

GROWTH & PERFORMANCE OF MSMES IN INDIA: PROSPECTS AND PROBLEM

Suman Dahiya

Assistant Professor, Department of Commerce, Central University of Haryana, Mahendergarh, Haryana, India. Email: inchargedocommerce@cuh.ac.in

Abstract *The Micro, Small and Medium Enterprises (MSMES) have always been considered as growth engine of the Indian economy. MSMES are well known for its lower investment and technology requirement. After agriculture, this sector holds second position in generating employment opportunities in Indian economy. MSMES also enhance industrialisation in rural and backward area thereby reduce regional imbalances and assure equitable distribution of national income and wealth. Despite its contribution and significance in the Indian Economy, the MSME sector has been facing various hurdles since long. After the liberalisation and globalisation in India since 1991, this sector is facing keen competition from domestic organisations as well as from the MNCs because of the improved technology in the market. This present paper deals with growth and development of MSMES in India and also highlight the problem and prospects of MSMES in India.*

Keywords: MSME, MNC, Liberalisation, Globalisation, Employment

INTRODUCTION

The Micro, Small & Medium Enterprise (MSME) is one of the most vital sectors of any economy in general and India in particular in ensuring equitable, inclusive & employment friendly economic growth (Garg & Walia, 2012). MSMEs help in rural industrialisation thereby reducing regional imbalances and assuring equal distribution of national income. In terms of value, the sector accounts for about 45 percent of the manufacturing output and 40 percent of the total exports of India. The MSME sector employs about 42 million persons in over 13 million units throughout the country. There are more than 6000 products, ranging from traditional to high-tech items, which are being manufactured by the Indian MSMEs (Paramasivan & Mari Selvam, 2013).

During the pre-economic reforms period, many facilities like incentives, subsidies, and concession were being provided by the government for the development of the small scale industries because of its immense contribution in the growth of the Indian economy (Tripathi, 2006). After the beginning of economic reform in India, the role of government has changed from protector to facilitator (Sharma, 2012). The New Economic Policy pursued since 1991 has brought this sector to face competition through delicensing, reduction in customs and excise duties. Several small scale units have withered away but those who have adopted modern production practices like auto ancillary sectors have benefited substantially (Shastri, Tripathi & Ali,

2011). Despite its importance to the Indian Economy this sector has been facing various hurdles since long. MSMEs are facing ruthless competition from the domestic firms and MNCs as they are providing better product quality using better technology, skilled workforce, and marketing strategies. Government has taken various steps to resolve the constraints related to MSMEs. It has passed MSME Act 2006 which offered a clear definition of MSMEs.

Table 1: Definition Criteria of SSI_s

Nature of Units	Manufacturing Enterprises (Investment in Plant & Machinery)	Service Enterprises (Investment in Equipments)
Micro	Up to Rs 25 lakh	Up to Rs 10 lakh
Small	Above Rs 25 lakh to Rs 5 crore	Above Rs 10 lakh to Rs 2 crore
Medium	Above Rs 5 crore to Rs 10 crore	Above Rs 2 crore to Rs 5 crore

Source: Annual Report, 2006-07, Ministry of MSME

Clear definition of the MSMEs was the main thing given by MSME Development Act 2006. Apart from it this act made compulsory the composition of the National Board of MSMEs to regulate the functioning and development of MSMEs. MSME Development Act 2006 framed the strict rules regarding the payment of dues and made the registration procedure much simple and less time consuming.

REVIEW OF LITERATURE

Most of the studies related to MSME_s present that this sector is the growth engine of the Indian economy. Some of them are as follows:

Bala Subrahmanya (2004) highlighted the impact of globalisation and domestic reforms on small-scale industries sector. The study stated that small industry had suffered in terms of growth of units, employment, output, and exports. The researcher highlighted that the policy changes had also thrown open new opportunities and markets for the small-scale industries sector. He suggested that the focus must be turned to technology development and strengthening of financial infrastructure in order to make Indian small industry internationally competitive and contribute to national income and employment.

Sonia and Kansai (2009) examined the impact of globalisation on Micro, Small and Medium Enterprises (MSMEs) during pre and post liberalisation, from 1973-74 to 2008-09. They used four economic parameters namely number of units, production, employment, and export and concluded that after liberalisation MSMEs could not achieve significant improvement.

Shastri, Tripath and Ali (2011) analysed the implications of globalisation and domestic economic liberalisation for small-scale industries and analyses its growth performance in terms of units, employment, output and exports. They concluded with policy recommendations to ensure the sustenance and competitive growth of small scale industries in India.

Garg and Walia (2012) highlighted the growth and contribution of MSME sector in post reform India. They confirmed that the significant growth of MSMEs have been taken place over a period of time and this sector is the major donor to gross domestic product (GDP), employment and exports in Indian economy.

