

INTERNATIONAL JOURNAL OF RESEARCH IN COMPUTER APPLICATION & MANAGEMENT

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MICRO, SMALL AND MEDIUM (MSMEs) ENTERPRISES AND INDIAN ECONOMY: AN EMPIRICAL STUDY ON ROLE OF MSMEs

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ABSTRACT

The micro, small and medium enterprises (MSMEs) make significant contribution towards economic growth, balanced regional development, employment generation and overall poverty reduction. This sector is the second largest sources of employment, next to agriculture. This sector is stronger pillar of Indian economy. MSMEs sector contribute 8% of GDP approximately, 45 percent manufactured output and 40 percent of export. It employs more than 60 million people. MSMEs sector has emerged as an important vehicle for attaining inclusive growth of the country.

KEYWORDS

Micro, Small and Medium Enterprises (MSMEs), Economic growth, GDP, Contribution, Employment Generation.

INTRODUCTION

The Micro, Small and Medium Enterprises (MSMEs) continue to be a vibrant sector of the Indian economy. It is estimated that there are about 26 million units (over 90 per cent of total industrial units) in this sector employing nearly 59 million people in India. They not only create job opportunities at lower capital cost comparing to other sectors, but also require lower capital investment and play a vital role for proper utilization of local resources and talent. Organized industrial sector require an investment of Rs.6.66 lakh to generate employment of one person, whereas MSMEs sector generate employment of 1.27 persons with the same investment. This sector contributes nearly 45 percent manufactured output and 40 percent of the total export, it is estimated that MSMEs contribute around 15 percent of exports indirectly. In a span of over three decades, from financial year 1973-74 to financial year 2006-07, export from MSMEs has increased by more than 514 times. MSMEs sector has consistently registered a higher growth rate than the rest of the industrial sectors. There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs. In India, after agriculture, the MSMEs sector provides the maximum opportunities for both self-employment and jobs in the country. The MSMEs sector in India holds great potential for further expansion and growth in the future. In fact, the employment potential of the sector is un-matched by any other sector of the economy.

As per results of the Fourth Census of MSMEs in 2006-07, the number of MSMEs was estimated at 261 lakh, employment at 597.29 lakh persons and 72 percent and 28 percent of the MSMEs are manufacturing enterprises and service enterprises respectively in the country. In terms of size of the enterprise, 94.67 percent are micro enterprises, 5.05 percent are small enterprises and the rest 0.25 percent are medium enterprises.

The MSMEs have shown an average growth of 18 percent over the last five years, around 98 percent of the production units are in the MSMEs sector. We know that Small-scale industries were the dream of our father of nation Mahatma Gandhi. He has supported the growth of small-scale industries in India, because he had the vision that it will help the poor people of India to come up.

"Small is beautiful" ---- E.F. Schumacher, Economist, (1911-1977)

OBJECTIVES OF STUDIES

The main objective of the study is to examine the role of Micro, Small and Medium Enterprises (MSMEs) in the growth of Indian economy.

DATABASE AND RESEARCH METHODOLOGY

Data are mostly collected through desk research of online resources, research papers, conference documents, and other publications. Data from Micro, Small & Medium Enterprises has been used. Annual report on MSMEs by SIDBI is also used and various annual reports of State Financial Corporation, various financial institutions have been used. The data have been compiled from three types of sources: published documents and reports, the World Wide Web and statistical agencies. All data sources are listed at the end of this note and Web links are provided where possible. Simple statistical tools have been used for analyzing data.

A BRIEF SURVEY OF EXISTING LITERATURE

Micro, small and medium enterprises play an important role in economic development. Many developed economy achieved their development through the proper development of this sector. This sector registered a rapid growth in India. Based on high importance of the sector, a large number of literatures are available. A brief review of such literatures is made here.

Ahmad, Nisar (1987) explores the various problems of small scale and cottage industries from the view point of micro and macro level in India with special reference to Jammu and Kashmir.

