



## Role of MSMEs in the Growth of Indian Economy

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### ABSTRACT

The micro small and medium enterprises (MSMEs) have been accepted as the engine of economic growth and for promoting equitable development. The labour intensity of the MSME sector is much higher than that of the large enterprises. The MSMEs constitute over 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 and exports. The MSMEs play a vital role in the overall growth of industrial economy of the country. With its agility and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession and have lots of opportunities to grow in the future. This paper enlightens the growth of MSMEs and outlining the opportunities available for the MSMEs in the Indian economy.

**Keywords:** MSMEs, innovativeness, opportunities.

### Introduction

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. Ministry of Micro, Small & Medium Enterprises (MSME) envision a vibrant MSME sector by promoting growth and development of the MSME 2 Sector, including Khadi, Village and Coir Industries, in cooperation with concerned Ministries/Departments, State Governments and other Stakeholders, through providing support to existing enterprises and encouraging creation of new enterprises.

In India, the enterprises have been classified broadly into two categories:

- (i) Manufacturing; and
- (ii) Those engaged in providing/rendering of services.

Both categories of enterprises have been further classified into micro, small and medium enterprises based on their investment in plant and machinery (for manufacturing enterprises) or on equipments (in case of enterprises providing or rendering services). The present ceiling on investment to be classified as micro, small or medium enterprises is as under:

Classification	Manufacturing Enterprises	Service Enterprises
Micro	Up to Rs.25 lakh	Up to Rs.10 lakh
Small	Above Rs.25 lakh & up to Rs.5 crore	Above Rs.10 lakh & up to Rs.2 crore
Medium	Above Rs.5 crore & up to Rs.10 crore	Above Rs.2 crore & up to Rs.5 crore

Before 2 October 2006

Classification	Manufacturing Enterprises	Service Enterprises
Micro	Upto Rs.25 lakh	Upto Rs.10 lakh
Small	Above Rs.25 lakh & upto Rs.1 crore	—
Medium	Not defined A	Not defined

### Growth and Performance

In recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector in India. During the first 4 years of XI Plan, MSME Sector exhibited a growth rate of 13% on an average, an impressive performance compared to most of the other sectors. As per the 4<sup>th</sup> Censuses of MSME Sector, this sector employs an estimated 59.7 million persons spread over 26.1 million enterprises. It is estimated that in terms of value, MSME sector accounts for about 45% of the manufacturing output and around 40% of the total export of the country. The major advantage of the sector is its employment potential at low capital cost.

Establishment of specific Funds for the promotion, development and enhancing competitiveness of these enterprises, notification of schemes for this purpose, progressive credit policies and practices, preference in Government procurement to products and services of the micro and small enterprises, more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and assurance of a scheme for easing the closure of business by these enterprises are some of the other features of the Act.

### **Present Policy Framework**

The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 seeks to facilitate the development of these enterprises as also enhance their competitiveness. It provides the first-ever legal framework for recognition of the concept of “enterprise”, which comprises both manufacturing and service entities. It defines medium enterprises for the first time and seeks to integrate the three tiers of these enterprises, namely, micro, small and medium. The Act also provides for a statutory consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly the three classes of enterprises; and with a wide range of advisory functions.

### **Employment Opportunities**

SSI Sector in India creates largest employment opportunities for the Indian populace, next only to Agriculture. It has been estimated that a lakh rupees of investment in fixed assets in the small scale sector generates employment for four persons. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. The sector contributes significantly to manufacturing output, employment and exports of the country. In terms of value, the sector accounts for about 45 per cent of the manufacturing output and 40 per cent of total exports of the country. It is estimated to employ about 60 million persons in over 26 million units throughout the country. There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by 35 the MSMEs in India. It is well known that the MSME sector provides maximum opportunities for both self-employment and wage-employment, outside agriculture sector. MSME sector contributes not only to higher rate of economic growth but also in building an inclusive and sustainable society in innumerable ways through creation of non-farm livelihood at low cost, balanced regional development, gender & social balance, environmentally sustainable development and to top it all, recession proofing of economic growth, which the sector has proven time and again

### **Foreign Direct Investment (FDI) Policy**

With the promulgation of the MSMED Act, 2006, the restrictive 24% ceiling prescribed for equity holding by industrial undertakings, whether domestic or foreign, in the MSEs has been done away with and MSEs are defined solely on the basis of investment in plant and machinery (manufacturing enterprises) and equipment (service enterprises). Thus, the present policy on FDI in MSE permit FDI subject only to the sectoral equity caps, entry routes and other relevant sectoral regulations.