Vasu and Jayachandra (2014) studied the growth and development of MSME_s in India. They observed that this sector pays a significant role in term of balanced and inclusive growth. They also highlighted the prospects of this sector in India.

OBJECTIVE OF THE STUDY

The main objectives of the current study are as follows:

- To examine the growth and performance of MSME_s in India.
- To examine the problem and prospects of MSME_s in India

DATA AND METHODOLOGY

The present study is based on secondary data which have been collected from various annual reports published by Ministry of Micro, Small and Medium Enterprises, journal papers, articles, and other sources related to MSME_s. The study is based on the time period from 2005-06 to 2012-2013 after the introduction of MSMED act, 2006. In the present study three variables (Number of working MSME_s, Employment and Investment in MSME_s) have been used to evaluate the growth and performance of MSME_s.

To calculate the growth rate following formula has been used:

$$GR = \{(V_{\text{present}} - V_{\text{past}}) / V_{\text{past}}\} * 100$$

where GR -Growth Rate

V_{present} -Current value of the Variable

V_{past} -Previous Value of the Variable

GROWTH AND PERFORMANCE

The micro, small and medium enterprises have made significant contribution in Indian economy in term of employment, investment, and output. It is depicted from the below mentioned tables.

Table 2 : Performance of MSME

Year	Total MSME(Lakh)	Employment (Lakh)	Fixed Assets (Market value)
2005-06	123.42	249.91	188113
2006-07	361.76(193.11)	805.23(222.20)	868543.79 (361.71)
2007-08	377.36(4.31)	842(4.57)	920459.84 (5.98)
2008-09	393.7(4.33)	880.84(4.61)	977114.72(6.15)
2009-10	410.8(4.34)	921.79(4.64)	1038546.08(6.28)
2010-11	428.73(4.36)	965.15(4.7)	1105934.09(6.48)
2011-12	447.66(4.41)	1011.8(4.83)	1183332(6.99)
2012-13	467.56(4.44)	1061.52(4.91)	1269338.02(7.26)

Note: The figures shown in bracket are the growth rate over the previous year.

Source: Ministry of Micro, Small and Medium Enterprises, Annual Report 2006-07, 2010-11 and 2013-14

Table 1 clearly shows that number of units in MSME sector has been increased from 123.42 lakh to 467.56 lakh which is around 4 times in span of 8 years. Since 2007-08 to 2012-13 growth rate is consistent this is moving around 4%. Highest growth rate was in the year 2006-07 wherein MSMED act, 2006 was passed. Similarly Employment in this sector has improved from 249.91 to 1061.52 in the year 2012-2013

which is four times of the year 2005-06. Investment in MSME_s has also been increased to develop this sector in the interest of the nation.

Table 3 : Contribution of Manufacturing Output of MSME in GDP

Year	Gross value of output (crore)	Percentage share of MSME	
		Total manufacturing output	Gross domestic output
2006-07	1198817.55	42.02	7.73
2007-08	1322960.41	41.98	7.81
2008-09	1375698.6	40.79	7.52
2009-10	1488390.23	39.63	7.49
2010-11	1655580.6	38.48	7.42
2011-12	1790804.67	37.52	7.28

Source: Ministry of Micro, Small and Medium Enterprises, Annual Report 2013-14

Table 3 shows that that contribution of MSME in total manufacturing output is not increasing rather it is slightly decreasing. Similarly in the case of GDP, contribution of the MSME is increasing at the consistent rate. It may be happening due to the use of outdated technology in the MSME_s and lack of the implementation of the schemes announced by the government

DISTRIBUTION OF MSME_s

MSME_s play a vital role in the development of the economy as whole. Out of the total MSME_s, 31.79% are engaged in manufacturing and rest 68.21 % are imparting services. Over 6000 products ranging from traditional to high-tech are being manufactured by the MSME_s besides the services. 55.34% of the total MSME_s are located in rural area and 44.66% are set up in urban area. It ensures the development of the rural and backward area. 94.41% MSME_s are the proprietary enterprises and rest are run by the partnership firm, private companies, and co-operative/trusts. It shows that this sector encourage the new entrepreneurs.

PROSPECTS OF MSME_s IN INDIA

- **Accessibility to World Market:** After the economic reforms MSME_s are able to sell their product not only in the domestic market but also in the foreign markets.
- **Foreign Investment and Technology:** MSME_s in India were facing dearth of finance and using outdated technology but after globalisation many foreign companies are being collaborating with MSME_s which will help them in financing and to use better technology.

