

Role of MSME's in economic growth of India

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Abstract

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and the dynamic sector of the Indian economy over the last six decades. MSMEs not only play a crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural and backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. As per the quick estimates of fourth All-India Census of MSMEs, the number of enterprises is estimated to be about 26 million and these provide employment to an estimated 60 million persons. Of the 26 million MSMEs, only 1.5 million are in the registered segment while the remaining 24.5 million (94%) are in the unregistered segment.

The Indian economy is expected to grow by over 8 per cent per annum until 2020 and can become the second largest in the world, ahead of the United States, by 2050, and the third largest after China and the United States by 2032. In this context it is very important to examine the role of MSMEs for economic growth of India.

Keywords: Micro, Small and Medium Enterprises, Economic Growth & India

Introduction

As per the Report of the Working Group on Micro, Small and Medium Enterprises (MSMEs) Growth for 12th Five Year Plan (2012-2017), the sector accounts 45% of the manufacturing output and 40 percent of total exports of the country. The sector provides employment to about 69 million persons through 26 million enterprises throughout the country. Over 6000 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 the sector is much higher than in the large industries. The geographic distribution of the MSMEs is also more even. Thus, MSMEs are essential for the national objectives of growth with equity and inclusion.

Concept of MSME'S

Definition of micro and small-scale enterprises in India has changed over the years. Micro small and medium enterprises as per MSME Act 2006 are defined based on their investment in plant and machinery (for manufacturing enterprises) and on equipment for enterprises providing or rendering services. The defined limit on investment for micro, small and medium enterprises is as follows.

Enterprises	Manufacturing Sector	Service Sector
Micro Enterprises	Does not exceed twenty five lakh rupees	Does not exceed ten lakh rupees:
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees	More than ten lakh rupees but does not exceed two crore rupees

Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees	More than two crore rupees but does not exceed five crore rupees
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Source: Ministry of Micro, Small and Medium enterprises

The State-wise distribution of MSMEs show that more than 55 percent of these enterprises are in 6 States such as Uttar Pradesh, Maharashtra, Tamil Nadu, West Bengal, Andhra Pradesh and Karnataka. Further, about 7 percent of MSMEs are owned by women and more than 94 percent of the MSMEs are proprietorships or partnerships.

Objectives of the study

1. To know the policy support and opportunities for MSMEs in India
2. To examine the performance and contribution of MSMEs in India
3. To find out the problems facing MSME's in Indian economy.

1. Policies and Initiatives for Growth of the Sector: The Indian government realizes the crucial role played by MSMEs in the economic and social development of the country. The government, over the years, has taken various measures to support and ensure growth and development of Indian MSMEs. Some of these measures have been briefly discussed below: Industrial Policy Resolution 1990: It raised the investment ceiling in plant and machinery for SSIs. It created central investment subsidy for this sector in rural and backward area. Also, assistance was granted to woman entrepreneurs for widening the entrepreneurial base. Small Industries Development Bank of India was established to ensure adequate

flow of credit to SSIs. Activities of Khadi and Village Industries Commission and Khadi and Village Industrial Board were to expand.

Industrial Policy Resolution 1991: SSIs were exempted from licensing for all articles of manufacture. The investment limit for tiny enterprises was raised to Rs.5 lakh irrespective of location. Equity participation by other industrial undertaking was permitted up to a limit of 24% of shareholding in SSIs. Factoring services were to launch to solve the problem of delayed payment to SSIs. Priority was accorded to small and tiny units in allocation of indigenous and raw materials. Market promotion of products was emphasized through co-operatives, public institutions and other marketing agencies and corporations. **Comprehensive Policy Package for SSIs and Tiny Sector 2000:** The exemption for excise duty limit raised from 50 lakh to Rs One crore to improve the competitiveness. The third census of small scale industries by the ministry of SSI was conducted, which also covered sickness and its causes in SSI's. The limit of investment was increased in industry related service and business enterprises from Rs 5 lakh to Rs 10 lakh. The scheme of granting Rs 75000 to each small scale enterprise for obtaining ISO 9000 certificate was continued till the end 10th plan. The coverage of ongoing Integrated Infrastructure Development (IID) was enhanced to cover all area in the country with 50% reservation for rural area and 50% earmarking of plots for tiny sector.

Industrial Policy Package of SSI 2001-02: The investment limit was enhanced from Rs 1crore to Rs 5 crore for units in hosiery and hand tool sub sectors. The corpus fund set up under the Credit Guarantee Fund Scheme was increased from 125crore to 200crore. Credit Guarantee cover was provided against an aggregate credit of Rs 23crore till December 2001. Market Development Assistant Scheme was launched exclusively for SSI sector. Four UNIDO assisted project were commissioned during the year under the Cluster Development Programme.

