



CONTRIBUTION OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN THE GROWTH AND DEVELOPMENT OF INDUSTRIAL SECTOR IN INDIA - A STUDY

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Abstract

Micro, Small and Medium Enterprises (MSMEs) is a dynamic and vibrant sector that nurtures entrepreneurial talent besides meeting social objectives including that of providing employment to millions of people across the country. MSME Sector has emerged as jewel in crown of Indian economy. It is breeding ground of entrepreneurship at grass root level and continues to show dynamism in terms of employment generation and contribution to Gross Domestic Product and Export earnings. Recognizing contribution of MSMEs in promoting balanced and equitable growth, government of India has laid special emphasis on growth and progress of this sector throughout post-independence period. Worldwide, the Micro Small and Medium Enterprises have been accepted as the engine of economic growth and for promoting equitable development. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the MSME sector is much higher than that of the large enterprises. In this study we have analyzed role of MSME in the growth and development of industrial sector in India. Thus this paper highlighted the performance and growth of the MSME. The period of the study is 2001-2011 and based on secondary information. If they get the effective services and facilities from the Government and Institutions, they can perform very well in future.

Keywords: Micro, Small and Medium Enterprises, Number of Units, Employment, Investment, Production and Exports.

INTRODUCTION

Growth and development of Micro, Small, and Medium Sized Enterprises (MSMEs) in India is a major priority given the crucial role that these enterprises play in the country’s industrial economy. One rupee of investment in fixed assets in the MSME sector, for example, produces an estimated 4.6 rupees of goods and services with an incremental 10 percent in value addition. According to the Ministry of MSMEs, over 12.8 million MSMEs collectively employ about 31million people, produce 39 percent of India’s manufacturing output, and make up 95 percent of all industrial units. Their output accounts for approximately 33 percent of total exports and 50 percent of total manufacturing exports. As with other emerging countries, the MSME sector has become an important driver for employment in India. According to the Small Enterprise Finance Centre at the Institute of Financial Management and Research in Chennai, India, the MSME sector is the second largest sector of employment in India, behind agriculture, and makes up about 45 percent of industrial employment

DEFINITION OF MSMEs

The MSMEs of manufacturing enterprises have been classified into micro, small and medium enterprises based on the amount of investment in plant and machinery as follows;

Manufacturing Enterprises – Investment in Plant & Machinery		
Description	INR	USD(\$)
Micro Enterprises	Upto Rs. 25Lakhs	Upto \$ 62,500
Small Enterprises	Above Rs. 25 Lakhs &Upto Rs. 5 Crores	Above \$ 62,500 &Upto \$ 1.25 million
Medium Enterprises	Above Rs. 5 Crores&Upto Rs. 10 Crores	Above \$ 1.25 million &Upto \$ 2.5 million

The MSMEs of service enterprises have been classified into micro, small and medium enterprises based on the amount of investment in equipments as follows



Service Enterprises – Investment in Equipments		
Description	INR	USD(\$)
Micro Enterprises	Upto Rs. 10Lakhs	Upto \$ 25,000
Small Enterprises	Above Rs. 10 Lakhs &Upto Rs. 2 Crores	Above \$ 25,000 &Upto \$ 0.5 million
Medium Enterprises	Above Rs. 2 Crores&Upto Rs. 5 Crores	Above \$ 0.5 million &Upto \$ 1.5 million

OBJECTIVES OF THE STUDY

The study has been carried out the following objectives.

1. To analyse the overall growth and performance of MSMEs sector in India,
2. To analyse comparative growth rate and contribution of MSMEs in total industrial production and gross domestic product.

PROBLEMS OF MSMEs

MSMEs play a very vital role in the economic development our country. This sector can stimulate economic activity and is entrusted with the responsibility of realising various objectives like generation of more employment opportunities with less investment, reducing regional imbalances etc. MSMEs are not in a position to play their role effectively due to various constraints. The various problems faced by MSMEs are as under.

- Scarcity of capital.
- Availability of Inadequate credit facility.
- Poor quality product.
- Irregular supply of raw material.
- Non availability of latest technology
- Non availability of power
- Non availability of transportation
- Marketing problems
- Underutilisation of capacity
- Inadequate skilled manpower
- Poor project planning
- Managerial inadequacies
- Lack of training
- Lack of communication
- Low return
- Lower productivity.

