



## DEVELOPMENT OF MSMEs AND BANKS OVER A DECADE IN INDIA

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### Introduction

The Micro, Small and Medium Enterprise (MSMEs) plays a significant role in backing the growth of the country and can be referred as the backbone of the Indian economy. With its major contribution in production export and employment, it has become an integral part of the Indian economic growth. MSMEs contribute 8 per cent of the country's GDP, 45 per cent of manufactured output and 40% of exports. This sector is a huge generator of employment. It provides employment to 60 million people through 26 million enterprises. This sector has a great potential for growth and is consistently generating high growth rate by producing more than 6000 product across sectors like food products metal products, chemicals and chemical products, electrical and machinery parts, rubber & plastic product and the like. The contribution of MSMEs in the economic growth of a nation as well as of the state is well-recognized. Indian small scale industries play an imperative role in the economic expansion of the country and have vast approaching for employment generation. Increasing small scale sector also results in decentralized industrial development, better distribution of wealth and investment and entrepreneurial talent. The government has initiated several policies for the growth and development of small scale industries. Post liberalization economic conditions have created immense growth prospect for the small scale industries. The MSMEs in India are acting as power and spirit of economic growth in the 21st century. The Ministry of Agro and Land Rural Industries and Ministry of SSI have been merged into a single ministry namely, Ministry of Micro, Small and Medium Enterprises. Small scale sector has played an extremely essential role in the socio economic development of the country during the past 50 years. It has significantly contributed to the overall growth in terms of Gross Domestic Product (GDP), employment generation and exports. According to MSMEs Act 2006, the enterprises are broadly classified in terms of activity such as enterprises engaged in manufacturing, production and enterprises engaged in services.

Indian economy is an agricultural economy. Contribution from agriculture towards national economy is insignificant. Therefore, both central and state governments have diverted their attention from the development of agriculture to the development of industry. Thus much emphasis was made on development of industries in the Second Five Year Plan. Subsequently government have made an initiation for industrialisation in the country. Small scale industry development was also initiated in India. To support financially, banking industry was developed in this country. Industrial development in India in general and small scale industries development in particular are promoted in India at a high rate.

### Definition of MSMEs

The definition of MSMEs varies from country to country. The classification can be on the basis of firm's assets, number of employees or annual turnover. In accordance with the provision of Micro, Small and Medium Enterprises Development Act (MSMED) 2006, the micro, small and medium enterprises in India are classified into two broad categories.

1. **Manufacturing Enterprises:** These enterprises engage in the manufacture of goods pertaining to any industry specifies in the first schedule to the industries (Development and regulation) Act 1951. The manufacturing enterprise is defined in terms of investment in Plant & Machinery.
2. **Service Enterprises:** These are the enterprises engaged in providing or rendering of Service. Whether a service enterprise is micro, small or medium, it is defined by considering its investment size in equipment. With the increasing growth potential and contribution by small scale industrial sectors the definition of SSI is revised under the Micro, Small and Medium Enterprises Act[MSMED] 2006.

### Investment Limit under MSMEs

Classification	Manufacturing Enterprises	Services Enterprises
<b>Micro</b>	upto Rs.25 Lakh	upto Rs.10 Lakh
<b>Small</b>	Above Rs.25 Lakh upto Rs.5 Crore	Above Rs.10 Lakh upto Rs.2 Crore
<b>Medium</b>	Above Rs.5 Crore upto Rs.10 Crore	Above Rs.2 Crore upto Rs.5 Crore



Micro, Small and Medium Enterprises Act (MSMEs) 2006 is initiated to enhance competitiveness among the MSMEs. The Act provided the first ever legal framework for recognition of the concept of enterprises which comprise both manufacturing and service entities. The act defined medium enterprises for the first time.

### **Objective of the Study**

The present study attempts to make a critical evaluation in the performance of MSMEs in India. The specific objectives of this study are as follows.

1. To analyse the development of MSMEs in India and
2. To analyse the development of Commercial Banks in India.

### **Research Methodology**

The present study is exclusively based on secondary data which has been collected from the various issues of Govt. of India, Annual Reports of MSMEs, Economic Survey of India, Hand Book of Statistics on the Indian Economy published by Ministry of MSMEs and RBI website and other related research articles.

