

MSMEs IN INDIA: CATALYST TO ECONOMIC GROWTH AND DEVELOPMENT

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Abstract: MSMEs are catalyst to the growth of the economy in the long run as they are set up with small investment, provide huge employment opportunities to skilled, semi-skilled and unskilled workforce of the region where they are located, uses local resources and promote ancillarisation. In India MSME's employ nearly 11 crore people and contribute around 17 percentage of the GDP. With these potential in hand MSME in India can be the backbone for the existing and future growth of the country. The paper studies the performance and growth of MSMEs in India, availability of funds to these enterprises through various sources, their contribution towards employment generation and in the GDP of the country. The paper further deals with challenges faced by these enterprises and the government initiatives to address them. In the latter part of the paper few ground realities are also discussed.

Keywords: MSMEs, employment opportunities, growth, finance, development

Micro Small and Medium Enterprises (MSMEs) are the engines of growth for a developing economy. They constitute 90% of the total enterprises in most of the economies and are credited with generating higher rate of employment growth and holds major share in industrial production and exports. MSMEs aim towards achieving the national objective of growth with equity and inclusion. The "Make in India" campaign launched by our PM Mr. Narendra Modi on 25th Sept 2014 is a national programme designed to facilitate investment, enhance skill development, foster innovation, protect intellectual property and to build up manufacturing infrastructure that will boost the economic growth of the country. The campaign has the potential to bring a transformational change in MSME's which contributes about 45% of the nation's total industrial output and 40% of the industrial export. The Ministry of micro, small and medium enterprises is playing a crucial role in encouraging enterprises, generating employment, upgrading the competitiveness of MSMEs to stand at par with the global counterparts.

MSMEs are catalyst to the growth of the economy in the long run as they are set up with small investment, provide huge employment opportunities to skilled, semi-skilled and unskilled workforce of the region where they are located, uses local resources and promote ancillarisation. In India MSME's employ nearly 11 crore people and contribute around 17 percentage of the GDP. With these potential in hand MSME in India can be the backbone for the existing and future growth of the country. With the right direction and support from the government the new MSME's would enable the development of business ecosystem. "With around 36.1 million units throughout the geographical expanse of the country, MSMEs contribute around 6.11 per cent of the manufacturing GDP and 24.63 per cent of the GDP from service activities as well as 33.4 per cent of India's manufacturing output. They have been able to provide employment to around 120 million persons and contribute around 45 percent of the overall exports from India." (Yojana 2017, p.41)

OBJECTIVE OF THE STUDY

The main objective of the paper is to study the performance and growth of MSMEs in India, availability of funds to these enterprises through various sources, contribution towards employment generation and their role in the GDP of the country. The paper further deals with challenges faced by these enterprises and the government initiatives to address them. In the latter part of the paper few ground realities are also discussed.

METHODOLOGY

For the purpose of the study, descriptive and analytical methodology has been adopted, and for auxiliary information, MSME annual reports, 4th All India Census Report of MSME, economic surveys, draft papers, data available on the websites of MSME government portal and journal articles have been referred to. The data thus collected from these secondary sources are tabulated and analyzed for drawing conclusions. For the purpose of finding out the ground realities, primary data have also been collected through personal interaction/interviews of 30 entrepreneurs of Varanasi District.

Present scenario of MSME in India

MSME have registered a progressive growth since the introduction of MSME Development Act, 2006. In spite of the economic and financial turmoil at international level and the impact of it being felt on Indian economy in 2008, MSME has resiliently withstood with the economy. The government has provided numerous facilities and opportunities for the expansion and

diversification of MSMEs in India. The MSME Act, 2006 defines micro, small and medium enterprises which have been classified into micro, small and medium enterprises on the basis of amount of investment in plant and machinery.

	Manufacturing enterprises (investment in plant and machinery)	Service Enterprises (investment in equipments)
Micro Enterprises	Upto rupees 25 lakhs	Upto rupees 10 lakhs
Small Enterprises	Above 25 lakhs to 5 crores	Above 10 lakhs and upto rupees 2 crore
Medium Enterprises	Above 5 crores and upto 10 crore	Above rupees 2 crore and upto rupees 5 crore

Table:1

As per the data of the 4th All India Census of MSME 2006-07, total enterprises were 198.39 lakh micro and 0.35 lakh small enterprises. The total employment as per 3rd Census(2001-02) was 187.69 lakh and it increased to 408.84 lakh in the 4th Census(2006-07). Total fixed investment was 62556.60 cr as per the report of 3rd Census and it further increased to 240816.46 cr in the 4th census. The above comparative data highlights the contribution of MSMEs towards employment generation and fixed investment.