METHODOLOGY

The data is based on secondary in nature. Secondary data have been collected from published reports of the Ministry of Micro, Small And Medium Enterprises(MSMEs) and published annual reports of different financial institutions.

LITERATURE REVIEW

The Economic Survey, 2011-12 has stated 'MSME is a dynamic and vibrant sector that nurtures entrepreneurial talent besides meeting social objectives including that of providing employment to millions of people across the country.' Our first Prime Minister Pt Jawaharlal Nehru said 'sky is the limit for small industry' India has to its credit of operating the largest and oldest programme for the development of MSMEs Sector. MSMEs constitute the dominant form of business organization even across the world and are the major providers of employment. Review of such available literature is presented below.

Mali, D.D. (1998) in his study he has observed that small and medium enterprises (SMEs) and micro enterprises have to face increasing competition in the present scenario of globalization, they have to specifically improve themselves in the fields of management, marketing, product diversification, infrastructural development, ethnological up gradation. Moreover, new small and medium enterprises may have to move from slow growth area to the high growth area and they have to form



strategic alliance with entrepreneurs of neighboring countries. Data bank on industries to guide the prospective entrepreneurs including investors from abroad is also needed

Professor Gunnar Myrdal (2004) recommends investment in Micro, Small And Medium Enterprises Sector, ie the adoption of a strategy, based on predominantly labour-intensive techniques(adopted in small and cottage industrial sector) in less developed countries on the ground that “the large volume of unutilized labour possessed by these countries has a productive potential, capable of creating capital and increasing production”

Desai (1983) also stated that rapid industrialization in India depends on the growth of small scale industries. Most of the small scale industries are operating under certain handicaps like shortage of raw materials, low levels of technical knowledge, poor infrastructure, inadequate capital and credit facilities, improper distribution system, lack of facilities for market analysis, research and development. They are also weak in marketing their products beyond their localities especially in international markets.

GROWTH OF MSEM_s -ANALYSIS

The Micro, Small and Medium Enterprises (MSMEs) sector contributes significantly to the manufacturing output, employment and exports of the country. It is estimated that 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. The main purpose of this study is to evaluate the performance and growth of Micro, Small And Medium Enterprises (MSMEs) In India. The following table shows that overall performance of MSMEs in India.

Table- 1, Overall Performance of MSMEs in India

YEAR	TOTAL WORKING MSMEs(lakh numbers)	FIXED INVESTMENT (RsCrore)	PRODUCTION	EMPLOYMENT	EXPORTS
2001-02	105.21	154349	282270	249.33	71244
2002-03	109.49	162317	314850	260.21	86013
2003-04	113.95	170219	364547	271.42	97644
2004-05	118.59	178699	429796	282.57	124417
2005-06	123.42	188113	497842	294.91	150242
2006-07	261.01	500758	709398	594.61	182538
2007-08	272.79	558190	790759	626.34	202017
2008-09	285.16	621753	880805	659.35	221726*
2009-10	298.08	693835	982919	695.38	244511*
2010-2011	311.52	773487	1095758	732.17	267295*
AAG	16.21	25.82	16.61	15.57	15.99

Source: Annual Report 2011-2012, Ministry of Micro, Small and Medium Enterprises, * predicted figures

From the above table shows ,it is seen that the MSMEs sector has shown tremendous growth in their number, production, fixed investment, employment and exports over the last ten years. The total number of MSMEs units has increased from 105.21 lakhs in 2001-2002 to 311.52 lakhs in the year 2010-2011 with an average growth rate of 16.21 per cent. Over the last 10 years the fixed investment in MSMEs shows the annual average growth rate of 25.82 per cent. Similarly the production of MSMEs units has gone up from Rs282270 crores in 2001-2002 to Rs 1095758 in 2010-2011 with an average growth rate of 16.61 per cent. The production from these industries has gone by around four times from 2001-02 to 2010-2011. The total number of persons employed in MSMEs units ,too has gone up from 249.33 lakhs in 2001-2002 to 732.17 lakhs in 2010-