Jamuar, R.S (1992) in his study states the development of small- scale and cottage industry in India and their role in Indian economy. He also discussed present position and problems of small-scale industry with special reference to industrial sickness, government policy and measure to develop small-scale and cottage industry.

The report of Economic Service Group, National Productivity Council (2004) had assessed the impact of dereservation on Production, Employment, and Technology up gradation etc. The case studies presented in this report cover various aspects of the small scale units like unit profile, the Products manufactured, infrastructure and manpower issues, SWOT analysis of the units, problems faced by the units and Government intervention required. These case studies would help us to understand unit specific issues emerged after de-reservation of the SSI unit.

Srinivas. Y (2005) in his study explains without adequate bank finance, SMEs cannot acquire or absorb new technologies or can they expand to compete in global markets or even strike business linkages with larger firms. At the same time banks cannot consider the financing of SMEs as a viable option unless their priorities are addressed by SMEs. SMEs should be assisted largely by public initiatives involving participation of the banking industry.

Basu.S.K (2007) tries to analyses the role and problems of small-scale industries. He emphasizes their importance in the economic development and their financial problems and also the role of state financial corporation in helping them.

Mohd. Saud Ilahi (2007) in his doctoral thesis states organizations providing non monetary support to small scale sectors, existing non monetary support system, firms which have availed themselves of non monetary support and their growth pattern, analyses the social, educational and economic background of entrepreneurs and problems involved in the effective utilization of non monetary support and the scope for evolving a better and more suitable support.

Ibrahim , Umar (2008) in his doctoral thesis examine the various strategic factors affecting the performance of Small and Medium Industries in Borno State of Nigeria” identifies the factors, problems, constraints, difficulties and challenges facing the small and medium industries (SMIs) in the State and the various macroeconomic policies and incentives provided for the development of small and medium industries in Nigeria,

Mehta, Om Prakash (2009) in his study explain the various challenges that have to face MSMEs are competitiveness in IT including internet, Computer based technology, productivity, quality, non-conventional methods of production in manufacturing, easy and timely availability of finance/credit at reasonable rate of interest, marketability of products in indigenous and global market.

A study conducted by Chakrabarty. K. C. (2010) States that with increasing competition, introduction of new products and stringent regulatory environment, the role of banks needs to change from mere lenders to partners in business. There is a need for greater participation of banks in the affairs of their constituents by convergence of credit services and non-credit services. The banks should not only provide differentiated products for MSMEs, but also provide counseling & guidance to new and established businesses, extending marketing support etc. Similarly, the Government and other institutions entrusted with development of the MSMEs sector need to focus providing an enabling environment, infrastructure and forward & backward linkages so that the credit function being discharged by the banks is adequately supplemented by their non credit functions.

Varma.U. K (2011) in his study on MSMEs recognized that while credit, marketing etc. are essential, the critical factor that drives growth is technology. In the present economic scenario of globalised competitiveness, it is the technological edge that will determine the winner.

CONCEPT OF MSMEs

MSME can be defined from the aspect of number of person employed and amount of investment in plant and machinery. From the viewpoint of number, micro enterprise is defined as an enterprise, which employs fewer than 10 persons, small enterprise is defined as an enterprise, which employs fewer than 50 persons, and medium-sized enterprise is defined as an enterprise, which employs fewer than 250 persons.

From the viewpoint of investment in plant and machinery and equipment the Micro, Small and Medium Enterprises Development Act, 2006 are defined Micro, Small & Medium Enterprises. The Act classified Micro, Small and Medium Enterprises (MSME) into two classes:

(a) **Manufacturing Enterprises:** The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and Regulation) Act, 1951. The Manufacturing Enterprise is defined in terms of investment in Plant Machinery.