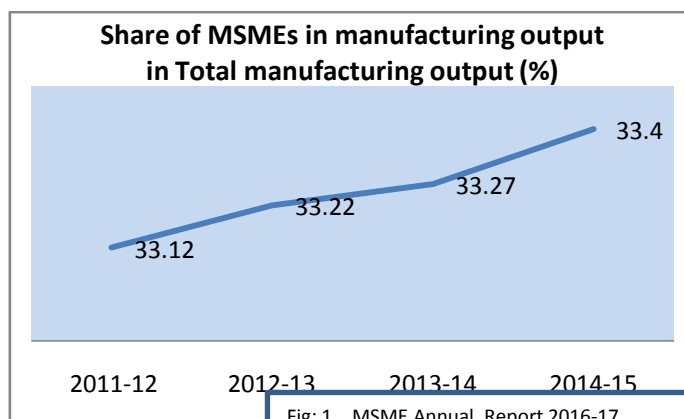
SHARE OF MSME IN THE GDP OF THE COUNTRY

GDP reflects the economic development and growth of an area or a unit. The contribution of MSMS in the GDP of the country has been increasing year after year.

SHARE OF MSME SECTOR IN GDP AND TOTAL MANUFACTURING OUTPUT				
	Manufacturing Output at Current Price	Share of MSME in GDP at Constant price for base year 2011-12(%)		
YEAR	Share of MSME in manufacturing output in total manufacturing output (%)	MSME Manufacturing Sector(GDP)	MSME Service Sector (GDP)	Total GDP
2011-12	33.12	6.16	23.81	29.97
2012-13	33.22	6.27	24.13	30.40
2013-14	33.27	6.27	24.37	30.64
2014-15	33.40	6.11	24.63	30.74

Table:2 **Source: MSME Annual Report 2016-17**

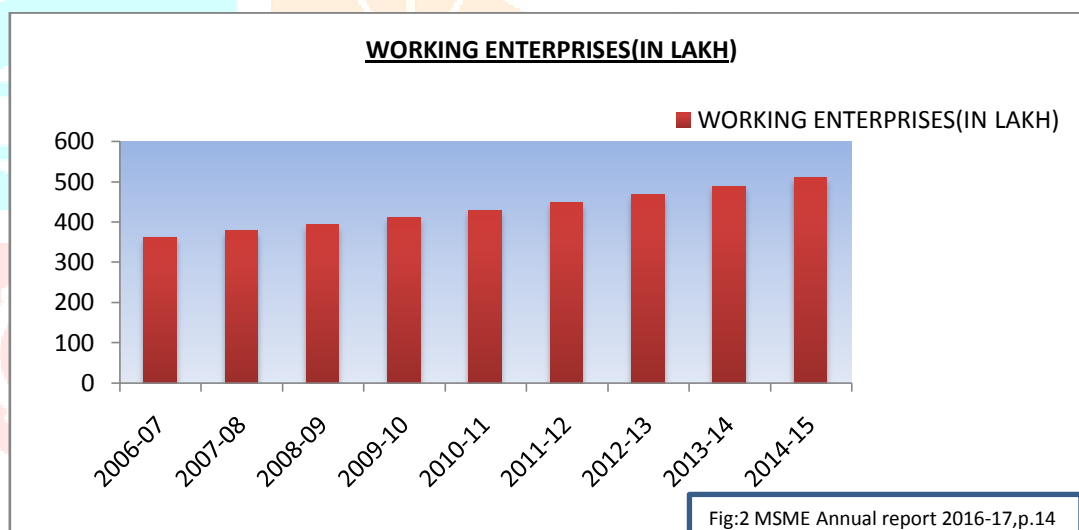
Table:2 exhibits the share of MSME in the GDP of the country. The share of MSME in the GDP has registered a growth of 3.44 per cent from 2011-12 to 2014-15. one of the reason for the increase can be attributed to the fact that people invest more in service rather than manufacturing as the investment required in manufacturing is very high. MSMEs makes valuable contribution in both manufacturing as well as service sectors. The data in Table:2 also exhibit that there has been slow increase in the share of MSMEs in manufacturing output. From 2011 to 2015 the share percent has increased to 0.28 per cent.