2011. But it records an average growth rate of 15.57 per cent over the years 2001-2002 to 2010-2011. The total person employed in these industries after 2006-2007 till 2010-2011 has grown consistently around 5 per cent. Exports from MSMEs sector account for nearly 35 per cent of the gross value of exports from our country. Total value of exports of this sector has increased from Rs71244 crores in 2001-2002 to Rs 267295 (estimated) in 2010-2011. It has recorded the average growth rate of 15.99 per cent. It is evident that MSMEs is playing a very important role in the industrial development of our country. In figures (figure 1(a)), (figure 1(b)), (figure 1(c)), (figure 1(d)) present trend lines of number of enterprises, number of employment, number of production and number of fixed investment MSMEs Sector in India.

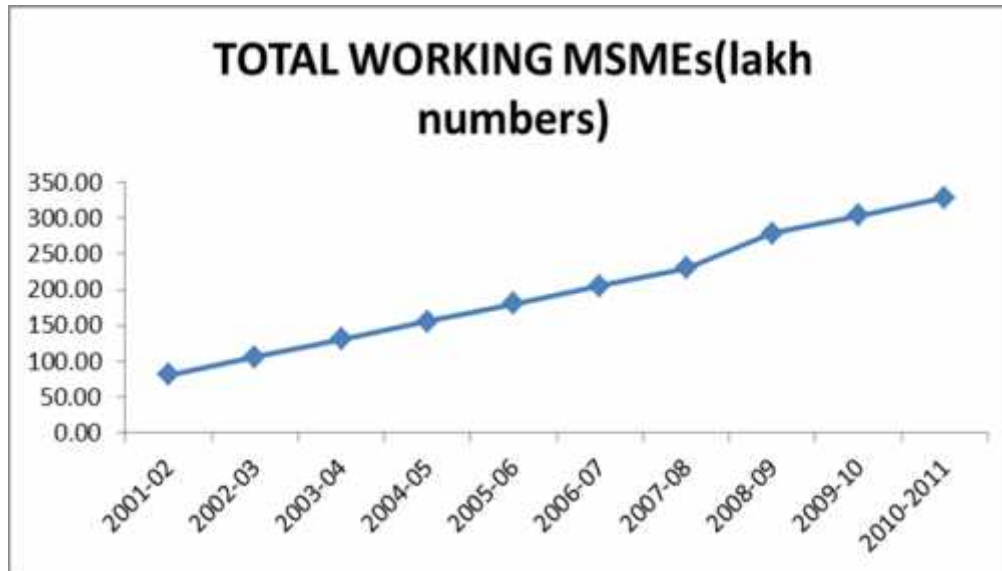


Figure-1(a)