Manufacturing Sector	
Enterprises	Investment in plant & machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees

(b) **Service Enterprises:** The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

Service Sector	
Enterprises	Investment in equipments
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five core rupees

Contribution of MSMEs towards economic development can be analyzed from the viewpoint of:

- i) Growth trend of MSMEs,
- ii) Contribution of MSMEs toward GDP,
- iii) MSMEs and Employment generation,
- iv) Contribution of MSMEs towards Export,
- v) MSMEs and country’s total production,
- vi) Fixed investment made by MSMEs in different sectors.

All of these contributions are briefly discussed below:

GROWTH TREND OF MSMEs

The MSMEs sectors registered a high growth rate comparing to other industrial sector. This is mainly due to its various advantages comparing to other sectors and Indian economy which is more close to MSMEs environment, like cheap local resources, local talent, cheap labour, high demand etc. Moreover the socio – economic policies adopted by India since the industries development & regulation Act, 1951 have laid stress more on MSMEs sectors as a vehicle to develop Indian economy. Second five-year plan also place more emphasis on industrial development and adopt various policies for proper development of this sector.

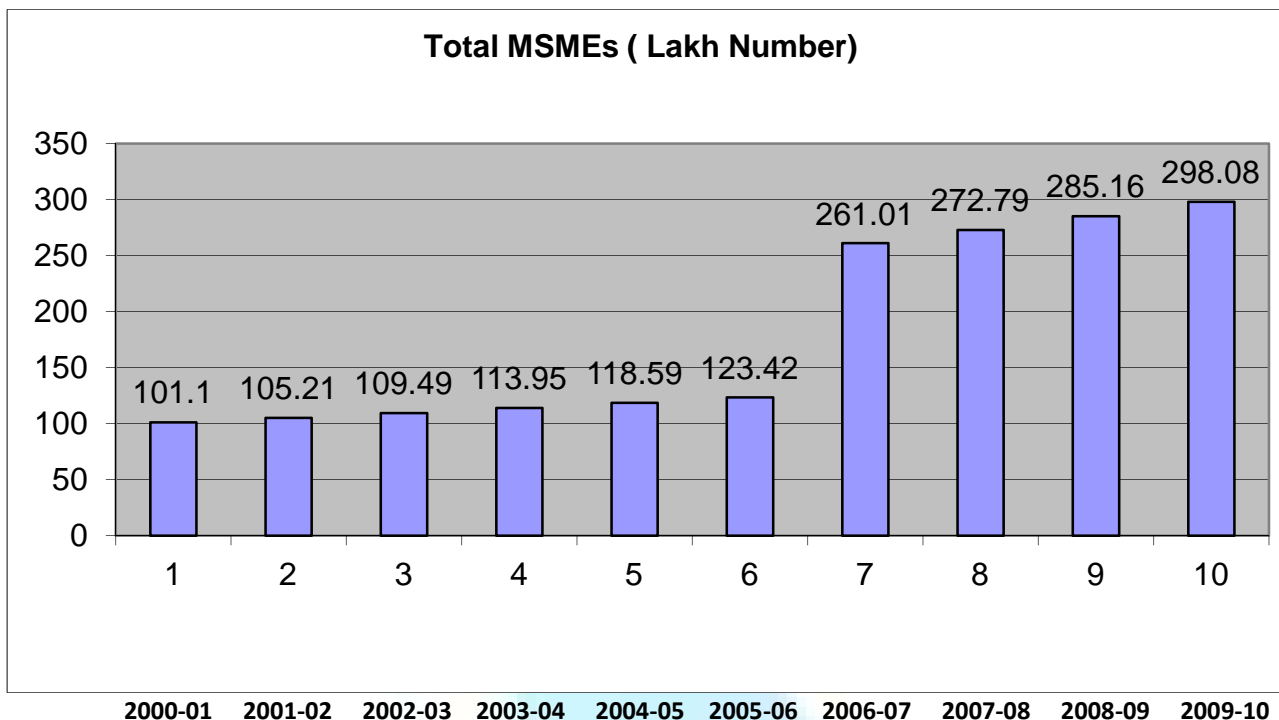
TABLE 1: NUMBER OF MSMEs IN LAST TEN YEARS

Year	Total MSMEs(Lakh number)	% Of Growth over the previous year
2000 - 01	101.1	-----
2001 - 02	105.21	4.07
2002 - 03	109.49	4.07
2003 - 04	113.95	4.07
2004 - 05	118.59	4.07
2005 - 06	123.42	4.07
2006 - 07	261.01	111.48
2007 - 08	272.79	4.51
2008 - 09	285.16	4.53
2009 -10	298.08	4.53

Sources: Annual Report on MSME, 2010- 2011, Govt. India, Ministry of Micro, Small and Medium Enterprises.

