(Lakh persons)		(Rs. crore)		(Rs. crore)	
1	2001-02	105.21	249.33	2.37	154349	1467.44	282270	2682.92
2	2002-03	109.49	260.21	2.38	162317	1482.48	314850	2875.61
3	2003-04	113.95	271.42	2.38	170219	1493.80	364547	3199.18
4	2004-05	118.59	282.57	2.38	178699	1506.86	429796	3624.22
5	2005-06	123.42	294.91	2.39	188113	1524.17	497842	4033.72
6	2006-07	261.12	595.66	2.28	500758	1918.54	709398	2717.90
7	2007-08	272.79	626.34	2.30	558190	2046.23	790759	2898.78
8	2008-09	285.16	659.35	2.31	621753	2180.37	880805	3088.81
9*	2009-10	298.08	695.38	2.33	693835	2327.52	982919	3297.28
10#	2010-11	311.52	732.17	2.35	773487	2482.94	1095758	3517.46

It may be mentioned that data with respect to MSMEs have been collected/compiled for the first time in 2006-07 and hence include both the manufacturing and service sectors. Till the year 2005-06, data in the Table 3 refer to small scale industry only. It can be observed from Table 3 that the number of MSMEs have increased from 105.21 lakh units in 2001-02 to 311.52 lakh units in 2010- 11. There has been a steady growth in investments, production and employment during 2010-11 over 2001-02. The investment and production increased from Rs. 1, 54,349 Crore and 2.82,270 Crore in 2001-02 to Rs. 7, 73,487 Crore and Rs. 10, 95,758 Crore in 2010- 2011 respectively at current prices. There has been a steady increase of employment of MSMEs. The employment in MSMEs increased from 249.33 lakh in 2001-02 to 732.17 lakh during 2010-2011.



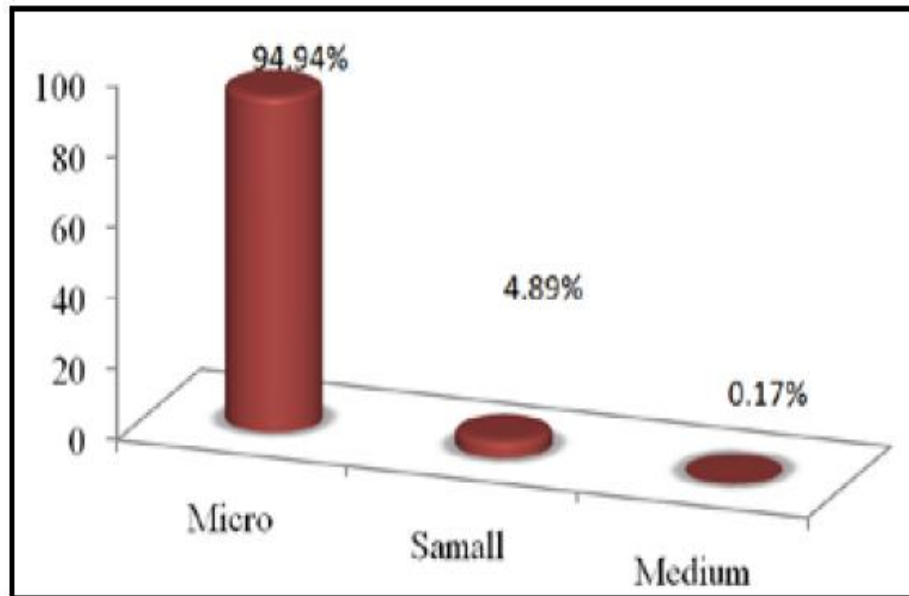
**Fig: 2 Employment in MSME sector**



**Fig: 3 total number of working MNC'S in India**

### **REGISTERED MSMEs SECTOR**

The size of the registered MSMEs sector is estimated to be 15.64 lakh. Of the total working enterprises, the proportion of Micro, Small and Medium enterprises were 94.94%, 4.89% and 0.17% respectively.



**Fig: 4 Sector wise MSME's**

Based on nature of activities the major contribution of MSMEs is established in manufacturing enterprises and remaining contribution almost all same by the Services and repairing & maintenance enterprises shown in the Table given below.