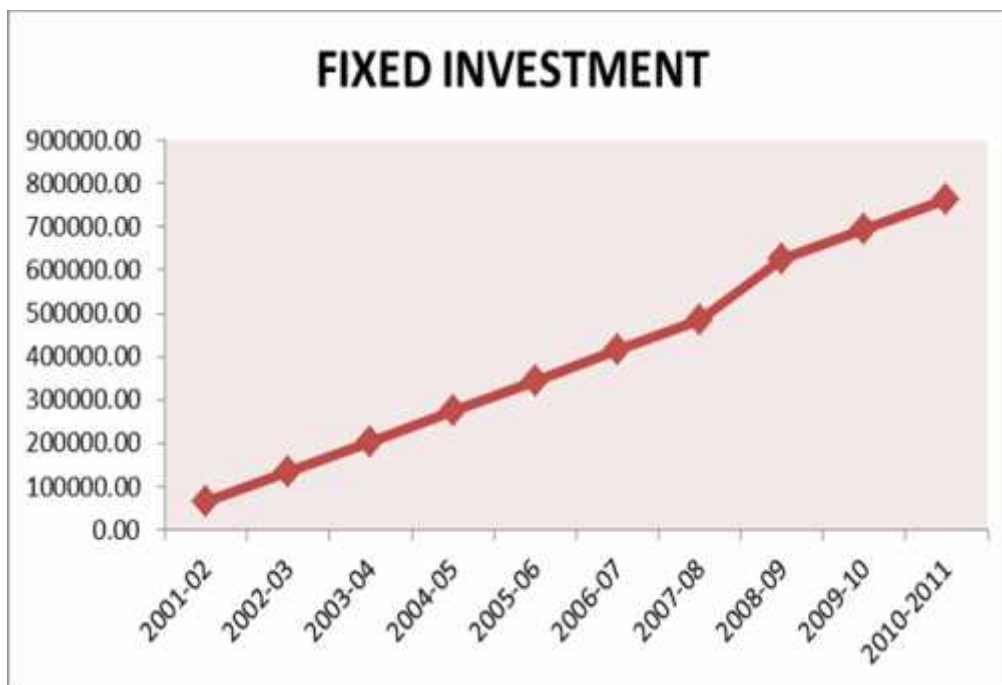


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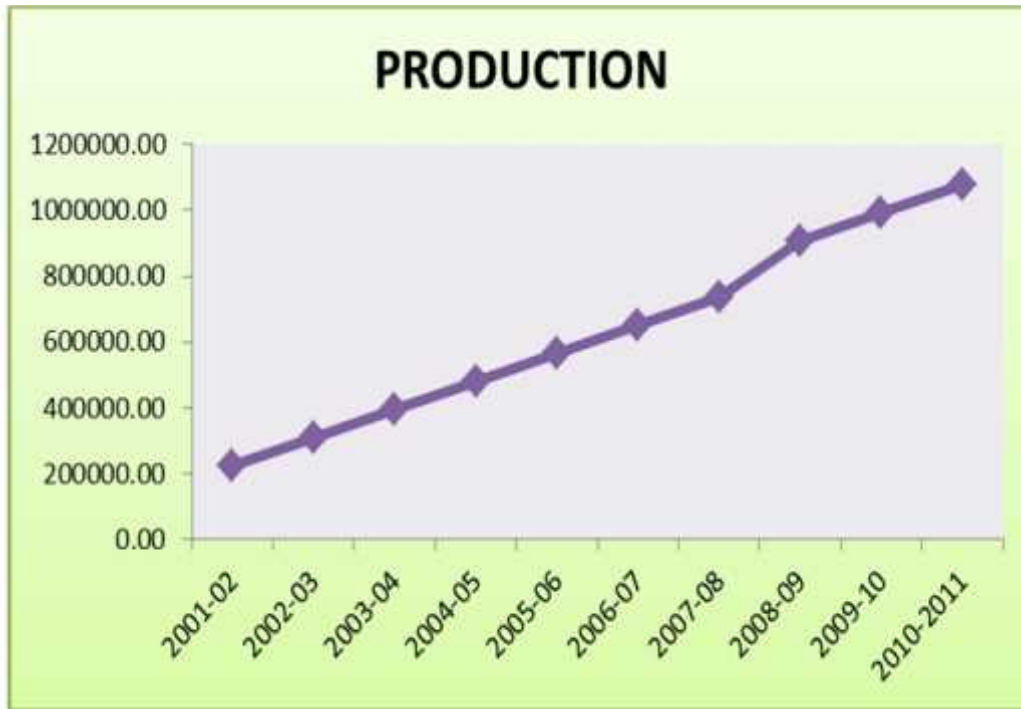