- The data for the period up to 2005 –06 is of SSI. Subsequent to 2005 – 06 , data with reference to MSMEs are being compiled.
- Data for 2007 –08, 2008 –09, 2009 – 10 are of projected. (sources : S&D Division – office of DC(MSME).

BAR CHART SHOWING THE GROWTH TREND OF MSMEs OVER THE YEARS



CONTRIBUTION OF MSMEs IN THE GROSS DOMESTIC PRODUCT (GDP)

Contribution of MSMEs toward GDP is also remarkable. This sector contributes 8% of country’s GDP. Average contributions in GDP by this sector in last ten year are 6.5% (1999-20 To 2008-09). The following table shows the contribution of MSMEs in total industrial production and GDP.

TABLE 2: CONTRIBUTION OF MSMEs IN GDP

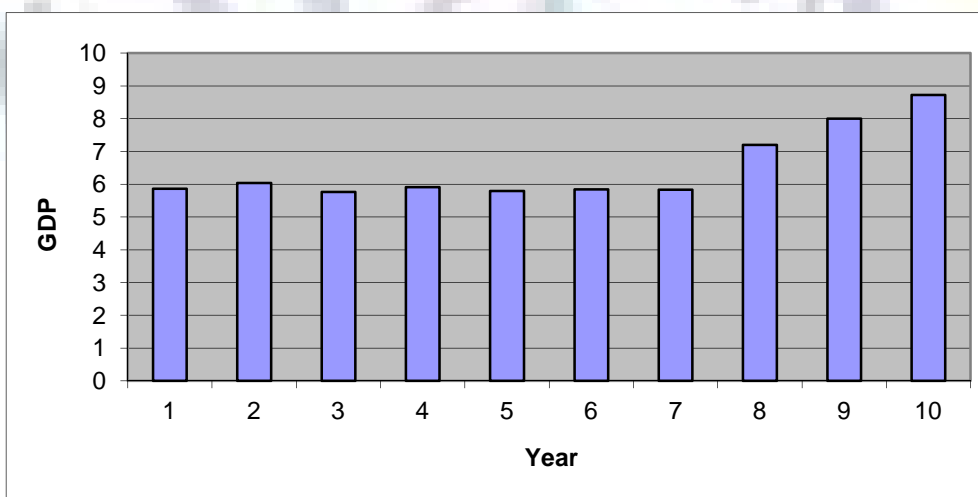
Year	Contribution of MSMEs (%) in GDP In	
	Total Industrial Production	Gross Domestic Product (GDP)
1999-2000	39.74	5.86
2000-2001	39.71	6.04
2001-2002	39.12	5.77
2002-2003	38.89	5.91
2003-2004	38.74	5.79
2004-2005	38.62	5.84
2005-2006	38.56	5.83
2006-2007	45.62	7.20
2007-2008	45.24	8.00
2008-2009	44.86	8.72

Sources: Annual Report on MSME, 2010- 2011, Govt. India, Ministry of Micro, Small and Medium Enterprises.

• The data for the period of 2005 –06 is of SSI. Subsequent to 2005 – 06 , data with reference to MSMEs are being compiled

If we analysis the above data it is clear that in last ten years the average contribution of MSMEs in total industrial production and GDP are 40.91% and 6.496%. Below given chart shows the increasing trend of GDP over the year.