- **Balanced Regional Development:** MSME_s can be set up in rural and economic backward area thereby can meet the local need and develop the area economically.
- **Better Performance:** After the economic reforms MSME_s in India are facing competition from MNC_s, the competitive environment in the market will bring the better performance of the MSME_s.
- **Employment Generation:** The handicraft and other products made by this sector are highly demanded in the market and it can be even more if this sector gets support in terms of technology, finance, and promotional strategy. It provides 50% of private sector employment.
- **New area of Business:** New technology like biotechnology and nano-technology are providing opportunities to the young entrepreneurs to start their own business in the new area like outsourcing and sub contracting etc.
- **Less Capital Intensive:** MSME_s requires less investment. Young generation which has passed professional courses like MBA and engineering can start their own enterprise by investing little amount.
- **Promoted and Supported by Government:** Government has announced several schemes for the promotion of the MSME_s as it is one of the main contributor to Indian economic growth. Financially support and subsidies are also provided by the government.
- **Exports Contribution:** 40% of the export in India is through MSME_s channel.

PROBLEM FACED BY MSME_s IN INDIA

- **Absence of Banking Finance:** MSME_s get very little percent of net bank credit. This sector mainly depends on personal savings, loan from relatives and loan from local money lenders.
- **Outdated Technology:** Most of the MSME_s use poor technology base as a result of that they manufacture low quality products and face low productivity.
- **Infrastructural Problem:** MSME_s are facing infrastructural problem which includes inadequate power supply, water supply and roads etc.
- **Storage Problem:** This sector does not have proper storage facility therefore quality of the products deteriorates and they have to bear a big amount of loss.
- **Inadequate Marketing:** MSME_s do not have proper marketing strategy and market research programme, even most of MSME_s are not having their own website which is the biggest tool of marketing.
- **Lack of Skilled Worker:** Most of the workers are unskilled who do not possess any diploma, degree and

experience. At the early stage new entrepreneurs are not able to pay enough to skilled worker therefore they have to depend on the unskilled workforce.

- **Withdrawal of Reservation Policy:** Earlier some items were reserved for the small scale industries but after liberalisation such items has been opened for the domestic as well as for the MNC_s.
- **Extreme Competition:** This sector is facing keen competition from the large domestic firms and MNC_s with improved technology, skilled workforce, marketing skills, better quality and wide range of products.

CONCLUSION

Micro, Small and Medium Enterprises (MSME_s) are very important and crucial for any developing economy, particularly for the Indian economy. This sector provides large employment opportunities at the lower investment requirement. Most of the MSME_s are established in the rural and backward area which leads to reduce regional imbalances. These enterprises are the supporting units to the large industries. But MSME_s in India are facing stiff competition from large industries due to lack of infrastructure, quality deterioration, withdrawal of subsidy and unskilled workforce. It is found from the study that growth rate of MSME_s is consistent since 2006-07. Therefore it is unavoidable for MSME_s to improve their technology, R&D and promotion strategies to compete at the global level. This sector needs support of the financial institutions and government to overcome the problems and to become the major contributor to the development of Indian Economy.

REFERENCES

- Annual Report. (2006-07). Govt. of India, Ministry of Micro, Small and Medium Enterprises.
- Annual Report. (2010-11). Govt. of India, Ministry of Micro, Small and Medium Enterprises.
- Annual Report. (2013-14). Govt. of India, Ministry of Micro, Small and Medium Enterprises.
- Bala Subrahmanya, M. H. (2004). Small industry and globalization: Implications, performance and prospects. *Economic and Political Weekly*, 39(18), 1826-1834.
- Garg, I., & Walia, S. (2012). Micro, small & medium enterprises in post reform India: Status & performance. *International Journal of Latest Trends in Engineering and Technology*, 1(3), 134-141.
- MSME Development Act. (2006). Ministry of the District Industry Centers (DIC) MSME, Govt of India
- Paramasivan, C., & Mari Selvam, P. (2013). Progress and performance of micro, small and medium enterprises in India. *International Journal of Management and Development Studies*, 2(4), 11-16.
- RBI, Hand Book of Statistics on Indian Economy.
- Sharma, R. (2012). Problem and prospects of small scale industrial units (A case study of exporting and non exporting units in Haryana). *Asia Pacific Journal of Marketing & Management Review*, 1(2), 191-210.
- Shastri, R. K., Tripathi, R., & Ali, M. (2011). Liberalization and its impact on small scale industries. *International Journal of Vocational and Technical Education*, 2(7), 81-83.
- Sonia, & Kansai, R. (2009). Globalisation and its impact on Small Scale Industries India. *PCMA Journal of Business*, 1(2), 135-146.
- Tripathi B. B. (2006). *Bhartiya Arthavyavastha*, KitabMahal Allahabad.
- Vasu, M. S., & Jayachandra, K. (2014). Growth and development of MSME_s in India: Prospects and problem. *Indian Journal of Applied Research*, 4(5), 125-127.