

MSMEs Expedites Indian Economic Development

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Abstract: When it comes to assuring the nation's economic progress, MSMEs have played a crucial role. Concurrently increased regional and social equity, employment, and exports. This essay discusses the definition's revival, the effect of MSMEs as measured by performance metrics such as the number of MSME units, employment, investments, and gross output, as well as the contribution of MSMEs to the economy's overall GDP. The following goals were established for this article using the introduction and literature review section: Assess the Influence of MSMEs on the Indian Economic Growth via performance indicators. A comparison of the MSME sector with the entire industrial sector. As seen in other studies, MSMEs have a tremendous contribution to GDP. Thus, the government must give this sector a high priority and should support its development. The expansion of MSMEs as a result of the expanding economy will assist the economy in becoming a huge corporate powerhouse. In order for them to continue making contributions to the business for a very long time, they will need to keep their key employees and make sure they are given a clear vision, purpose, and career potential.

Keywords: MSME, Investment Destination, Privatization, Disinvestment, Global Attention, Economic Development

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I. Introduction :

MSMEs has played an indispensable role while ensuring the process of economic growth in the country. Concomitantly boosted growth, employment, exports along with geographical and social equity. This paper deals with the revived definition, impact of MSMEs through performance indicators like Number of MSME Units, Employment, Investments and Gross Output, and the contribution of MSMEs to overall GDP of the economy. This sector carries the advantage of carrying the reserves the employment potential at low capital cost.

The micro, small and medium enterprises (MSMEs) play a vital role in the economic and social development of the country, often acting as a nursery of entrepreneurship. Worldwide, micro, small and medium enterprises (MSMEs) have been accepted and proved as an engine of economic growth and in promoting equitable development.

90% of the total enterprises are constituted by MSMEs in most of the economies and are credited with generating the highest rates of employment growth and accounts for a major share of industrial production and exports.

Micro Small and Medium Enterprises play a key role in the industrialization of a developing nation. "This is because: they provide immediate large scale employment and have a comparatively higher labour-capital ratio; they need only a shorter gestation period and relatively smaller markets, to be economic; they need lower investments. They offer a method of ensuring a more equitable distribution of the national income and facilitate an effective mobilization of the resources of capital and skill which might, otherwise, remain unutilized; and they stimulate the growth of the industrial entrepreneurship and promote a more differed pattern of ownership and location¹.

The definition of small scale industries differs from country to country as the classification is based on different parameters viz., turnover, number of employees, etc. Under the Industrial Development and Regulation (IDR) Act, 1951, the notion of small industries in India was conceived in terms of number of employees. In

absence and difficulty in obtaining reliable data on number of employees, investments in plant & machinery / equipment was suggested as a proxy. Currently, the classification of MSMEs is done based on investment in plant & machinery/equipment in accordance with the provision of Section 7 of MSME Act, 2006, as indicated below²:

Table I : Definition of MSME		
Classification	Manufacturing Enterprise (Investment in Plant and Machinery)	Service Enterprise (Investment in Equipment)
Micro	Upto 25 lakh	Upto 10 lakh
Small	Above 25 lakh to 5 crore	Above 10 lakh to 2 crore
Medium	Above 5 crore to 10 crore	Above 2 crore to 5 crore

Organizations associated with MSMEs

The MSME sector has slowly come into the limelight, with increased focus from the government and other government institutions, corporate bodies and banks. Policy based changes; investments into MSMEs; globalization and India's robust economic growth have opened up several latent business opportunities for this sector. There are various organizations which are associated with MSME. Such organizations are as follows:

- Small Industries Development Organisation (SIDO)
- Small Scale Industries Board (SSIB)
- National Small Industries Corporation Ltd. (NSIC)
- Confederation of Indian Industry (CII)
- Federation of Indian Chamber of Commerce and Industry (FICCI)
- PHD Chamber of Commerce and Industry (PHDCCI)
- National Institute for Entrepreneurship and Small Business Development (NIESBUD)
- Small Entrepreneurs Promotion and Training Institute (SEPTI)
- Small Industries Development Bank of India (SIDBI)
- Khadi Village Industries Corporation (KVIC), etc.