BAR CHART SHOWING THE GROWTH TREND IN GDP (%) OVER THE YEARS



(Year starting from 1999-2000 and end to 2008-09)

CONTRIBUTION OF MSMEs IN EMPLOYMENT GENERATION

MSMEs’s contribution towards employment generation is remarkable comparing to any other sectors employment generation capacity. Average employments generated by this sector in last ten year are 417.285 lakh. Growth rate in employment generation is also remarkable for the same period and it is 14.358%. It is clearer from below given table.

TABLE 3: EMPLOYMENT IN LAST TEN YEARS

Year	Total Employment (Lakh number)	% Of Growth over the previous year
2000 - 01	238.73	-----
2001 - 02	249.33	4.44
2002 - 03	260.21	4.36
2003 - 04	271.42	4.31
2004 - 05	282.87	4.11
2005 - 06	294.91	4.37
2006 - 07	594.61	101.62
2007 - 08	626.34	5.34
2008 - 09	659.35	5.35
2009 -10	695.38	5.47

Sources: Annual Report on MSME, 2010- 2011, Govt. India, Ministry of Micro, Small and Medium Enterprises.

- The data for the period of 2005 –06 is of SSI. Subsequent to 2005 – 06 , data with reference to MSMEs are being complied

LINE CHART SHOWING THE GROWTH TREND IN EMPLOYMENT GENERATION OVER THE YEARS



CONTRIBUTION OF MSMEs IN EXPORT

Export performance of MSMEs is also mentionable. 40 percent direct export and 15 percent indirect export is made by this sector. The average growth rates in export by MSMEs in last fifteen year (1992-93 to 2006-07) are 19.15%, a tremendous growth rate comparing to any other sectors. The product groups, which dominate the exports from MSMEs sector, include sports goods, readymade garments, woolen garments and knitwear, plastic products, processed food and leather products. Contributions of MSMEs towards Export in last ten years are shown below.

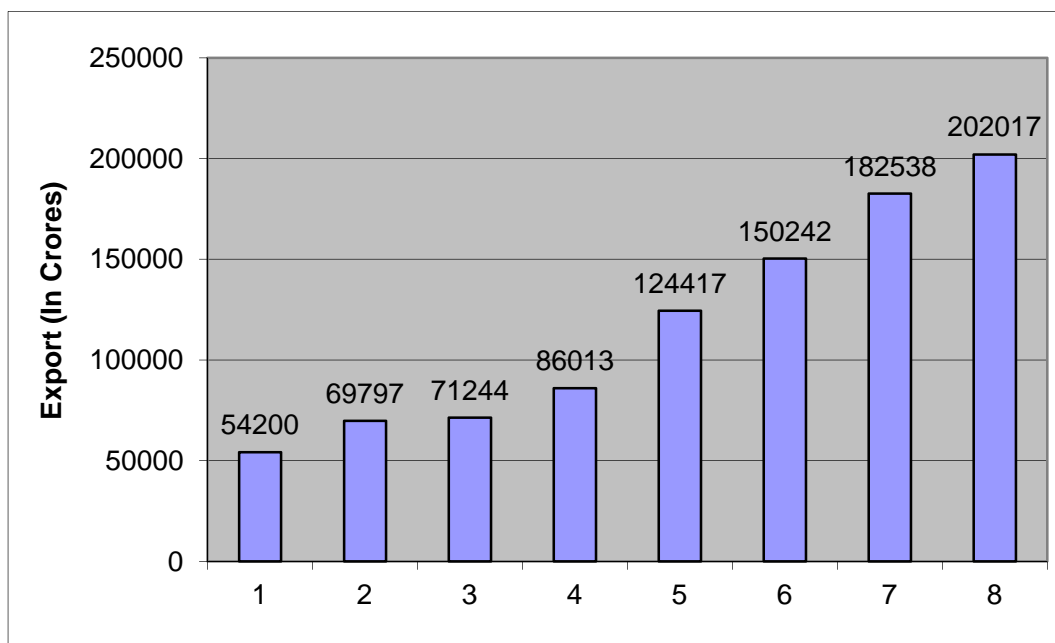
TABLE 4: CONTRIBUTION OF MSMEs IN EXPORT

