

MSMEs in India: Growth, Performance and Various Constraints, Impeding their Growth

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Abstract

The MSMEs are playing a vital role in the development of both developed and developing countries. In India, these industries are considered to be the backbone of the economy. These enterprises have emerged as a dynamic and vibrant sectors of the economy. Today, it accounts for nearly 45 per cent of the gross value of output in the manufacturing sector and over 40 per cent of the total exports from the country. The performance and growth of Ministry in Micro, Small and Medium Enterprises MSMEs and its organizations is to assist the States in their efforts to encourage entrepreneurship, employment and livelihood opportunities and enhance the competitiveness of MSMEs in the changed economic scenario. In India, they are vital from the point of view their overall contribution in terms of number of units, production, exports, employment and their spread in rural areas. This paper is an attempt to analyse the performance of MSMEs in terms of various parameters, looking the various problems hindering their growth and different policy initiatives undertaken by the government for their growth. This paper is wholly based on the secondary data obtained from the websites of different ministries.

Keywords: Micro, Small and Medium Enterprise (MSMEs), Production, Employment, Exports, Growth, Performance, Competitiveness etc

INTRODUCTION

The role of MSMEs in developing and emerging economies is undisputed and is well recognized. Besides contributing significantly to the employment generation (as a group, MSMEs provide greater level of employment than large firms), poverty alleviation and rural development (SMEs are capable of pushing economic reforms and modernization of local economies). These industries are considered to be the engine of growth, the world over. These industries stimulate innovative ideas, business methods, and entrepreneurial skills; they are flexible and can adapt quickly to changing market demand and supply situations; help in diversifying economic activity, and make a significant contribution to industrial development and exports. Therefore the establishment and promotion of MSME's across the globe has assumed strategic role and importance. MSME sector is one of the key drivers for India's transition from an agrarian economy to an industrialized economy. In India, the Micro, Small and Medium Enterprise sector is decisive for the economy. It accounts for 29.8 million enterprises in various industries, employing 69 million people. It includes 2.2 million women-led enterprises (7.4 percent) and 15.4 million rural enterprises (51.8 percent). In all, the MSME sector accounts for 45 percent of the country's manufacturing output and 40 percent to its exports. Even though 94 percent of MSMEs are unregistered, their contribution to the India's GDP has been rising consistently at 11.5 percent a year, which is higher than the overall GDP growth rate. This sector is currently producing more than 6,000 quality products, ranging from handloom saris, carpets and soaps to pickles, auto and machine parts targeting both domestic and international markets. Poor infrastructure and inadequate market linkages are key factors that have constrained growth of this sector. The lack of adequate and timely access to finance has been the biggest challenge to them. The financing needs of the sector depend on the size of operation, industry, customer segment, and stage of development. Financial institutions have limited their exposure to the sector due to a higher risk perception and limited access of MSMEs to immovable collateral.

Definition of MSMEs in India

Earlier, industrial units in India, classified as small scale and large scale units were based on investment ceiling on the installed plants and machinery. Within small-scale sector, there were sub-classifications such as ancillary units, tiny units, women enterprises, and small scale services and business units. The medium scale units were not earlier defined in India. However, following the enactment of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, enterprises in India are being broadly classified into micro units, small units, medium units and large units.

Manufacturing Sector

As per MSME Development Act 2006, micro enterprises are classified as those enterprises with investment in plant and machinery not exceeding 25 lakhs. While small enterprise are those whose investments in plant and machinery has been kept in the range of 25 lakhs and ` 5 crores, and for medium enterprise, the investment in plant and machinery is in the range between ` 5 crores and ` 10 crores.

Services Sector

The definition of MSMEs in the services sector based on investments in plant and machinery classifies micro enterprises as those units whose investment in equipments does not exceed ` 10 lakhs; in small enterprise, this investment limit in equipments fall between ` 10 lakhs and ` 2 crores; and for medium enterprises, the investment in equipments lies between ` 2 crores and ` 5 crores.

Review of literature

Valsamma Antony (2002), in her study “Prospects and Growth of small scale industries in India” observed that adequate and timely availability of working capital and marketing avenues should be ensured for improving the competitive strength of their products in the domestic global markets. The study further reveals the need for providing better information and efficient networking system for the SSIs besides development of quality infrastructural facilities.

Siringoringo, et al. (2009) while studying the problems faced by small and medium enterprises in exporting products shows that the factors which influence SMEs export performances in Indonesia are competition, long duration of export document process, product quality, export barrier from country destinations, low capability in high production, delay in transportation, communication barrier, government agencies that presume become barrier, lack of international market knowledge, barrier of entering international market, export administrative procedures, inefficient production cost, illegal fee in export documents processing, incompetence to supply product in time, lack of knowledge in transaction method, limitation of destination country, time limitation in cargo, and delay of delivery.