II. Literature Review

Many authors through their literature throw light on the various aspects of MSMEs.

Chakrabarty, K. C (December 21, 2011) in his speech focuses on the needs of small and medium enterprises, and emphasizes on providing highest priority to this sector in order to achieve balanced, sustainable, more equitable and inclusive growth in the country³.

Mathew P.K (Jan 2012) in his article explained the relevance of MSMEs in India during the twelfth five year plan. In his article it is described that apart from the entire challenges, MSME stand as the stepping stone to achieve inclusive growth in an economy⁴.

Nagayya, D. (2005a)12, in his article, "Changing Role of District Industries Centres," reviews the structure and policies of district industries centres (DICs) introduced at the district level all over the country between 1978 and 1981 in a phased manner, and critically examines effectiveness in dispersing industrialisation to smaller towns and rural areas, and facilitating single window services to micro and small entrepreneurs⁵.

Benjamin, C.T. (2007)13, in his article, "Policies, Performance and Evaluation of SME Export: Experience of India," reviews the role of small and medium enterprise (SME) sector in the Indian economy. He evaluated the performance of the SME sector in exports, and critically looked at the constraints and challenges faced by the sector in making greater contribution to exports. The term small and medium enterprise is used in a broad sense to include the traditional and modern manufacturing and service enterprises⁶.

Nagayya, D. and B. Sobha Rani (2008)9, in their article on "Financing Small and Medium Enterprises in the Emerging Scenario," present the recent trends in credit flow to micro and small enterprises (MSEs) in particular, and medium enterprises, in a limited way, from commercial banks and Small Industries Development Bank of India (SIDBI), and outline the recommendations of A.S. Ganguly Working Group, and internal group chaired by C.S. Murthy⁷.

Objective

With the introduction and literature review part this paper has followed by the following objectives:

- Analyze the Impact of MSMEs on the Indian Economic Development via performance indicators
- Comparative analysis of MSME sector with Overall Industrial Sector.
- Find out the contribution of MSMEs and GDP growth.

MSME SECTORS IN INDIA.

Performance of Micro, Small & Medium Enterprises (MSME) sector is assessed by conduct of periodic All India Census of the Sector. The latest census conducted was published in 2015-16. The scope and coverage of the MSME sector was broadened significantly under the MSMED Act, 2006, which recognized the concept of “enterprise” and to include both manufacturing and services sector, besides defining the medium enterprises under MSME sector. It is clear from the table No.2 that number of enterprises, employment, and investment in fixed assets and gross output of MSME units in India show an increasing trend over the Twenty Four years. I have calculated the **Mean, S.D, and Co-variance.**

Table No.2
Performance of SSI / MSME Units, Employment, Investments and Gross Output