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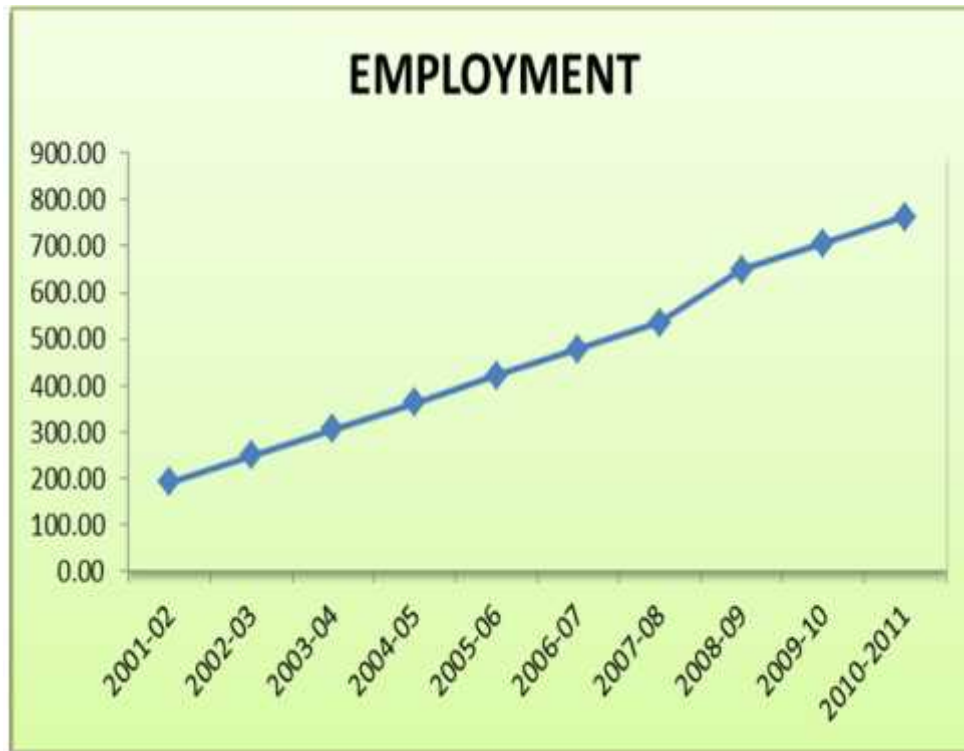


Figure -1(d)

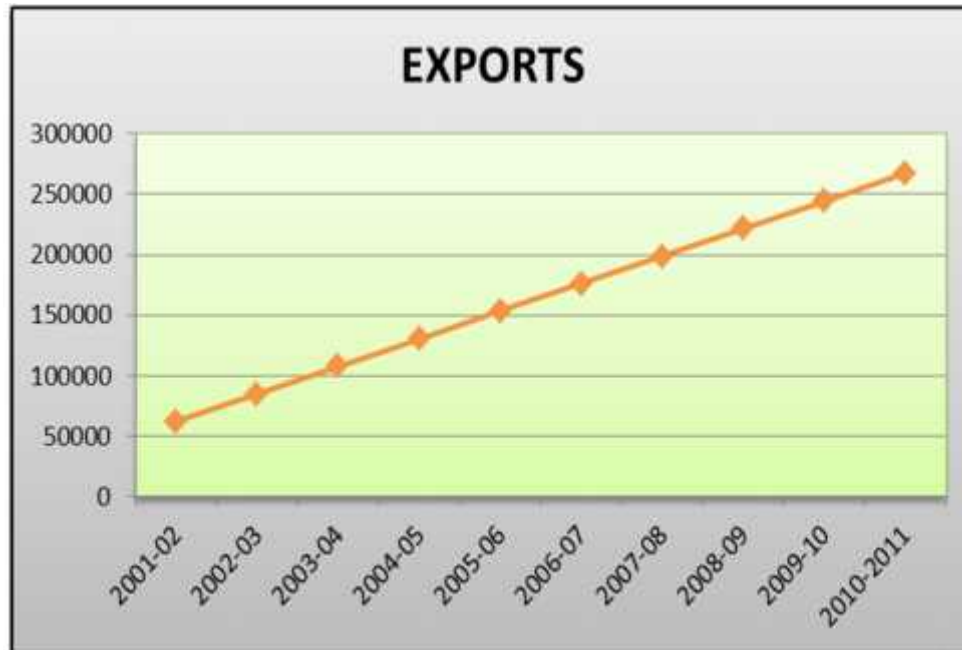


Figure -1(e)

Table- 2, Comparative Growth of MSMEs Sector

Year	Growth rate of MSMEs (%)	Growth rate of Over all industrial sector (%)	Growth rate of MSMEs compare to Overall industrial sector growth rate(%)
2002-2003	8.68	5.70	52.28%
2003-2004	9.64	6.90	39.71%
2004-2005	10.88	8.40	29.52%
2005-2006	12.32	8.00	54.00%
2006-2007	12.60	11.90	5.88%
2007-2008	13.00*	8.70	49.43%
2008-2009	14.38	3.20	147.50%
2009-2010	15.29*	10.50	36.94%
2010-2011	16.20*	7.80	96.03%
AAG	16.20	7.9	