Sudan, F. K. (2005) described the challenges in Micro and Small Scale Enterprises development and policy issues by raising different questions related to micro and small enterprises. The study revealed the advantages, problems and policy options of MSE sector. The study concluded that all the policy measures opted by GOI are the efforts to form a dynamic MSE sector and a diversified economy providing growing employment opportunities to absorb all the labour force.

Sonia and Rajeev (2009) while studying the effects of globalization on Micro, Small and Medium Enterprises (MSMEs) during pre and post liberalization from 1973-74 to 2008-09 revealed that MSMEs has failed to put up an impressive performance in post reform era. They used four economic parameters namely number of units, production, employment and export and interpreted study results based on Annual Average Growth Rate (AAGR) calculation.

Research Question: what is the role and performance of MSNEs in employment, output and Export earnings.

Objectives

- To study the role and performance of micro, small and medium enterprises in India.
- To study the various constraints faced by micro, small and medium enterprises in India.
- To study various policy measures and initiatives taken by the government to revitalise the MSMEs sector in India.

Methodology

The study is purely based on the secondary data sources which was obtained from the websites of different Departments like annual reports of Ministry of micro, small and medium enterprises, EXIM bank report of ministry of finance, and economic census of industries of government of India, different books and periodicals. Further, articles and information available in different journals and magazines was also referred for the compilation of this paper. The parameters highlighting the performance of MSMEs include growth rate, number of units, their exports and their contribution to employment.

Role MSMEs at Global Level

While looking at the role of MSMEs in the global economy, these industries are playing a significant role as they are vital from the revenue and employment generation point of view, particularly in emerging economies. In OECD economies, MSMEs account for over 95% of the firms, 60 to 70% of employment, 55% of GDP and generates the major share of new employment. In developing countries like ours, more than 90% of all firms, outside the agricultural sector, are MSMEs, generating a significant portion of GDP. For example, in Morocco, a lower middle Income country, 93% of industrial firms are MSMEs and account for 38% of production, 33% of investment, 30% of exports and 46% of employment. In Bangladesh, a low- income country, enterprises that have less than 100 employees account for 99% of firms and 58% of employment. Similarly, in Ecuador, an upper middle income country, 99% of all private companies have less than 50 employees and account for 55% of their employment. Globally MSMEs had grown by 6% from the year 2000 to 2009, with Europe and Central Asia experiencing a growth of 15%. In half of the high income economies, formal MSMEs employed at least 45% of the workforce, compared to only 27% in lower income economies, which further highlights their importance in economic development and job creation. Globally, MSMEs employ one-third of the working population. East

Asia and the Pacific have the highest ratio of MSME employment to total employment, with percentage in China being as high as 80%; therefore, highlighting the importance of MSMEs to the global economy and their importance in terms of the role they play in the Global Value Chain. MSMEs have been globally considered as an engine of economic growth and as key instruments for promoting equitable development. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the MSME sector is much higher than that of large enterprises. MSMEs constitute more than 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production, exports, low investment requirements, operational flexibility, location wise mobility, low intensive imports, capacities to develop appropriate indigenous technology, Import substitution, contribution towards defence production, technology oriented industries, competitiveness in domestic and export markets and generate new entrepreneurs by providing knowledge and training.

In India too, MSMEs play an essential role in the overall development of the economy. In recent years, the MSME sector has consistently registered higher growth rate compared with the growth rate of overall industrial sector. With its nimbleness and dynamism, the sector has shown worthy innovativeness and adaptability to survive the recent economic downturn and recession. The Micro, Small and Medium Enterprises (MSMEs) are playing a crucial role in the economic and social development of the country, often acting as a nursery of entrepreneurship. This sector also plays a key role in the development of the economy with their effective, efficient, flexible and innovative entrepreneurial spirit.