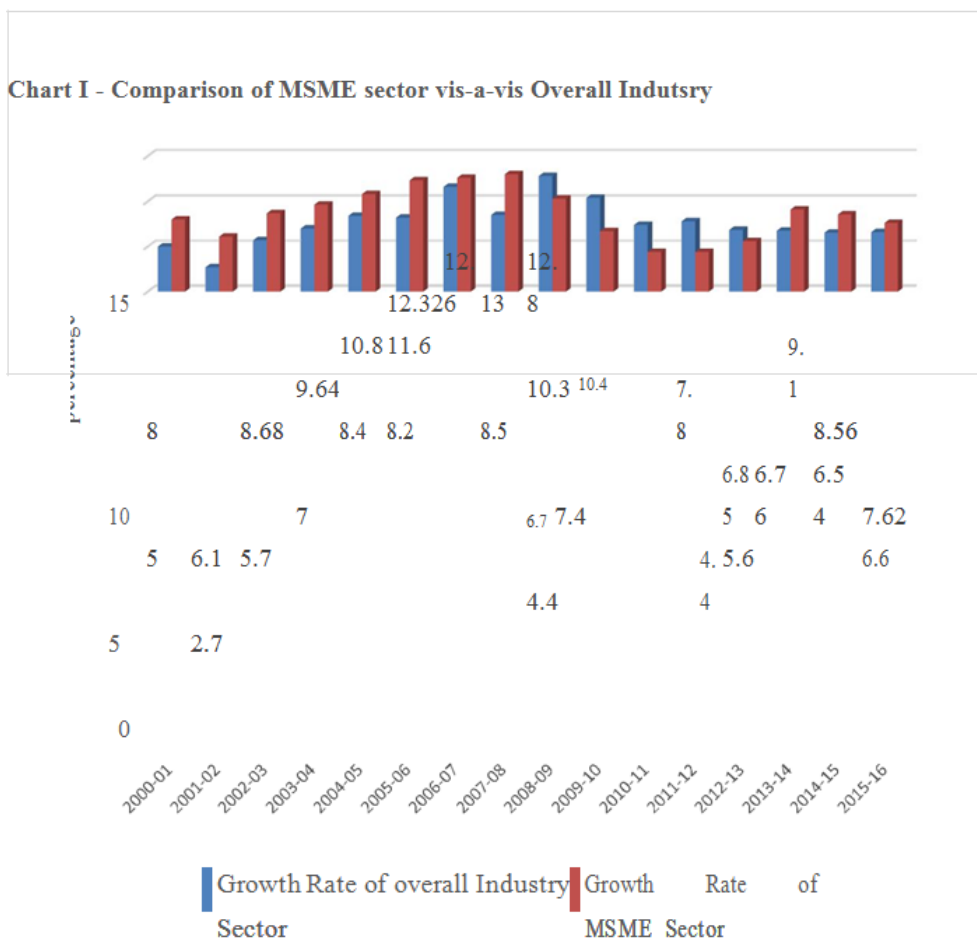
S. No	Year	Total Enterprise (Laksh)	Working (In	Employment (Lakhs & Person)	Market Value of Fixed Assets (In Crore)	Gross Output (in Crore)
1.	1992-93	73.51		174.84	NA	NA
2.	1993-94	76.49		182.64	NA	NA
3.	1994-95	79.6		191.4	NA	NA
4.	1995-96	82.84		197.93	NA	NA
5.	1996-97	86.21		205.86	NA	NA
6.	1997-98	89.71		213.16	NA	NA
7.	1998-99	93.36		220.55	NA	NA
8.	1999-2000	97.15		229.1	NA	NA
9.	2000-01	101.1		238.73	NA	NA
10.	2001-02	105.21		249.33	154349.00	282270.00
11.	2002-03	109.49		260.21	162317.00	314850.00
12.	2003-04	113.95		271.42	170219.00	364547.00
13.	2004-05	118.59		282.57	178699.00	429796.00
14.	2005-06	123.42		294.91	188113.00	497842.00
15.	2006-07	361.76		805.23	868543.79	868,543.79
16.	2007-08	377.36		842.00	868543.79	920,459.84
17.	2008-09	393.70		880.84	920459.84	977,114.72
18.	2009-10	410.80		921.79	977114.72	1,038,546.08
19.	2010-11	428.73		965.15	1038546.08	1,105,934.09
20.	2011-12	447.66		1011.80	1105934.09	1,182,757.64
21.	2012-13	467.56		1061.52	1182757.64	1,268,763.67
22.	2013-14	488.29		1114.29	1268763.67	1,363,700.54
23.	2014-15	510.57		1171.32	1363700.54	1,471,912.94
24.	2015-16	553.65		805.24	1363700.32	107721286

By taking the above said indicators into account table 1 highlights the performance of MSMEs in India from 1999-2016. The table shows the time series data on various economic parameters of performance of this sector⁸.

Significantly, the MSME sector has maintained a higher growth rate vis-à-vis the overall industrial sector during the past decade. According to a survey, exports from these enterprises have been on the rising trend, despite increased cost of raw materials, sluggish global demand and stiff international competition. Today, the sector produces a wide range of products, from simple consumer goods to high-precision, sophisticated finished products. It has emerged as a major supplier of mass consumption goods as well as a producer of electronic and electrical equipment and drugs and pharmaceuticals. An impetus to the sector is likely to have a multiplier impact on economic growth. MSME constitute over 90 per cent of total enterprises and generating high rates of employment. In India too, MSMEs play a pivotal role in the overall industrial economy of the country and it account for a major share of industrial production and exports. With its agility and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession.