Industrial Policy on SSIs 2004-05: The national commission on Enterprises in the Un-organized/Informal Sector was set up in September 2004. The policy suggested measures necessary for improvement in the productivity of these enterprises, generation of large scale employment opportunities, linkage of the sector to institutional framework in area like credit, raw material supply, infrastructure, and technology up gradation, marketing facilities and skill development by training. The Small and Medium Enterprise (SME) fund of Rs 10000 crore was started by SIDBI since April 2004, with 80% of the lending for SSI units. The interest rate was 2% percent below the prevailing Prime Lending Rate (PLR) of the SIDBI. The reserve Bank of India raised the composite loan limit from Rs 50 lakh to Rs One crore.

Policy Package for SME 2005-06: Small and Medium Enterprises were recognized in the services sector, and were treated on par with SSIs in the manufacturing sector. The corpus of the Credit Guarantee Fund was raised from Rs 1132crore in March 2006 to Rs 2500crore in five years. Credit Guarantee Trust for Small Industries (CGTSI) was advised to reduce the one time guarantee fee from 2.5 percent to 1.5 percent for all loans. The emphasis was laid on Cluster Development model not only to promote manufacturing but also to renew industrial towns build new Industrial Township.

The model is now being implemented, in nine sector including khadi and village industries, handlooms, textiles, agricultural products and medicinal plants.

Steps Taken to Discourage Delayed Payments to MSEs:

One of the major issues of concern for the promotion and development of the micro and small enterprises has been the delayed payments from the buyers. To address this issue, the erstwhile "The Interest on Delayed Payments to Small Scale and Ancillary Industrial Undertakings Act, 1993" was assisted in the MSMED Act, 2006, with the strengthening of the provisions. The two effective measures provided under the provisions of said Act are - (i) Requirement to specify unpaid amount with interest in the annual statement of accounts (under Section 22) and (ii) Interest not to be allowed as deduction from income" under Income-Tax Act, 1961(under Section 23)

Reservation / De-reservation of Products in the Micro and Small Enterprise Sector:

The Policy of Reservation of Products for exclusive manufacture in SSI (now MSEs) was started in 1967. The objective of reservation then was to protect the interests of the SSI sector. The objective of progressive de-reservation was to provide for opportunities for technological up gradation, promotion of exports and economies of scale, in order to encourage modernization and enhance the competitiveness of MSEs in view of the liberalisation and globalisation of the economy. Today there is no reservation of manufacture goods for MSEs.

National Manufacturing Competitiveness Programme (NMCP):

The objective of NMCP which can be truly regarded as 'National Strategy for Manufacturing' is to ensure healthy growth of the MSME Sector. The 10 components of the Programme dealing with the firm level competitiveness against global challenges are being implemented in the Public Private Partnership (PPP) mode. The 10 components of NMCP address the entire gamut of manufacturing in the sector.

1. Marketing Support / Assistance to MSMEs - BAR CODE.
2. Support for Entrepreneurial and Managerial Development of MSMEs - Incubator.
3. Setting up Mini Tool Room & Training Centres – MTR.
4. Building Awareness on intellectual Property Rights – IPR.
5. National Programme for Application of Lean Manufacturing LEAN.
6. Enabling Manufacturing Sector to be Competitive through Quality Management Standards and Quality Technology Tools QMS/QTT.
7. Energy Efficiency and Quality Certification Support for MSMEs –ENERGY.
8. Marketing Assistance for SMEs and Technology Up gradation Activities –MARKETING.
9. Promotion of ICT in Indian Manufacturing Sector -ICT.
10. Design Clinic Scheme to bring Design expertise to the Manufacturing sector –DESIGN.

Rajiv Gandhi Udyami Mitra Yojana: The Udyami Mitras would be networking and coordinating with various Government departments/agencies, regulatory/support agencies, for channelizing the benefits available under various schemes to the first generation entrepreneurs with a view to assist them in setting up their enterprises. They would provide assistance to the potential entrepreneurs in preparation of

report, arranging finance, establishment of work shed, sanction of power load/connection, selection of technology, installation of plant and machinery/office equipment, obtaining various registrations/ licenses/ clearances / no objection certificates (NOCs), tying up arrangements for supply of raw material as well as marketing of products/ services, linkage for mentoring support, etc. Prime Minister's Employment Generation Programme (PMEGP): PMEGP is a central sector scheme launched in 2008-09 to empower first generation entrepreneurs for setting up micro enterprises across the country by merging Prime Minister's Rozgar Yojana (PMRY) and Rural Employment Guarantee Programme (REGP) schemes. Khadi and Village Industries Commission is the nodal agency at national level for implementation of PMEGP. The scheme provided jobs to over 16 lakh persons during the 11th Plan (2008-2012). "The scheme is to be continued during Twelfth Plan (2012-13 to 2016-17). An outlay of Rs 8,060 crore (Rs 7,800 crore Margin Money subsidy plus Rs 260 crore under Backward and Forward Linkages) has been approved by the Planning Commission for PMEGP in the 12th Five Year Plan to set up about Rs 3.39 lakh projects with creation of about 27.12 lakh employment".