**Table 1: The Outlay for the Development of SSIs in the Successive Five Year Plans  
 (Rs. in Crore)**

<b>Plan Period</b>	<b>Total Outlay</b>	<b>Allocation to SSIs</b>	<b>Percentage Share of Ssis To Total Outlay</b>
First Plan (1951-56)	1,960	5.20	0.27
Second Plan (1956-61)	4,672	56.00	1.20
Third Plan (1961-66)	8,577	113.06	1.32
Annual Plans 1966-69)	6,625	53.48	0.81
Fourth Plan (1969-74)	15,779	96.19	0.61
Fifth Plan (1974-79)	39,426	221.74	0.56
Annual Plan (1979-80)	12,177	104.81	0.86
Sixth Plan (1980-85)	1,09,292	616.10	0.56
Seventh Plan (1985-90)	1,80,000	1120.51	0.62
Eighth Plan (1992-97)	4,34,100	1629.55	0.66
Ninth Plan (1997-2002)	8,59,200	4303.85	0.50
Tenth Plan (2002-2007)	18,65,700	5534.00	0.30
Eleventh Plan(2007-12)	10,96,890	10168.00	0.93

- Source:** 1. Government of India, Small Industries Development Organisation Annual Report, New Delhi, 1985.  
 2. Government of India, Ministry of Finance, Economic Survey, 1986-87.  
 3. Government of India, Eight Five Year Plan, Vol.1, Planning Commission, New Delhi, 2007-2012.

Table 1 depicts the budget outlay earmarked for the development of small scale industries in the successive Five Year Plans since the initiation of First Five Year Plan (1951-56) till Eleventh Five Year Plan (2007-12). The total budget outlay earmarked for each of the Five Year Plan periods increased gradually from First Five Year Plan 1951-56 to Eleventh Five Year Plan 2007-12 except in annual plan periods. Similarly the allocations to small scale industries have also been increased from one five year plan period to another Five Year Plan period till Eleventh Five Year Plan period except in annual plan periods and Fourth Five Year plan. The SSIs share in the total budget allocations in most of the plan period was not even one per cent except in Second and Third Five Year Plan Period.



**Table 2: Working Enterprises, Fixed Investment, Production and Employment of SSIs from 2007-08 to 2016-17**

Year	Working of SSIs Units (Number In lakh)	Fixed Investment (Rs. in Crore)	Production (Rs.in Crore)	Employment (in lakh person)
2007-08	377.36	920459.84	790759	842
2008-09	393.70	977114.72	880805	880.84
2009-10	410.80	1038546.08	982919	921.79
2010-11	428.73	1105934.09	1095758	965.15
2011-12	447.64	1182757.64	1834332	1011.69
2012-13	467.54	1268763.67	NA	1061.40
2013-14	488.46	1363700.54	NA	1114.29
2014-15	510.57	1471912.94	NA	1171.32
2015-16	NA	NA	NA	NA
2016-17	NA	NA	NA	NA

Source: Annual Reports of MSMEs from 2007-08 to 2016-17

Note: NA-Not Available

Table 2 portrays the progress in the number of small scale industries, amount in fixed investments and number in employment over eight years and production for five year period. The data pertaining to working SSIs with fixed, investment, production and employment were not available for two years i.e. for 2015-16 and 2016-17 in the sources searched for by the researcher. The production data pertaining to small scale units were not available for five years i.e. from 2012-13 to 2016-17 in the sources that were searched for by the researcher. The investment, production and employment of them over the years for which data are available reveal an increasing trend. The growth in the number of SSI units, production and employment was much impressive from year to year.

**Table 3: Number of Msme in Top Ten States Established In India as On 31<sup>st</sup> March 2017**

Rank	State	Number of Establishments	% Share
1	West Bengal	5269814	11.62
2	Uttar Pradesh	5238568	11.55
3	Maharashtra	4545581	10.02
4	Tamil Nadu	3282197	7.24
5	Andhra Pradesh	2781291	6.13
6	Kerala	2364085	5.21
7	Rajasthan	2270936	5.01
8	Gujarat	2218464	4.89
9	Karnataka	2188860	4.83
10	Madhya Pradesh	1958550	4.32
	Total	32118346	70.82
	<b>All India</b>	<b>45363786</b>	<b>100.00</b>

Source: Annual Reports of MSMEs 2016-17



Table 3 shows the number of MSMEs established in 2016-17 in top ten states in India. It is understood from the table that about 32118346 were established by 2016-17 which comes to 70.82 per cent of the MSMEs that were established in ten states of India and the rest which comes to 29.18 per cent which are located in other 19 states of India. The total number of MSMEs located in India as on 31<sup>st</sup> March 2017 is 45363786 units. Relatively large numbers of units are located in West Bengal and the least number of units are located in Madhya Pradesh. It indicates that 11.67 per cent MSMEs are located in West Bengal and only 3.32 per cent of the MSMEs are located in Madhya Pradesh.