Growth rate of MSME Sector in comparison with the Overall Industrial Sector

MSMEs provide employment opportunities at comparatively lower capital cost and act as ancillary units for large enterprises to support the system in growth. Chart I depicts the growth rate of MSME sector in comparison with the overall industrial sector during last sixteen years. The MSME sector has in many years registered a higher growth rate than the overall growth of industrial sector.



During 2000 to 2006, India witnessed industrial growth in the range of 5-8% annually. Subsequently, it recorded double digit growth for 4-5 years, before slowing down to around 6% growth during 2015-2016. The MSME sector improved its growth performance during 2003 – 2009 and recorded a growth of over 10% during 2008-09. Introduction of MSMED Act, 2006 apparently played a role here. However, post 2008 global financial crisis, MSME growth fell sharply and hovered around 4-7%.

Contribution of MSMEs and GDP

The Micro, Small & Medium Enterprises (MSMEs) have been contributing significantly to the expansion of entrepreneurial endeavours through business innovations. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets. As per the data available with Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation, the contribution of MSME Sector in country’s Gross Value Added (GVA)¹ and Gross Domestic Product (GDP)², at current prices for the last five years is as below:

**Table 3
Contribution of MSMEs in Country’s Economy at Current Price³**

Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (in %)
2011-12	2622574	-	8106946	32.35	8736329	30.00
2012-13	3020528	15.17	9202692	32.82	9944013	30.40
2013-14	3389922	12.23	10363153	32.71	11233522	30.20

2014-15	3704956	9.29	11504279	32.21	12467959	29.70
2015-16	4025595	8.65	12566646	32.03	13764037	29.20
2016-17	4405753	9.44	13841591	31.83	15253714	28.90

(Figures in Rs. Crores adjusted for FISIM3 at current prices)

Table 3 focuses on this comparison. From the table it is found out that in the year 2002-03 the growth rate of other industrial sector is 5.70 and it is 8.68 in case of MSMEs. In 2007-08, the growth rate of MSME is much higher as compare to overall industrial sector. It is also found out that growth percentage is fluctuating randomly for different years but in case of MSME it is increasing in nature⁹.

Bottlenecks and Measures to Overcome the Hurdles

MSMEs faced with problems like non-optimal operations, outdated technology, ineffective supply chain, inflating domestic and global competition, fund shortages, changes in manufacturing strategies and turbulent market scenarios.

The bottlenecks which hinder MSMEs are :

1. Delayed payments faced by MSEs, restrains them to enforce the legal provisions as per MSMED Act due to their low bargaining power.
2. MSMEs lacks the expertise in product development, technology adoption and in strategizing against global competition. Insufficient storage capacity, inferior packaging and lack of awareness on government schemes is adding up to the existing problems.
3. MSMEs are subjected to severe information asymmetry problems. Lack of information on numerous government schemes offered by Government, banks and other agencies . Due to deficiency in managerial, legal and technical aspects access to information about market opportunities is sub optimal and unstructured.
4. The availability of funds and the rate is totally focused on the inflationary or deflationary waves of the economy, rather than focusing on the needs of the MSMEs.
5. Shortage or non-availability of skilled labour in rural areas has caused a major concern in rural developmental miens.
6. Scanty government support towards Research & Development has discouraged MSMEs from evolving with something new.
7. Burdened with new types of taxation and procedures – direct and indirect, hinders the progress of new MSMEs.

III. Conclusion

MSMES have contribution towards GDP is remarkable as observed in previous studies. Hence, this sector must be given importance by the government and development of this sector should be enhanced by the government. The growth of MSMEs as a result of the growing economy will help the economy to be a big giant in the corporate world. They will need to retain their key people and ensure that they are shown a clear vision, goal and career prospect in order to keep contributing to the organization for a long time.

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