Year	Exports (Rs. Crores)	% Of Growth over the previous year.
1999-2000	54,200	-----
2000-2001	69,797	28.78
2001-2002	71,244	2.07
2002-2003	86,013	20.73
2003-2004	1,24,417	27.42
2004-2005	1,50,242	20.76
2005-2006	1,82,538	21.50
2006-2007	2,02,017	10.67
2007-2008	NA	NA
2008-2009	NA	NA

Sources: Annual Report on MSME, 2010- 2011, Govt. India, Ministry of Micro, Small and Medium Enterprises.

- The data for the period of 2005 –06 is of SSI. Subsequent to 2005 – 06 , data with reference to MSMEs are being complied

BAR CHART SHOWING THE GROWTH TREND IN EXPORT OVER THE YEARS



(Year starting from 1999-2000 and end to 2006-07)

PRODUCTION OF MSMEs

Productions of MSMEs sectors (in value) are going to increases over the year. In 2000-2001 production of MSME was RS. 261297 Crore where in 2009-10 were Rs.982919 Crore, so increases in ten year are 276.17%. Percentage wise increase than the previous year is also remarkable, which is clear from below given table.

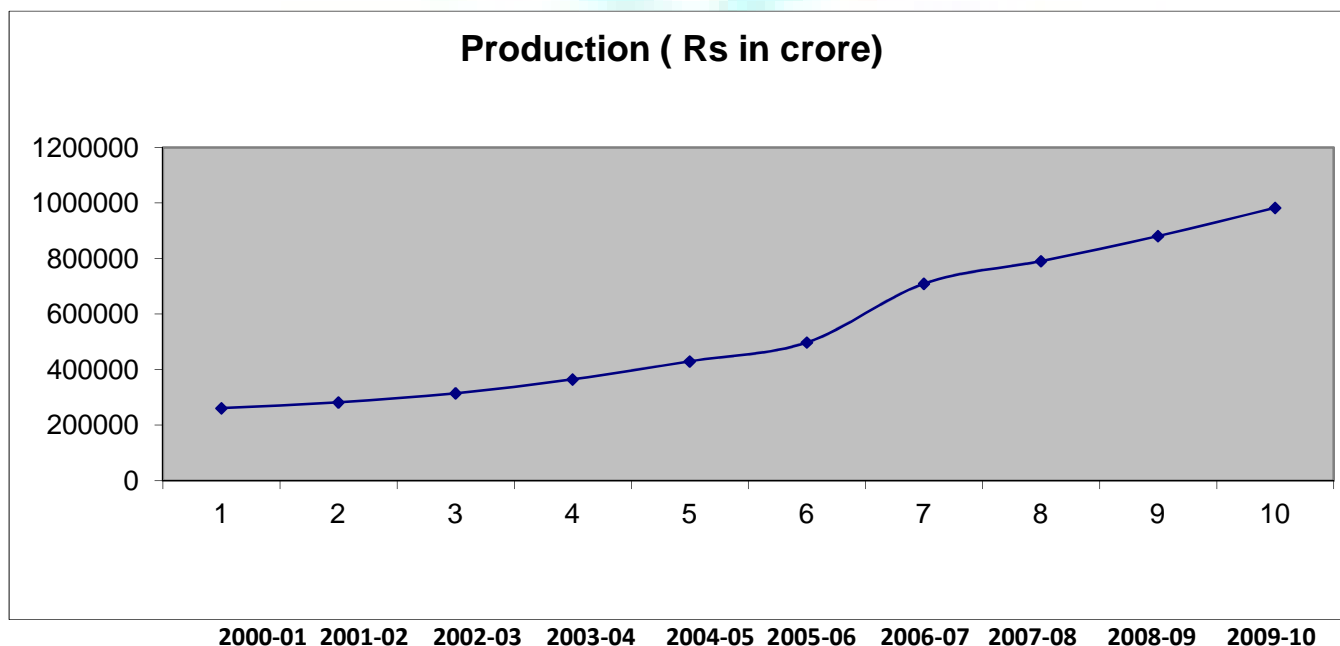
TABLE 5: CONTRIBUTION OF MSMEs IN PRODUCTION