Source: Annual Report 2011- 2012, Ministry of Micro, Small And Medium Enterprises,

* Projected AAG-Annual Average Growth Rate

The above table exhibit that the growth rate of MSMEs has increased from 8.68 per cent in 2002-03 to 16.20 percent in 2010-11 whereas the growth rate in overall industrial sector has increased from 5.70 per cent to 8.00 per cent during the same period with increasing trend till 2006-07 but declined in 2010-2011. The annual average growth rate of MSMEs is 16.20 percent whereas that of overall industrial sector is only 7.9 percent. It is evident that MSMEs units has recorded double the growth rate than that of all the industries put together. In other words the contribution of MSMEs industry is very crucial in the development of the economy of India. In figure (figure 2(a)) present the linear graph or trend line of comparative growth rates of MSMEs sector in India.

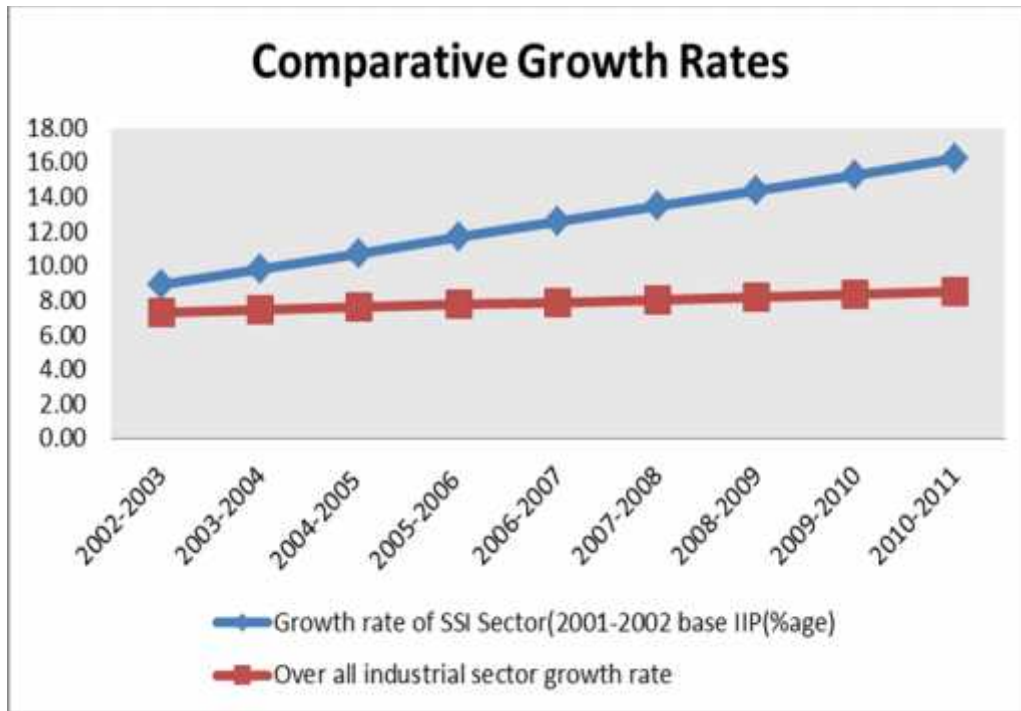


Figure- 2 (a)

Table- 3, Contribution of MSME (%) at 1999-2000 prices in total industrial Production and GDP

Year	Total Industrial Production	Gross Domestic Product
1999-2000	39.74	5.86
2000-2001	39.71	6.04
2001-2002	39.12	5.77
2002-2003	38.89	5.91
2003-2004	38.74	5.79
2004-2005	38.62	5.84
2005-2006	38.56	5.83
2006-2007	45.62	7.20
2007-2008	45.24	8.00
2008-2009	44.86	8.72
	AAG = 1.52	6.50

Source: Annual Report 2011-2012, Ministry of Micro, Small and Medium Enterprises

The above table shows that the total industrial production have increased from 39.74 percent in 1999-2000 to 45.24 percent in 2007-2008 but declined to 44.86 percent in 2008-2009. It is seen that gross domestic product shows increasing trend from 5.86 percent in 1999-2000 to 8.72 percent in 2008-2009. The annual growth rate of total industrial production is 1.52 per cent and that of GDP is 6.5 per cent. This signifies that the MSMEs have vital role in the growth and development of Indian Economy. In figure 3(a) present the trend line of contribution of MSMEs Sector in India.