### **De-reservation**

The issue of de-reservation has been a subject of animated debate within government for the last twenty years. The Approach to the Eleventh Five Year Plan notes the adverse implications of reservation of products for exclusive manufacture by the MSEs and recommends the policy of progressive dereservation. To facilitate further investments for technological upgradation and higher productivity in the micro and small enterprises, 654 items have been taken off the list of items reserved for exclusive manufacture by the manufacturing micro and small enterprises in the last few years – reducing it to 21 at present. This has helped the sector in enlarging the scale of operations and also paved the way for entry of larger enterprises in the manufacture of these products in keeping with the global standards.

### **Testing Laboratories**

Presently, there are many testing laboratories in the country which are providing testing facilities to the industrial sector including micro units. Specialized testing facilities for certain high end products specially leather items are not available in the country. The exporting MSME units are availing these facilities from the overseas testing labs. As such, there is need for creation of additional testing facilities in the country. It was recommended that setting up of at least 100 nos. quality testing laboratories for MSMEs in cluster/industry concentration, district/major industrial area. This activity can be undertaken under Public Private Partnership mode. There is also need for upgradation of existing Test Laboratories under the Ministry.

### **Competitive Technology**

In today's fast paced global business scenario, technology has become more vital than ever before. With a view to foster the growth of MSME sector in the country, Government has set up ten state-of-the-art Tool Rooms and Training Centres. These Tool Rooms provide invaluable service to the Indian industry by way of precision tooling and providing well trained craftsmen in the area of tool and die making. These Tool Room are highly proficient in mould and die making technology and promote precision and quality in the development and manufacture of sophisticated moulds, dies and tools. The Tool Rooms are not only equipped with the best technology but are also abreast with the latest advancements like CAD/CAM, CNC machining for tooling, Vacuum Heat Treatment, Rapid Prototyping, etc. The Tool Room & Training Centres also offer various training programmes to meet the wide spectrum of technical manpower required in the manufacturing sector. The training programmes are designed with optimum blend of theory and practice giving the trainees exposure on actual jobs and hands on working experience. The Tool Rooms have also developed

special training programmes to meet the requirements at international level, which are attended by participants from all over the globe.

### **Export Promotion**

Export promotion from the MSE sector has been accorded a high priority. To help MSEs in exporting their products, the following facilities/incentives are provided: (i) Products of MSE exporters are displayed in international exhibitions and the expenditure incurred is reimbursed by the Government; (ii) To acquaint MSE exporters with latest packaging standards, techniques, etc., training programme on packaging for exporters are organised in various parts of the country in association with the Indian Institute of Packaging; (iii) Under the MSE Marketing Development Assistance (MDA) Scheme, assistance is provided to individuals for participation in overseas fairs/ exhibitions, overseas study tours, or tours of individuals as member of a trade delegation going abroad. The Scheme also offers assistance for (a) sector specific market study by MSE Associations/Export Promotion Councils/Federation of Indian Export Organisation; (b) Initiating/contesting anti-dumping cases by MSE Associations; and (c) reimbursement of 75 per cent of the one time registration fee and annual fee (recurring for first three years) charged by GSI India (formerly EAN India) for adoption of Bar Coding.