TOTAL WORKING ENTERPRISES

YEAR	WORKING ENTERPRISES(IN LAKH)	YEAR	WORKING ENTERPRISES(IN LAKH)
2006-07	361.76	2011-12	447.64
2007-08	377.36	2012-13	467.54
2008-09	393.70	2013-14	488.46
2009-10	410.80	2014-15	510.57
2010-11	428.73		Table:1
Table:3		Source:MSME Annual Report 2016-17	

Table:3 shows the total MSM enterprises during the last few years. From 2006-07 to 2010-11 the number of enterprises have swelled from 361.76 lakhs to 428.73 lakhs, registering a growth of 18.51 per cent. The number further increased to 510.57 lakh in 2014-15, i.e. further increase of 19.08 per cent. The increase has been mainly due to the initiatives taken by the government after MSME Development Act, 2006. About 20 percent of the MSMEs are based out of the areas, indicating the deployment of rural work force at large scale. MSMEs are the engine of growth for a developing economy. Their contribution is crucial as with less or small investment they provide enormous employment at much low cost than large industries. They complement the ancillary units and contribute towards the socio economic development of the nation.



As per MSMEs Annual Report 2016-17, the bulk of the MSMEs in India are owned as private proprietorship (39.44 million or 87 per cent). Among the rest, 0.41 million (0.91 per cent) were private partnerships, 0.19 million (0.42 per cent) were private companies, 0.23 million (0.51 per cent) were private self help groups, 0.10 million (0.22 per cent) were private non-profit institutions. (Annual Report 2016-17, p.13)

TOTAL EMPLOYMENT GENERATED

YEAR	EMPLOYMENT (IN LAKH)	YEAR	EMPLOYMENT (IN LAKH)
2006-07	805.23	2011-12	1011.69
2007-08	842.00	2012-13	1061.40
2008-09	880.84	2013-14	1114.29
2009-10	921.79	2014-15	1171.32
2010-11	965.15		
Table:4		Source:MSME Annual Report 2016-17	