Year	Production (RS Crore) Current Price	% Of Growth over the previous year
2000 - 01	261297	-----
2001 - 02	282270	8.03
2002 - 03	314850	11.54
2003 - 04	364547	15.78
2004 - 05	429796	17.90
2005 - 06	497842	15.83
2006 - 07	709398	42.49
2007 - 08	790759	11.47
2008 - 09	880805	11.39
2009 -10	982919	11.59

Sources: Annual Report on MSME, 2010- 2011, Govt. India, Ministry of Micro, Small and Medium Enterprises.

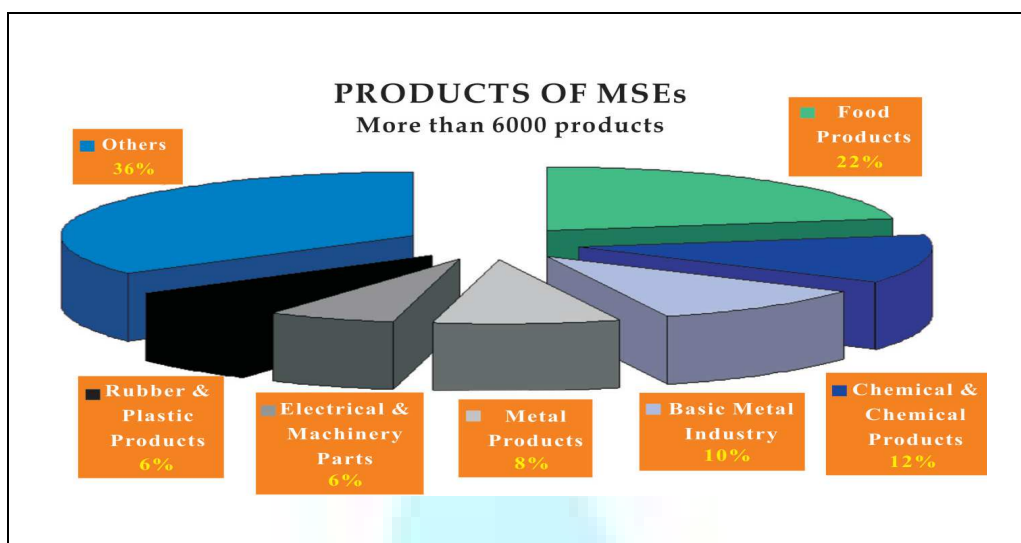
- The data for the period of 2005 –06 is of SSI. Subsequent to 2005 – 06 , data with reference to MSMEs are being compiled

LINE CHART SHOWING THE PRODUCTION OVER THE YEARS



Different types of products are produced by the MSME ranging from traditional pen - refill to high tech product like mobile. Following pie chart is showing the different categories of products produced by MSME sector.

CLASSIFICATION OF PRODUCTS OF MSEs



Sources: Annual Report: 2010-11, Ministry of Micro, Small and Medium Enterprises.

FIXED INVESTMENT IN MSMEs

Investment and production are closely linked. More investment indicate more production or more production require more investment. Over the year investment in fixed Investment by MSMEs are remarkable, which is clear from below given table.