For the year 2014-15, the targets have been fixed for setting up of about 1.03 lakh micro units with the margin money subsidy of Rs 1,380 crore to generate employment for 8.25 lakh persons. The government today allocated Rs 8,060 crore for the Prime Minister's Employment Generation Programme (PMEGP) to create over 27 lakh jobs in the 12th Plan period ending March 2017. The government provides Margin Money subsidy between 25 to 35 per cent of the Project cost, depending upon the category of the entrepreneur, with the remaining amount being covered by the banks.

Mahatma Gandhi Institute for Rural Industrialization (MGIRI): Mahatma Gandhi Institute for Rural industrialization (MGIRI) at Wardha was developed during 2001-2008 by the collaborative efforts of KVIC and IIT Delhi. MGIRI was setup as a National Institute under the Ministry of MSME at the historical premises of Maganwadi, Wardha by revamping Jamnalal Bajaj Central Research Institute (JBCRI). Its autonomous function started effectively from October 2008. MGIRI, Wardha has six major Sections catering to the generic areas of rural industrialization as given below:

1. Khadi & Textile Industries Section.
2. Bio-processing and Herbal based Industries Section.
3. Chemical Industries Section.
4. Rural Crafts and Engineering Section.
5. Rural Infrastructure and Energy Section.
6. Management and Systems Section.

New Initiative for Coir Sector: The Coir Board is a statutory body established under the Coir Industry Act, 1953 for promoting overall development of the coir industry and improving the living condition of the workers engaged in this traditional industry. The Board has promoted two research institutes namely; Central Coir Research Institute (CCRI), Kalavoor, Alleppey, and Central Institute of Coir Technology (CICT), Bengaluru for undertaking research activities on different aspects of coir industry, which is one of the major agro based rural industries in the country. The Said scheme has been renamed as Coir Vikas Yojana (CVY) vide O.M. dated 31.12.2014. With a view to develop coir industry in a holistic

manner, Coir Board has evolved a draft National Coir Policy and Vision 2025.

Coir product making is an important cottage industry, contributing significantly to the economy of the major coconut growing states of Kerala, Tamil Nadu and Andhra Pradesh. India exports coir and its products to over 97 countries across the world with the US being the largest market. Countries like the UK, Germany, the Netherlands, Italy, Belgium, Australia, France, Spain, Canada, Japan, Greece, Sweden, South Africa, UAE, Portugal, and Denmark are the other major markets of coir and coir products. Export of coir and its products from India had touched an all time high of 3.21 lakh tonnes valued at Rs 807.07 crore in 2010-11 financial year. The Coir Board has set an export target of Rs 2,000 crore for the 12th Five-Year plan period (2012-2017). India and Sri Lanka are the two major coir producers in the world and account for around 90 per cent of about 3.50 lakh tonnes global production of the item.

New Initiatives for Khadi and Village Industries

Commission: Given the enormous inclusive development, employment, and income generating scope of Khadi, KVIC has significant responsibilities to discharge and a pivotal role to play as a nodal institution. KVIC role in strengthening KIs, enhancing the stake and role of artisans, facilitating flow of raw materials and finances, and creating a niche for Khadi through Khadi Mark are considered most important. Accordingly, KVIC needs to gradually disengage from direct commercial activities. Transition to the new role will be done through restructuring and devolution of KVIC including, (i) restructuring khadi, village industries, science and technology, and economic research directorates; (ii) strengthening human resource and administration directorate; (iii) realignment of reporting relationships; and (iv) devolution of powers and responsibilities to zonal offices. In addition, KVIC will rationalize its operating and business process including the certification process. An integrated management information system and e-governance will underpin the reforms.

Opportunities for MSME Sector: Government of India has developed key strategies to promote and support the MSME sector to promote competitiveness, quality upgrading, finance, technology, etc. This has resulted in a dramatic positive change in the sector. Over the years, this sector in India has progressed from the production of simple consumer goods to the manufacture of many sophisticated and precision products like electronics control systems, micro wave components, electro medical equipment, etc. MSMEs in India are considered to be the important members within the supply chain and are established in almost all major sectors in Indian industry such as: • Food Processing • Agricultural Inputs • Chemicals & Pharmaceuticals • Engineering; Electricals; Electronics • Electro-medical equipment • Textiles and Garments • Leather and leather goods • Meat products • Bio-engineering • Sports goods • Plastics products • Computer Software, etc. Key characteristics of Indian MSMEs such as high contribution to domestic production, significant export earnings, low investment requirements, operational flexibility, location wise mobility, capacities to develop appropriate indigenous technology, import substitution, contribution towards defence production, technology-oriented industries, and competitiveness in domestic and export markets help them tap