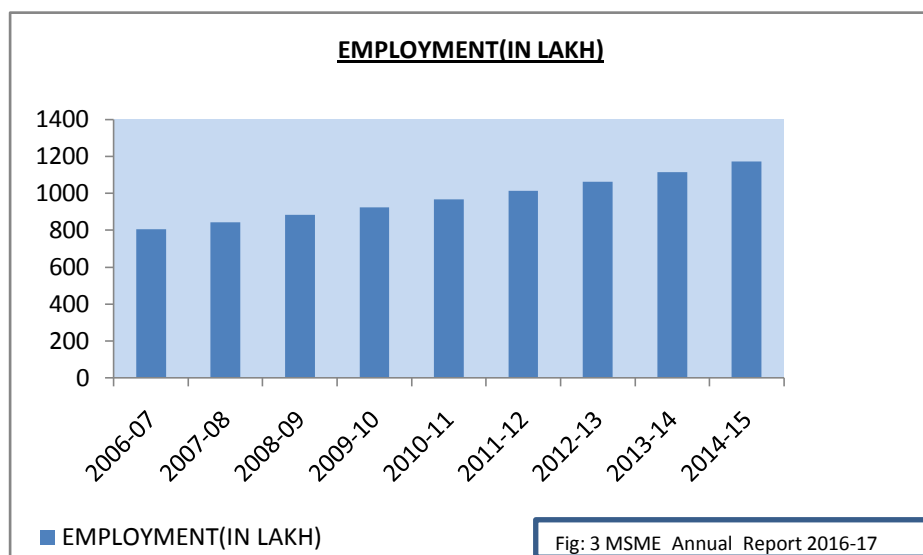
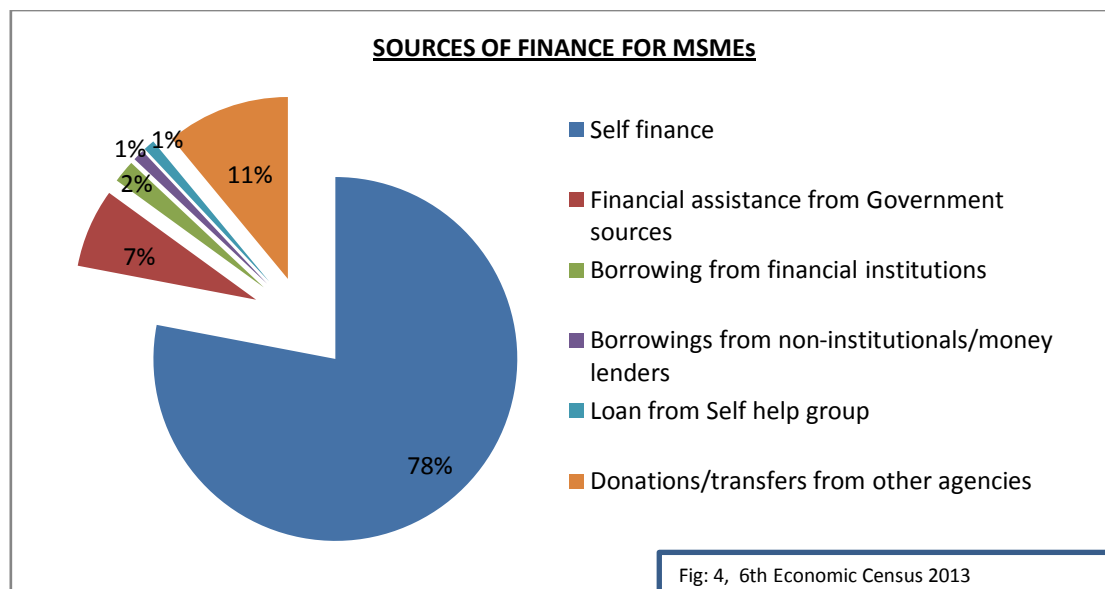


Table: 4 exhibit the employment generated by MSME. The data shows a steady increase in number of people employed in MSMEs. In 2006-07 the number of people employed in MSMEs was 805.23 lakhs which increased to 880.84 lakhs in 2008-09, 965.15 lakhs in 2010-11, 1061.40 lakhs in 2012-13 and 1171.32 lakhs in 2014-15, i.e., registering an increase of 19.86 per cent during 2006-07 to 2010-11 and further to 21.36 per cent from 2010-11 to 2014-15. This shows that MSMEs are employment generators and they have the capacity to absorb the unskilled, semi-skilled and skilled workforce of the country. Further the data reveal that per unit employment of workforce in MSME has increased consistently. It was 2.22 lakh employees per unit in 2006-07, 2.25 lakh per unit in 2010-11, 2.27 lakh per unit in 2012-13 and 2.29 lakh per unit in 2014-15.

SOURCES OF FINANCE FOR MSMEs(6th Economic Census)

SOURCES OF FINANCE	Percent
Self finance	78
Financial assistance from Government sources	7
Borrowing from financial institutions	2
Borrowings from non-institutionals/money lenders	1
Loan from Self help group	1
Donations/transfers from other agencies	11
Table:5	Source: 6th Economic Census

Table:5 shows the sources of finance for MSME. As per the data of the 6th Economic Census 78 per cent of the capital is self financed by MSME entrepreneurs and the finance provided by the government sources stands at just 7 per cent. This is the biggest challenge faced by the entrepreneurs as they lack the availability of finance.



PROJECTED MARKET VALUE OF FIXED ASSETS IN MSME SECTOR (in crores)

YEAR	MARKET VALUE OF FIXED ASSETS(in crores)	YEAR	MARKET VALUE OF FIXED ASSETS(in crores)
2006-07	868543.79	2011-12	1182757.64
2007-08	920459.84	2012-13	1268763.67
2008-09	977114.72	2013-14	1363700.54
2009-10	1038546.08	2014-15	1471912.94
2010-11	1105934.09		