**Table 4: Nature of Activities**

Distribution by Nature of activity	Numbers in Lakh
Manufacturing	10.49 (67.10%)
Services	2.62 (16.78%)
Repairing & Maintenance	2.52 (16.13%)
Total	15. 64 (100%)

**Source: Centre for Industrial & Economic Research (CIER)**

It indicates 67.10% of the enterprises in the registered MSMEs sector were engaged in manufacturing, whereas 16.78% of the enterprises were engaged in the services activities as may be seen from the table 4 given below. The remaining 16.13% of the enterprises were engaged in repairing and maintenance. About 45.23% of the enterprises were located in rural areas.

## COMPARISON OF THE MSME SECTOR WITH THE OVERALL INDUSTRIAL SECTOR

The MSME sector has maintained a higher rate of growth vis-à-vis the overall industrial sector as would be clear from the compound growth rates of production for both the sectors during last five years as incorporated in the Table given below.

**Table 5: Compound Growth Rates of MSME Sector**

Year	Growth Rate of MSME Sector (%)	Overall Industrial Sector Growth Rate (%age)
2002-03	8.68	5.70
2003-04	9.64	6.90
2004-05	10.88	8.40
2005-06	12.32	8.00
2006-07	12.60	11.90
2007-08	13.00	8.70
2008-09	13.56	3.20
2009-10	NA	10.50
2010-11	NA	7.80

*Source- M/o Statistics and PI website- <http://www.mospi.nic.in>*

The data from Table 5 show the growth rates of MSME sector to that of overall industrial sector of India. 2001-02 is taken as base year. The table shows that during the year 2002-03, the MSME sector growth rate was 8.68, where as the overall industrial growth rate was only 5.70. During 2005-06, the MSME sector growth rate increased to 12.32 while the growth rate of overall industrial sector down by 0.40 i.e. to 8.00. Even after the merger of medium enterprises, the MSME sector growth rate increased to 12.60. It is significant to note that during this year the overall industrial growth rate is also considerable reaching to a maximum of 11.90 during the 9 years period i.e. from 2002-03 to 2010-11. The overall industrial growth rate reached to a ground level during 2008-09 due to recession. The above available picture denotes that the growth rates of MSMEs are always ahead of overall industrial growth of India.

### **CONTRIBUTION OF MSMES IN THE GROSS DOMESTIC PRODUCT (GDP)**

MSME sector has been contributing considerably to the Gross Domestic Product of India. The facts can be seen in the following table.

**Table 6: Contribution of MSMEs in GDP**

Year	Contribution of MSEs (% age) of 1999-2000 prices	
	Total Industrial production	Gross Domestic Product(GDP)
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	45.62	7.20
2007-08	45.24	8.00
2008-09	44.86	8.72

*Source: Annual Reports of MSMEs Industries (SSI)*



The above table depicts that the contribution and micro and small industries to the total industrial production of India was between 39 to 46 per cent from 2001-02 to 2008-09, contributing between 6 and about 9 per cent in the Gross Domestic Product (GDP). After the merger of medium enterprises, the MSME sector's contribution in the total industrial production increased to 45.62, 45.24 and 44.86 per cent during the years 2006-07, 2007-08 and 2008-09 respectively. Similarly, the share in the GDP also increased to 7.20, 8.00 and 8.72 per cent respectively in these three years.

### **TRENDS AND POLICIES OF MSME IN ECONOMIC DEVELOPMENT**

Micro, Small & Medium Enterprise- Development Institutes (MSME- DIs). The Scheme has been in operation since the 6<sup>th</sup> Five Year Plan. Since 1983-84, 12 new Branch Institutes, mostly in the backward and hilly areas of the country have been sanctioned, making a total of 15 such Institutes under the Scheme. The main activities of MSME-DIs and their Branches are as follows:

1. Assistance/Consultancy to prospective and existing entrepreneurs
2. Preparation of State Industrial Profiles and District Industrial Potential Surveys
3. Preparation/updating of Project Profiles
4. Entrepreneurship Development Programmes
5. Motivational Campaigns
6. Production Index
7. Management Development Programmes
8. Skill Development Programmes
9. Energy Conservation
10. Pollution Control
11. Quality Control & Up gradation
12. Export Promotion
13. Ancillary Development
14. Common Facility Workshop/Lab.
15. Preparation of Directory of specific industries
16. Intensive Technical Assistance
17. Coordination with DICs
18. Linkages with State Government functionaries
19. Market Surveys

Other Action Plan activities assigned by the Headquarters In the 11th five year plan would aim at raising the rate of growth of the industrial sector to 10 per cent and manufacturing growth to 12 per cent per annum. Continuing commitment to priority lending for MSMEs

remains an essential feature of development banking. The 11th plan must ensure that the policies are sufficiently flexible to support the development of micro finance. In the 11<sup>th</sup> plan, the strategy for manufacturing proposed by the National

Manufacturing Competitive Council (NMCC), which includes the following initiatives, should be operationalized

1. Taxes and duties should be made non-discriminatory and internationally competitive. Internally, the tax system must promote and be consistent with the unified national market, so that the Indian Industry can reap the benefit of economies of scale and scope.
2. While initiatives to provide infrastructure in general are important, they should be supplemented by efforts to promote infrastructure development in local areas such as Special Economic Zones (SEZ) and Special Economic Regions.
3. Technological modernization will be the key to high industrial growth.
4. State Governments should take steps to create an investor friendly climate, providing a Single Window Clearance of applications for establishment of industrial units.
5. Labor-intensive mass manufacturing based on relatively lower skill levels provides an opportunity to expand employment in the industrial sector.
6. The policy of progressive de-reservation of industries for small scale, production has reduced the list of reserved industries from about 800 to 239. This policy should continue in the 11th Plan at an accelerated pace.
7. Industrial licensing should be progressively eliminated. Equally important is the need to amend the Companies Act, 1956.
8. The existing incentive programmes such those available for the North-East, J&K, Himachal Pradesh and Uttaranchal need to reviewed with a view to assessing their impact on industrialization in these areas.
9. The industrial growth strategy would be incomplete if it does not recognize the critical role and the special needs of the micro, small and medium enterprises (MSMEs).

The Micro, Small and Medium Enterprises (MSMEs) continue to be a vibrant sector of the Indian economy. As per fourth census of 2006-07 that there are about 26 million units (over 90 per cent of total industrial units) in this sector employing nearly 59 million people in India. They not only create job opportunities at lower capital cost comparing to other sectors, but also require lower capital investment and play a vital role for proper utilization of local resources and talent. Organized industrial sector require an investment of Rs.6.66 lakh to generate employment of one person, whereas MSMEs sector generate employment of 1.27 persons with the same investment. This sector contributes nearly 45 percent manufactured output and 40 percent of the total export, it is estimated that MSMEs contribute around 15 percent of exports indirectly. In a span of over three decades, from financial year 1973-74 to financial year 2006-07, export from MSMEs has increased by more than 514 times. MSMEs sector has consistently registered a higher growth rate than the rest of the industrial sectors. There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs. In India, after agriculture, the MSMEs sector provides the

maximum opportunities for both self-employment and jobs in the country. The MSMEs sector in India holds great potential for further expansion and growth in the future. In fact, the employment potential of the sector is un-matched by any other sector of the economy.

## CONCLUSION

The micro, small and medium (MSMEs) enterprises constitute a very important segment of the Indian economy. MSME's contribution to the development of our economy is significant as it evident in terms of MSMEs being the major constituent sector in the production system, employment generation, GDP etc. MSMEs also have an aptitude for innovation, creativity, and flexibility which enabling them to respond with more quickly to structural changes and to adapt the dynamic demand patterns of consumers. It is also clear that MSMEs sector has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and versification. If government policies towards MSMEs are closer towards its various problems and prospect it can be nearer contributors with agriculture in all respect in future. To keep this growth engine on the right way and direction it is time to put emphasis on formulation of MSME

Friendly policies, conducive operating environment, improvement of proper infrastructure, securing peace and security, arranging proper finance, efficient manager and arranging appropriate modern technology. Considering MSMEs contribution towards every aspect of economic development it should be considered at equal recognition with agriculture.

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