opportunities in various sectors. The process of economic liberalization and market reforms has exposed these enterprises to increasing levels of domestic and global competition. To combat competition, private and public sector institutions, both at the central and state levels are increasingly undertaking cluster development initiatives. Clusters are defined as sectoral and geographical concentration of enterprises, particularly, small and medium enterprises, faced with common opportunities and threats which give rise to external economies. Clustering and networking has helped the small and medium enterprises in boosting their competitiveness. India has over 400 SME clusters and about 2000 artisan clusters that have created a conducive ground for the development of inter-firm cooperation to promote local

production, innovation and collective learning. It is estimated that these clusters contribute 60 per cent of the manufactured exports from India.

2. Performance and Contribution

Category of Products: MSMEs in the country manufacture over 6,000 products. Some of the major subsectors in terms of manufacturing output are food products (18.97%), textiles and readymade garments (14.05%), basic metal (8.81%), chemical and chemical products (7.55%), metal products (7.52%), machinery and equipments (6.35%), transport equipments (4.5%), rubber and plastic products (3.9%), furniture (2.62%), paper and paper products (2.03%) and leather and leather products (1.98%).

Size of the MSME Sector

S. No	Characteristics	Registered sector	Unregistered sector	Ec-2005	Total
1	Size of sector(in lakh)	15.64	198.74	147.38	361.76
2	Total employment (in lakh)	93.09	408.84	303.31	805.24
3	Per unit employment	5.95	2.06	2.06	2.23

Source: Economic Census 2005 and Fourth Annual Census of MSMEs in India 2006-07 Annual report.

Performance of MSME in India

Year	Total working enterprises (in Lakh)	Employment (in lakh)	Market value of fixed assets (Rs in crore)
2006-07	361.76	805.23	868,543.79
2007-08	377.36	842	920,459.84
2008-09	393.7	880.84	977,114.72
2009-10	410.80	921.79	1,038,546.08
2010-11	428.73	965.15	1,105,934.09
2011-12	447.64	1011.69	1,182,757.64
2012-13	447.54	1061.40	1,268,763.67
2013-14	488.46	1114.29	1,363,700.54
2014-15	510.57	1171.32	1,471,912.94

Source:-Ministry of MSME’s Annual report, 2015-16

The above table revealed that, the total numbers of Micro, Small and medium enterprises have increased from 361.76 lakh units in 2006-07 to 510.57 lakh units in 2014-15 There has been a steady increase of Employment and market value of Fixed assets of MSMEs. The employment in MSME’s increased from 805.23 lakh in 2006-07 to 1171.32 lakh in 2014-15 and the Market value of fixed assets was 868543.79 crore in 2006-07 which increased to 1,471,912.94 crore in 2014-15.

The above table shows that, the contribution of manufacturing output of Micro small & medium enterprise in GDP Gross value output in 2006-07 was Rs 1198818 crore which increased to RS 1809976 crore. It Shows that positive trends from 2006-07 to 2012-13, Share of MSME in Gross Domestic Product was varied between 7.04 per - cent to 7.81 percent.

Contribution of Manufacturing Output of MSME in GDP

(AT 2004-05 PRICES)

year	Gross value output (rs in crore)	Percentage share of MSME	
		Total manufacturing output	Gross domestic Product (GDP)
2006-07	1198818	42.02	7.73
2007-08	1322777	41.98	7.81
2008-09	1375589	40.79	7.52
2009-10	1488352	39.63	7.45
2010-11	1653622	38.50	7.39
2011-12	1788584	37.47	7.27
2012-13	1809976	37.33	7.04

Source:-Ministry of MSMEs Annual Report 2014-15

3. Problems Faced By MSMEs In Indian Economy

Micro, Small and medium enterprises plays a pivotal role in the Indian economy in terms of employment and growth has recorded a high rate of growth since independence in spite of stiff competition from the large sector, But still MSME’s face several problems, Some of them are as follows.

- Lack of availability of adequate and timely credit
- High cost of credit
- In adequate infrastructure facilities
- In effective marketing strategy.
- Low Production capacity.
- Lack of access of global market.
- Problem of storage, designing, packing and product display.
- Lack of skilled manpower.
- Low technology levels and lack of access to modern technology.

- Non availability of raw materials at a competitive cost, very often due to low volumes.

Conclusion

The Micro, Small and Medium Enterprises (MSME) Sector play a pivotal role in Indian economy. They contribute significantly to the manufacturing output, employment and exports of the country. But there are several challenges in this sector of MSME; hence it is essential on the part of the government to take careful decisions' and the policy implementation to overcome the problems of MSME Sector.

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