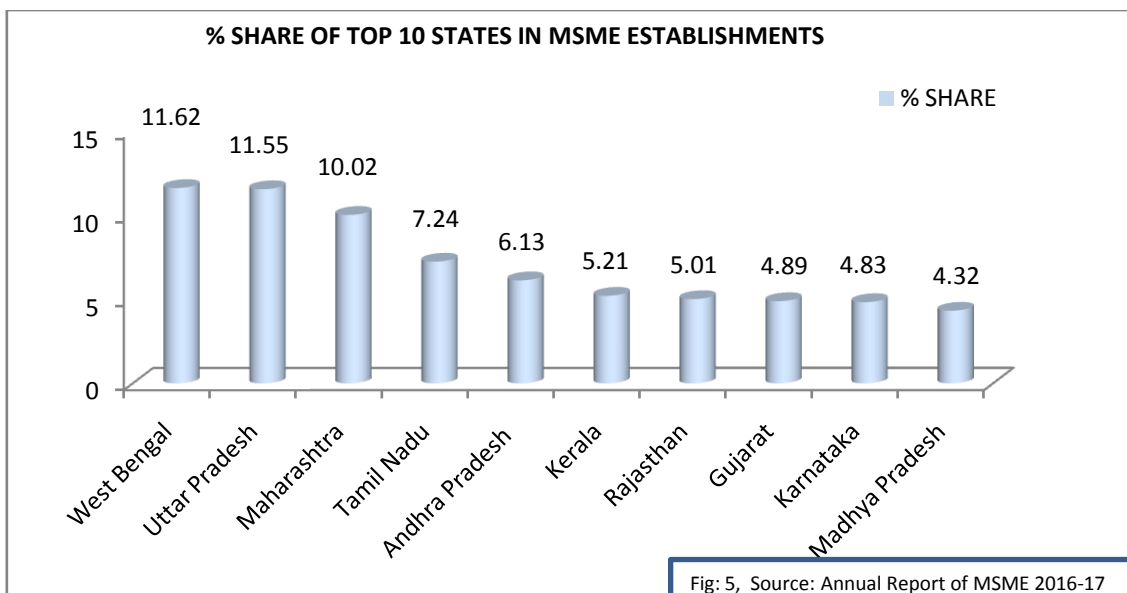
Table:6 MSME SOURCE:4thAll India Census of

Table: 6 exhibits the market value of fixed assets which has registered a tremendous increase of 69 per cent from 2006-07 to 2014-15.

Maximum numbers of MSMEs are concentrated in few states of India. The 10 states which are mentioned in the Table:7 accounts for more than 70 percent of the total number of MSME establishments. They also account for 70 percent of the total employment generated within the MSME establishments.(Annual Report of MSME 2016-17, p.12)

SR.NO.	STATES	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

Table:7 Source:Annual Report of MSME 2016-17, p.12



MSMEs not only provide employment opportunities to local youths at lower capital but also help in industrialization of rural and backward area thereby contributing towards reducing the regional imbalances. It also assures equitable distribution of national income and wealth of the nation. Being complementary to large industries they contribute towards the socio-economic development of the country.

Having exposed to national and international competitions due to economic liberalization and market reform, MSMEs have gone a long way in producing simple consumer goods to high sophisticated and precision products. "Over 6,000 products ranging from traditional to high-tech items are being manufactured by the MSMEs in the country. The labour to capital ratio in MSMEs and the overall growth in this sector is much higher than in the large industries" (Yojana 2017, p.42)

As per the data by the 4th All India Census of MSMEs, there are 26 million MSMEs and these are providing employment to around 69 million persons. Out of 26 million, only 1.5 million MSMEs are registered while the rest 24.5 million are unregistered. The data exhibit that 94 per cent MSMEs are unregistered, as a result they fail to avail benefits and facilities provided to them by the Government.

CHALLENGES FACED BY MSMEs IN INDIA AND THE GOVERNMENT INITIATIVE TO OVERCOME THEM

- One of the biggest challenge before MSME is the timely access to adequate credit.
- Another challenge encountered by these enterprises is the lack of proper infrastructure. The top ten states that have the maximum MSME establishments have poor infrastructure leading to high production cost.
- MSMEs are basically labour intensive enterprises, they use low cost outdated technology that results in low quality production. The enterprises do not have deep pockets to finance the latest technology.
- Unskilled, semi-skilled human resources at their disposal leads to high cost as the output fails to stand parallel to the national and global requirements.
- Due to paucity of funds, the entrepreneurs fail to promote their products. They fail to avail the opportunity of the platforms offered by the government.