From the foregoing analysis one can infer that 70.82 per cent of the MSMEs are operating in ten states only whereas only 29.18 per cent of the MSMEs are established in 19 states. Even among the top ten states there is disparity in the number of units that were established in the sense that large numbers of MSMEs were established in West Bengal and least number of units were established in Madhya Pradesh.

**Table 4: Outstanding Bank Credit With Small, Medium And Large Industries (Non-Food Credit)  
From 2007-08 to 2016-17 (Rs. in Billion)**

Year	Small	Medium	Large	Total
2007-08	1327 (15.46)	1108 (12.91)	6148 (71.63)	<b>8583 (100)</b>
2008-09	1690 (16.03)	1222 (11.59)	7632 (72.38)	<b>10544 (100)</b>
2009-10	2064 (15.74)	1326 (10.11)	9724 (74.15)	<b>13114 (100)</b>
2010-11	2102 (13.10)	1165 (7.26)	12779 (79.64)	<b>16046 (100)</b>
2011-12	2367 (12.22)	1248 (6.44)	15759 (81.34)	<b>19374 (100)</b>
2012-13	2843 (12.75)	1247 (5.59)	18211 (81.66)	<b>22301 (100)</b>
2013-14	3482 (13.84)	1241 (4.93)	20442 (81.23)	<b>25165 (100)</b>
2014-15	3800 (14.30)	1245 (4.68)	21531 (81.02)	<b>26576 (100)</b>
2015-16	3715 (13.60)	1148 (4.20)	22444 (82.19)	<b>27307 (100)</b>
2016-17	3697 (13.80)	1048 (3.91)	22055 (82.29)	<b>26800 (100)</b>

**Source: RBI, Statistical Tables Relating to Banks in India, from 2007-08 to 2016-17**

**Note: Figures in parentheses represent percentage to total.**

Table 4 shows the outstanding credit with the small, medium and large scale industries extended by commercial banks over ten year period from 2008-09 to 2016-17. From the table it is clearly understood that the total outstanding credit with all the small, medium and large scale industries is very much huge and increased from year to year significantly i.e., from 2007-08 to 2016-17. But in 2016-17 the outstanding credit with all these three industrial sectors is relatively low as compared with the outstanding credits with all the sectors in 2015-16.

The outstanding credit with small scale industry gradually increased from 2007-08 to 2014-15. But the outstanding credit with the small scale industries in 2015-16 and 2016-17 was relatively low. Whereas the outstanding credit with medium scale industries (non-food category) increased from 2007-08 to 2009-10 and fluctuated from 2010-11 to 2012-13 and it fluctuated in the subsequent period of two years and decreased in the other two years.

From the foregoing analysis one can infer that the increase in the outstanding credit with the small and large scale industries is very much high. Since it gradually increased during majority of the years of ten year study period. But such growth is not observed in each of the outstanding credit with the medium scale industries.

The growth in the outstanding credit with large scale industries was continuous from 2007-08 to 2015-16. But the outstanding credit decreased in the large scale industries in 2016-17.



**Table 5: Outstanding Bank Credit With the Micro And Small Enterprises Extended By Commercial Banks from 2007-08 to 2016-17 (Rs. in Crore)**

Year	Public Sector Banks	Private Sector Banks	Foreign Banks	All Scheduled Commercial Banks
2007-08	151137 (70.78)	46912 (21.97)	15489 (7.25)	<b>213538 (100)</b>
2008-09	191408 (74.73)	46656 (18.22)	18063 (7.05)	<b>256127 (100)</b>
2009-10	278398 (76.48)	64534 (17.73)	21069 (5.79)	<b>364001 (100)</b>
2010-11	376625 (77.50)	87857 (18.09)	21461 (4.41)	<b>485943 (100)</b>
2011-12	395976 (76.02)	105085 (20.17)	19839 (3.81)	<b>520900 (100)</b>
2012-13	502459 (73.11)	154732 (22.52)	30020 (4.37)	<b>687211 (100)</b>
2013-14	620139 (72.92)	200840 (23.61)	29491 (3.47)	<b>850469 (100)</b>
2014-15	701571 (72.73)	232171 (24.07)	30837 (3.20)	<b>964578 (100)</b>
2015-16	734055 (69.57)	292342 (27.70)	28775 (2.73)	<b>1055172 (100)</b>
2016-17	741958 (65.58)	355702 (31.44)	33636 (2.98)	<b>1131296(100)</b>

Source: Annual Reports of MSME from 2008-09 to 2016-17

Note: Figures in parentheses represent percentage to total.