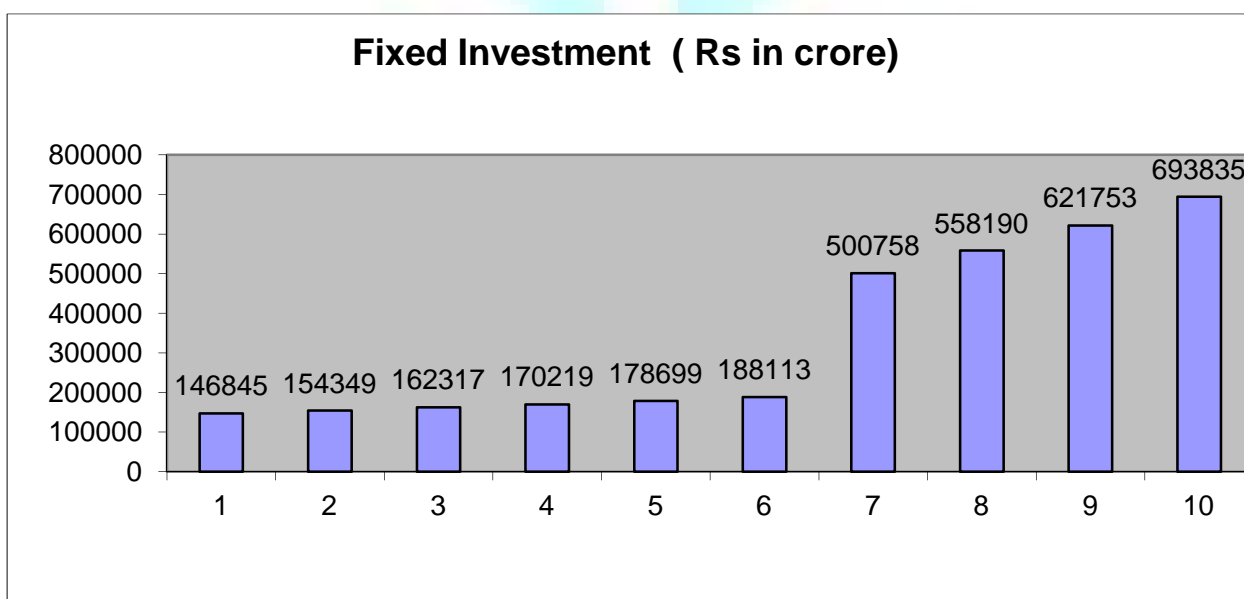
TABLE 6: INVESTMENT IN FIXED ASSETS BY MSMEs

Year	Fixed Investment (Rs Crore)	% Of Growth over the previous year
2000 - 01	146845	----
2001 - 02	154349	5.11
2002 - 03	162317	5.16
2003 - 04	170219	4.87
2004 - 05	178699	4.98
2005 - 06	188113	5.27
2006 - 07	500758	166.20
2007 - 08	558190	11.47
2008 - 09	621753	11.39
2009 -10	693835	11.59

Sources: Annual Report on MSME, 2010- 2011, Govt. India, Ministry of Micro, Small and Medium Enterprises.

- The data for the period of 2005 –06 is of SSI. Subsequent to 2005 – 06 , data with reference to MSMEs are being compiled

BAR CHART SHOWING THE GROWTH TREND IN FIXED INVESTMENT IN MSMEs SECTOR



2000-01 2001-02 2002-03 2003-04 2004-05 2005-06 2006-07 2007-08 2008-09 2009-10

CONCLUSION

The Micro, small and medium (MSMEs) enterprises constitute a very important segment of the Indian economy. MSME's contribution to the development of our economy is significant as it evident in terms of MSMEs being the major constituent sector in the production system, employment generation, GDP, Export, Rural industrialization etc. MSMEs also have an aptitude for innovation, creativity, and flexibility which enabling them to respond with more quickly to structural changes and to adapt the dynamic demand patterns of consumers. It is also clear that MSMEs sector has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and diversification. If government policies towards MSMEs are closer towards its various problems and prospect it can be nearer contributors with agriculture in all respect in future. To keep this growth engine at right way and right direction it is time to emphasis on formulation of MSMEs friendly policies, conductive operating environment, improvement of proper infrastructure, securing peace and security, arranging proper finance, efficient manager and arranging appropriate modern technology. Considering MSMEs contribution towards every side of economic development it should consider at equal recognition with agriculture.

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