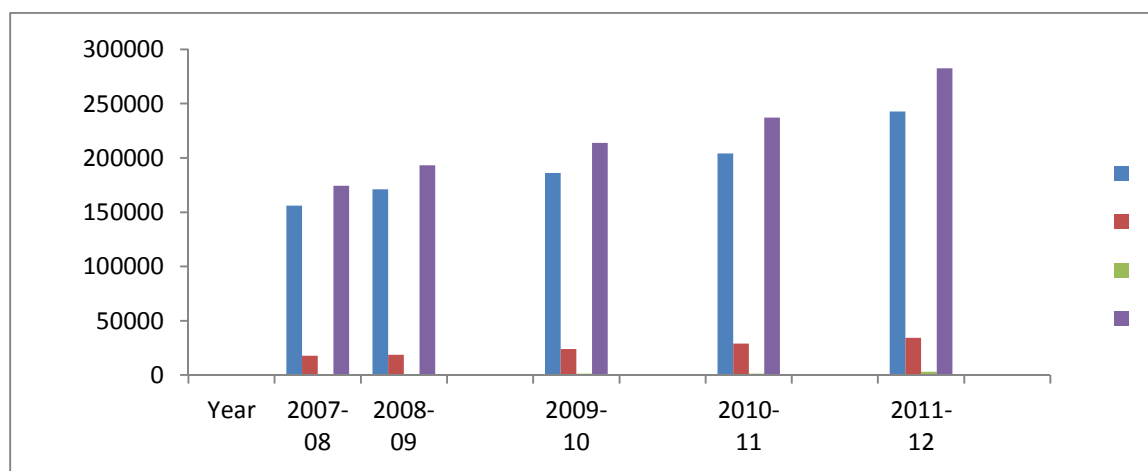
Since independence, MSME sector has played a pivotal role in nation's economic development. Besides helps in discouraging monopolistic practices of production and marketing, these industries dynamically contribute to the growth of national economy along with opportunity creation for accumulation of foreign exchange reserves. In India, this sector is highly heterogeneous in terms of the size of the enterprises, variety of products and services, and levels of technology. These industries not only plays a crucial role in providing employment opportunities at comparatively lower capital cost than large industries but also helps in industrialisation of rural and backward areas, reducing regional imbalances and assuring more equitable distribution of national income and wealth. MSMEs complement large industries as ancillary units and contribute enormously to the socioeconomic development of the country. Table 1 will show the year wise distribution of MSMEs in terms of their increase in number of units.

Table 1
Year wise Distribution of number of Micro, Small and Medium Enterprises

Year	Micro	Small	Medium	Total
2007-08	1,56,051	17,777	491	1,74,319
2008-09	1,71,031	18,757	690	1,93,077
2009-10	1,86,126	23,999	1,412	2,13,894
2010-11	2,04,064	29,101	1,260	2,37,263
2011-12	2,42,606	34,192	2,939	2,82,496

Source: Annual report, 2012-13, Ministry of Micro, Small and Medium Enterprises.

Table 1 shows a continuous increase in the number of units in the years under consideration. It further reveals that the highest number of enterprises fall in the group of micro enterprises, followed by small and medium enterprises as depicted below by the bar chart also.



Role of MSMEs in Indian Exports, Employment, Output and Investment. As per fourth census held in

2006-07 there are about 26 million units (over 90 per cent of total industrial units) in this sector employing nearly 60 million people in India. These industries play a vital when compared to other sectors, not only in terms of creating job opportunities at lower capital cost, but also in terms of lower capital investment. They play a vital role for proper utilization of local resources and talent. The organized industrial sector requires an investment of Rs 6.66 lakh in order to generate an employment of one person, where as the MSMEs sector generate an employment of 1.27 persons with the same amount of investment which indicates their employment potential. The exports from MSMEs have increased by more than 514 times in a span of over three decades, from financial year 1973-74 to financial year 2006-07. There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs. MSMEs sector has consistently registered a higher growth rate compared to the rest of the industrial sector. This sector is the second largest employer in the country after agriculture both self-employment and jobs creation.. 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 unrivalled. In order to reveal the true performance of the micro, small and medium enterprises, it is better to look their contribution in terms of number of their units, production, employment and exports which are good indicators of their growth. Table 2 will reveal their true performance in terms of these various parameters.

Table 2

Performance of MSMEs Units in terms of Employment, Investments and Gross Output and Exports

Year	No. of Enterprises (in lakhs)	Employment (in lakhs)	Market Value of Fixed Assets (in crores)	Exports (in crores)	Gross Output (in crores)
2001-02	105.21	249.33	154349.00	71244 (2.07)	282270.00
2002-03	109.49	260.21	162317.00	25307 (42.30)	314850.00
2003-04	113.95	271.42	170219.00	97644 (13.52)	364547.00
2004-05	118.59	282.57	178699.00	97644 (13.52)	429796.00
2005-06	123.42	294.91	188113.00	150242 (20.76)	497842.00
2006-07	361.76	805.23	868543.79	182538 (21.50)	1351383.45
2007-08	377.37	842.23	917437.46	202017 (10.67)	1435179.26
2008-09	393.70	881.14	971407.49	NA	1524234.83
2009-10	410.82	922.19	1029331.46	NA	1619355.53
2010-11	428.77	965.69	1094893.42	NA	1721553.42
2011-12	447.73	1012.59	1176939.36	NA	1834332.05