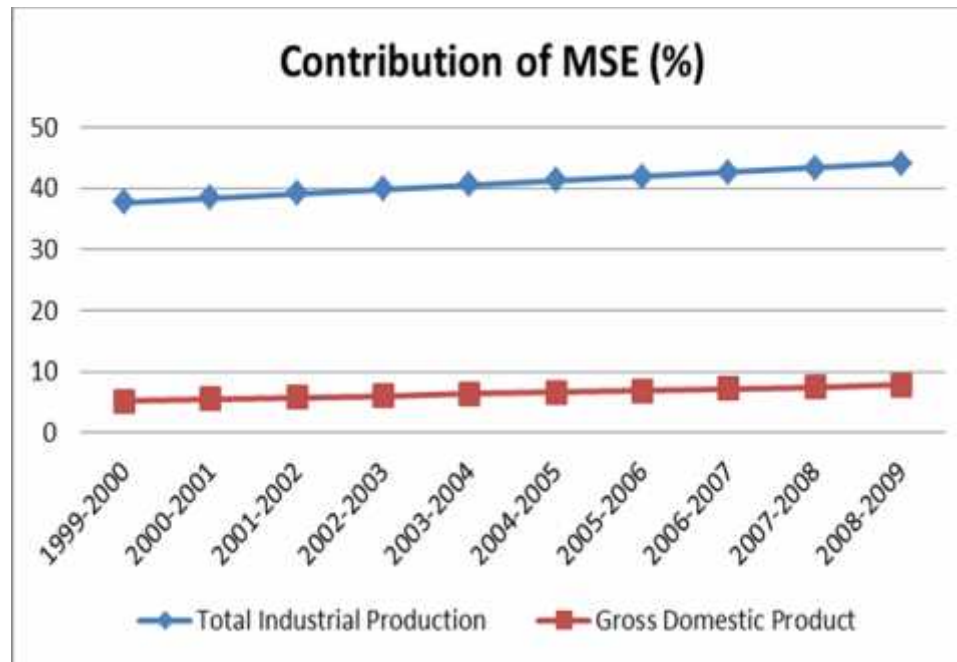


Figure-3(a)

CONCLUSION AND FINDINGS

Micro, Small and Medium Enterprises is the best option for a country like India wherein on one hand there is acute problem of unemployment and on other hand scarcity of capital. MSMEs is an important components of our national industrial base and the driving force of our developmental efforts. The main findings of the study are:

1. The annual average growth rate of total number of MSMEs working unit has recorded 16.21 per cent over the last ten years.
2. Over the last 10 years the fixed investment in MSEM's shows the average growth rate of 25.82 per cent.
3. The production from MSMEs industries has gone by around four times from 2001-02 to 2010-11 with an average growth rate of 16.61 per cent.
4. The numbers of persons employed in these industries have increased from 249.33 lakhs in 2001-02 to 732.17 lakhs in 2010-11, which indicates that there is around three time increase in employment in a span of ten year. It has recorded the annual average growth rate of 15.57 per cent.
5. Total value of exports of this sector has increased from Rs71244 crores in 2001-2002 to Rs 267295(estimated) in 2010-2011. It has recorded the average growth rate of 15.99 per cent. This also signifies that there has an around three time increase in exports in a span of seven years.
6. MSME has recorded double the growth rate than that of all the industries put together which is evident from Table 6.2. In other words the contribution of MSMEs industry is very crucial in the development of the economy of India.
7. The annual growth rate of total industrial production is 1.52% and that of GDP is 6.5% which is evident from Table 6.3.

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