GOVERNMENT INITIATIVES FOR ENHANCING COMPETITIVENESS OF MSMEs

- Credit proposals approved without collateral- The government has taken steps to provide credit to MSMEs by covering them under **Credit Guarantee Fund Scheme (CGFS)** which makes these enterprises avail collateral free loan upto 2 crore from the earlier limit of 1 crore through selected financial institutions. Under the flagship programme of Ministry-Prime Minister's Employment Generation Programme (PMEGP), new self employed venture and programs and micro enterprises are set up as they have tremendous potential for job creation. Employment opportunities are also provided at the doorstep of the rural unemployed and Khadi and Village industry sector.

In its endeavour to provide these enterprises existing market and to build enduring interdependent relationship with the large industries the government has come up with Public Procurement Policy 2012. According to the policy as proposed by the government ministries and departments of Central Government and Central Public Sector Enterprises shall procure 20 per cent of the goods and services from Micro and Small Enterprises. Apart from this about 4 per cent has been set aside for the procurement from MSMEs owned by SC and ST entrepreneurs.

- MSMEs are registered on Udyog Aadhar Memorandum, provided credit linked subsidies for technology upgradation, vendor development programmes organized for them and persons are trained for entrepreneurial development programmes to enhance their competitiveness in the national and international market.

FEW GROUND REALITIES OF MSMEs

Following are the problems faced by the entrepreneurs, which were compiled after interview/personal interaction with them:

- ✓ The policies for MSMEs are drafted by the industrialists and capitalists and they consider their own interest and put their priorities first.
- ✓ They extend the limit of micro industries so that they also come under the umbrella of MSME and avail the benefits provided specifically for these enterprises.
- ✓ In actual the entrepreneurs of micro and small industries are running the units at their own risk and cost. An individual is on its own drawing the finances, finding the market for the product, arranging for the power supply and raw materials etc. The government policies and programmes completely fails at the implementation stage.
- ✓ An entrepreneur fails to get the advantage of the government policies. As per the norms of the government any micro small enterprise which supplies its product or services to any Government department is entitled to get payment within 45 days of delivery of the product. In actual hardly the entrepreneurs get timely payment. The payments are detained for 3 months to 6 months and then released on multiple reminders.
- ✓ At the time of placing the tenders, MSME are avoided or ignored by the large enterprises and MNC's, their registration is also avoided.
- ✓ The basic problem is that there is no competent authority or Grievance cell that actually caters the complaints of these enterprises.
- ✓ The procurement policy of the government which states that government companies will procure 20 percent of the goods and services from Micro and Small Enterprises is also ignored.
- ✓ The government schemes and programme for financing MSME are not promoted much by the banking institutions. They avoid giving loans to small entrepreneurs.

ANALYSIS

The share of MSME (service sector) in the GDP of the country has registered an increase from 23.81 per cent in 2011-12 to 24.63 per cent in 2014-15 as per the Annual report of MSME 2016-17. This exhibits a progressive growth as the total number of working enterprises has increased to 19.08 per cent from 2006-07 to 2014-15. With increasing number of enterprises, the number of persons employed in MSME has also increased. In 2006-07 there were 2.22 lakh employees per unit which went up to 2.29 lakh employees per unit in 2014-15.

The data regarding the availability of funds to MSME shows that 78 per cent of the funds are met by the entrepreneurs out of his pocket, thereby limiting the scope of its growth and expansion. The top three states- West Bengal, Uttar Pradesh and Maharashtra have the maximum numbers of MSME establishments.

CONCLUSION

MSMEs are the catalyst for the economic growth and development of the country. The government recognizes its importance in the growth trajectory and through MSME Development Act 2006, is focused towards providing the required incentives to boost the sector. The sector can act as a vehicle to reduce regional disparity and regional imbalance as it has the capacity of providing immense employment opportunities for unskilled and semi-skilled human resource. The need is to address the ground problems and constraints faced by the entrepreneurs and provide them with the required finance and infrastructure to motivate them to be the job providers and contribute towards the growth and development of the Indian economy.

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