(Annual Report MSMEs 2012-13)

Table 2 depicts that the number of MSMEs have registered an impressive growth and increased from 105.21 lakh in 2001-02 to 447.73 lakh in 2011-12 showing a significant increase the number of units over a decade. Similarly, there is also a significant increase in the employment generation of these industries as their employment contribution has increased from 249.33 lakhs in 2001-02 to 1012.59 lakhs in 2011-12. Same is the case with fixed investment, production and exports as these all have continuously increased in the years under consideration. Significantly, the exports from these enterprises have been on the rise, despite increased cost of raw materials, sluggish global demand and stiff international competition. Today, the sector produces a wide range of products, ranging 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 equipments and drugs and pharmaceuticals. An impetus to the sector is likely to have a multiplier impact on economic growth. The main markets for the exports of MSME product groups, which accounted for more than 90 per cent of their exports from 2009 to 2012, include the USA, European Union, UAE, Turkey, Singapore, Hong Kong, Israel and Saudi Arabia. The MSME sector accounts for around 45 per cent of total manufacturing output. MSME sector has about 36 million working enterprises and 80 million employments throughout the country.

Comparison of the MSME Sector with the overall Industrial Sector: The MSMEs sector has maintained a higher rate of growth vis-à-vis the overall industrial sector as would be clear from Table 3 given below.

Table 3
Comparison of Growth Rate MSMEs with the Overall Industrial Growth Rate

Year	Growth rate of MSMEs Sector (%)	Overall Industrial Sector (%)
2002-03	8.68	5.70
2004-05	10.88	8.40
2005-06	12.32	8.10
2006-07	12.60	11.5
2007-08	13.00	8.00
2008-09	13.56	8.56
2009-10	10.76	10.50
2010-11	10.78	7.80
2011-12	19.06	NA

(Source: Centre for Industrial and Economic Research (CIER).

Table 3 clearly reveals that micro, small and medium enterprises has maintained a higher rate of growth as compared to the growth rate of overall industrial sector. The growth rate micro small and medium scale industries has increased from 10.88 per cent in 2004-05 to 13.00 per cent in 2007-08 where as the growth rate in overall industrial sector has increased from 8.40 per cent to 11.5 per cent during the same period with increasing trend till 2006-07 but shows declining trend in 2007-08. It is also significant to note that during this year the overall industrial growth rate is also considerable reaching to a maximum of 11.50 during the 10 years period i.e. from 2002-03 to 2010-11. MSMEs has shown a constant growth rate of more than 10% every year till 2011-2012, whereas in year 2011-12 growth rate was 19% which is approximately twice of the growth rate recorded for previous years. This indicates that the contribution of MSMEs has been much higher as compared to overall industrial sector in India. This clearly highlights the importance of MSMEs in the growth of our economy.

Multiple Constraints faced by MSMEs, their impact on MSMEs growth

Although the MSME sector has been growing at a faster rate than the overall industrial sector, MSMEs experience multiple constraints that threaten to derail the sector's growth trajectory. Some of major that MSMEs face are highlighted.

- **Inadequate market linkages:** MSMEs tend to have poor market access, except in the case of cluster-linked and ancillary MSMEs that have natural linkages with large enterprises. The non-clustered MSMEs are fragmented, and as a result, are unable to organize in order to reduce the procurement cost from large enterprises or streamline the output supply chain. In the absence of adequate market linkages, any demand disruption in the supply chain can severely impact on their operations because the enterprise capital of these industries tends to be locked in illiquid inventory and receivables.

- **Lack of infrastructure:** Limited access to infrastructure facilities such as power, water and roads increases operational costs for MSMEs and makes their dealings uncompetitive. Inadequate access to support infrastructure discourages these industrial units from adopting new technologies where ever available. In addition, poor infrastructure forces small and medium businesses to operate in selected geographical areas, by increasing the demand for natural resources in that region.