Table 5 shows the outstanding bank credit with Micro and Small Enterprises extended by all scheduled commercial banks from 2007-08 to 2016-17. The outstanding bank credit of all scheduled commercial banks increased continuously over ten year period from 2007-08 to 2015-16 except in 2016-17. The outstanding credit with the MSMEs extended by foreign banks increased from Rs.15489 crore in 2007-08 to Rs.21461 crore in 2010-11 and fluctuated from 2011-12 to 2016-17. Adoption of stringent policy by the foreign banks might be the reason for this trend and moreover the scope for the government in the interference of banking affairs of the foreign banks was almost nil. The outstanding credit with MSMEs extended by private sector banks increased from Rs.46912 crore in 2007-08 to Rs.355702 crore in 2016-17 except in 2008-09. In 2007-08 the outstanding credit extended by private sector banks decreased. The outstanding credit with MSMEs extended by public sector banks increased continuously from 2007-08 to 2016-17.

From the foregoing analysis one can infer that the outstanding credit with Micro and Small Industries extended by Commercial banks was very high and increased continuously over ten year period. The outstanding credit with Micro and Small Industries extended by foreign banks fluctuated.

**Table 6: Spread of Bank Branches of Scheduled Commercial Banks From 2007-08 To 2016-17**

Year	Rural	Semi-urban	Urban	Metropolitan	Total
2007-08	30173 (39.72)	18246 (24.02)	14232 (18.73)	13315 (17.53)	<b>75966 (100)</b>
2008-09	30821 (38.57)	19569 (24.49)	15245 (19.08)	14277 (17.86)	<b>79912 (100)</b>
2009-10	31845 (37.39)	21313 (25.02)	16621 (19.52)	15391 (18.07)	<b>85170 (100)</b>
2010-11	33315 (36.64)	23630 (25.99)	17571 (19.33)	16403 (18.04)	<b>90919 (100)</b>
2011-12	35931 (36.44)	26392 (26.76)	18811 (19.08)	17478 (17.72)	<b>98612 (100)</b>
2012-13	39199 (36.78)	29163 (27.36)	19874 (18.65)	18348 (17.21)	<b>106584 (100)</b>



<b>2013-14</b>	44676 (37.86)	32216 (27.30)	21515 (18.23)	19589 (16.61)	<b>117996 (100)</b>
<b>2014-15</b>	48140 (38.01)	34526 (27.26)	23098 (18.24)	20879 (16.49)	<b>126643 (100)</b>
<b>2015-16</b>	50561 (37.87)	36455 (27.31)	24395 (18.27)	22088 (16.55)	<b>133499 (100)</b>
<b>2016-17</b>	48806 (35.35)	38201 (27.67)	24574 (17.80)	26478 (19.18)	<b>138059 (100)</b>

**Source: RBI, Statistical Tables Relating to Banks in India from 2007-08 to 2016-17.**

**Note: Figures in parentheses represent percentage to total.**

Table 6 shows the spread of bank branches of all scheduled commercial banks over different areas such as rural, semi-urban, urban and metropolitan areas from 2007-08 to 2016-17. The total branches of all scheduled commercial banks located in different areas gradually increased from year to year over ten year study period. But there was no increase in the number of bank branches in the rural areas from 2015-16 to 2016-17 rather it decreased. This indicates that the scheduled commercial banks had been paying much attention in enhancing their branch networking continuously from year to year for ten year period without any break. The growth rate in the number of bank branches of all scheduled commercial banks in the rural areas was very much significant from 2009-10 to 2015-16 as compared to the growth in the number of bank branches of all scheduled commercial banks in other areas such as semi-urban, urban and metropolitan areas.

### Conclusion

The investment, production and employment of MSMEs over the years for which data are available reveal an increasing trend. The growth in the number of SSI units, production and employment were much impressive from year to year. Majority i.e., 70.82 per cent of the MSMEs are operating in ten states only whereas only 29.18 per cent of the MSMEs are established in 19 states. Even among the top ten states there is disparity in the number of units that are established in the sense that large numbers of MSMEs are established in West Bengal and least number of units is established in Madhya Pradesh. The increase in the outstanding credit with the small and large scale industries is very much high. It is gradually increased for majority of the years of ten year study period. But such growth is not observed in the outstanding credit with each of the medium scale industries. The growth in the outstanding credit with large scale industries was continuous from 2007-08 to 2015-16. But the outstanding credit decreased in the large scale industries in 2016-17. The outstanding credit with Micro and Small Industries extended by Commercial banks was very high and increased continuously over ten year period. The outstanding credit with Micro and Small Industries extended by foreign banks fluctuated. The growth rate in the number of bank branches of all scheduled commercial banks in the rural areas was very much significant from 2009-10 to 2015-16 as compared to the growth in the number of bank branches of all scheduled commercial banks in other areas such as semi-urban, urban and metropolitan areas.

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