- **Inadequate finance:** This is the biggest challenge before the MSMEs. These enterprises consider it as one of the biggest constraints in growth. A study on the MSME sector also suggests that the multiple growth constraints like those mentioned above can be largely linked to inadequate access to finance. The Report of Working Group on Rehabilitation of Sick MSMEs by RBI also finds lack of adequate and timely access to working capital finance is one of the key reasons for sickness in the sector. The 2007 MSME Census indicated that only 5 percent of enterprises in the sector had access to some form of formal finance, while over 92 percent of the units lacked access to any form of institutional finance. Studies on financing pattern in the sector and the MSME census suggest that MSMEs prefer self-financing, which not just includes the savings of the entrepreneurs, but also the finance availed from friends, family and relatives.

- **Lack of managerial competence:** Micro and small enterprises in particular largely comprise first-generation entrepreneurs, who have had a limited structured training on resource planning, capital management and labour management. As a result, lack of managerial competence often shows in poor book-keeping and a limited knowledge of formal financial institutions, which further inhibits their growth process.

- **Obsolete technology:** These industries do possess the obsolete and outdated technology. While industries such as automotive, forging, software development sector require advanced technologies in operations, the majority of the small and medium enterprises do not have that kind of technological edge. A low technological base results in low productivity, which makes these enterprises uncompetitive. These enterprises too have limited awareness about new technologies, or the technology financing schemes.

Various measures undertaken by the government for the promotion of MSMEs in India.

1. In order to reduce the credit gap to MSME, Scheduled Commercial Banks (SCBs) are to be directed to maintain minimum 22% in their outstanding credit growth to MSME sector during the first two years of the 12th Five Year Plan and further minimum amount of 25% during the remaining three years of the 12th Five Year Plan.
2. The focus of the 12th plan on MSMEs is that Banks should achieve 10% increase in new micro enterprises borrowers on year to year basis. As a Subset, banks should add at least 12 new MSMEs in their semi-urban and urban branches.
3. Availability of land for MSMEs has to be ensured. State governments may earmark at least one industrial estate in each block. Government may identify barren lands and allot it to MSMEs at affordable price or set up industrial units in that places.
4. Govt. Initiatives in 12th five year plan for MSME Sector: The BSE and NSE got the approval for MSMEs platforms from the SEBI in order to enable these enterprises to raise funds from capital markets.
5. To achieve the overall target set by the Prime Minister's National Council on Skill Development, Ministry of MSME and other agencies conducted the skill development programmes for 478,000 people during 12th five year plan. However, during 13th plan, the Ministry aims to provide training to 572,000 people through its various programmes for development of self employment opportunities as well as wage employment opportunities in the country.
6. To improve the productivity, competitiveness and capacity building of MSMEs, the Government of India has adopted a cluster based approach. During Apr-Jan 2012, the government has taken 8 new clusters for diagnostic study, 5 for soft interventions, and 4 for setting up of common facility centres. Till Jan 2012, the government has taken a total of 477 clusters for diagnostic study, soft interventions and hard interventions and 134 infrastructure development projects.
7. In order to lead focus on government lending to MSMEs, the government constituted a committee in 2009 under the chairmanship of T.K .A. Nair, which on the basis of its recommendations made it advisable for the SCBs that share to micro enterprises in MSE lending should amount to 60 percent.
8. The government under its procurement policy mandates that all the central ministers/ departments / central public sector undertakings shall procure a minimum of 20 percent of their annual value of goods and services required by them from MSEs.
9. The ministry of MSMEs has adopted a cluster approach for holistic development of MSE in a cost effective manner to build capacity of MSMEs for common supportive actions, soft interventions. Hard interventions are taken up to create/upgrade infrastructure facilities and setup common facility centres in existing or new clusters.
10. Another important scheme credit linked capital subsidy scheme for MSMEs was launched in order to facilitate the upgradation of technology to MSEs by providing 15 percent capital subsidy (maximum upto 15 lakh) for purchase of plant and machinery. Maximum limit of eligible loan for calculation of subsidy under the subsidy scheme is Rs 100 lakh.

Thus MSMEs play a vital role as they promote growth and development of the economy, reduce rural unemployment, regional disparities. MSMEs contribute significantly to the economic activity in almost every country of the world. Indian MSMEs are therefore of no exception. The performance of MSMEs has a determining significance for Indian economic growth due to their substantial share in enterprises, employment, and production and value addition besides being one of the important foreign exchange earner. However, in spite of their vital significance, these industries face various Challenges as mentioned which impede their growth. Therefore, in order to keep their growth engine on the right path, it is better to put emphasis on formulation of MSME friendly policies, conducive operating environment, improvement of proper infrastructure, securing peace and security, arranging proper finance, ensuring better and efficient management and arranging appropriate and modern technology. Considering MSMEs contribution towards every aspect of economic advancement, therefore a considerable attention should be provided to this sector.

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