### **Infrastructure Development**

For setting up of industrial estates and to develop infrastructure facilities like power distribution network, water, telecommunication, drainage and pollution control facilities, roads, banks, raw materials, storage and marketing outlets, common service facilities and technological back up services, etc., for MSMEs, the Integrated Infrastructural Development (IID) Scheme was launched in 1994. The scheme covers rural as well as urban areas with a provision of 50 percent reservation for rural areas and 50 per cent industrial plots are to be reserved for the micro enterprises. The Scheme also provides for upgradation/strengthening of the infrastructural facilities in the existing industrial estates. The estimated cost (excluding cost of land) to set up an IID Centre is Rs.5 crore (\$1.25 million). Central Government provides 40 per cent in case of general States and upto 80% for North East Region (including Sikkim), J&K, H.P. and Uttarakhand, as grant and remaining amount could be loan from SIDBI/Banks/Financial Institutions or the State Funds. The IID Scheme has been subsumed under the Micro and Small Enterprise Cluster Development Programme (MSECDP). All the features of the IID Scheme have been retained and will be covered as “New Clusters” under MSECDP.

### **Opportunities**

The opportunities in the MSMES are enormous due to the following factors:

- Less Capital Intensive
- Extensive Promotion & Support by Government
- Reservation for Exclusive Manufacture by small scale sector
- Project Profiles
- Funding - Finance & Subsidies
- Machinery Procurement
- Raw Material Procurement
- Manpower Training
- Technical & Managerial skills
- Tooling & Testing support
- Reservation for Exclusive Purchase by Government
- Export Promotion
- Growth in demand in the domestic market size due to overall economic growth
- Increasing Export Potential for Indian products
- Growth in Requirements for ancillary units due to the increase in number of green field units coming up in the large scale sector. Small industry sector has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and diversification.

By its less capital intensive and high labour absorption nature, this sector has made significant contributions to employment generation and also to rural industrialization. This sector is ideally suited to build on the strengths of our traditional skills and knowledge, by infusion of technologies, capital and innovative marketing practices. This is the opportune time to set up projects in the small-scale sector. It may be said that the outlook is positive, indeed promising, given some safeguards. This expectation is based on an essential feature of the Indian industry and the demand structures. The diversity in production systems and demand structures will ensure long term co-existence of many layers of demand for consumer products / technologies / processes. There will be flourishing and well grounded markets for the same product/process, differentiated by quality, value added and sophistication. This characteristic of the Indian economy will allow complementary existence for various diverse types of units. The promotional and protective policies of the Govt. have ensured the presence of this sector in an astonishing range of products, particularly in consumer goods. However, the bugbear of the sector has been the inadequacies in capital, technology and marketing. The process of liberalization coupled with Government support will therefore, attract the infusion of just these things in the sector. Small industry sector has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and diversification. By its less capital intensive and high labour absorption nature, SSI sector has made significant contributions to employment generation and also to rural industrialization. This sector is ideally suited to build on the strengths of our traditional skills and knowledge, by infusion of technologies, capital and innovative marketing practices.

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### Focus of the 12<sup>th</sup> five-year plan regarding growth of the MSMES

The core area of focus will be finance, technology, infrastructure, marketing.

*Finance:* Operationalization of SME exchanges for enabling access to Equity Finance

*Technology:* Scheme for acquisition and up-gradation of technology

- *Infrastructure:* Developing clusters of excellence & Setting up of 100 Tool Rooms and PDCs
- *Marketing:* Procurement policy for Goods/services from MSEs by the Government
  - Departments and Central PSUs.
  - B2B International portal.
  - Enabling global footprints of MSMEs
  - Leveraging Defence Offset Policies in favour of MSMEs
- *Skill Development:* Revamped Skill Development & Capacity Building Programme.
  - Encouraging young/ first generation entrepreneurs by up scaling
  - PMEGP and other programmes
- *Institutional Structure*
  - Strengthening of Institutions – MSME-DIs, EDIs and KVI Institutions
  - Application of E-tools in promotional and regulatory matters for facilitating easy entry.
  - Real time Statistical & Policy Analysis through strengthening of Database

### Conclusion

To conclude, the MSME sector of India is today at the gateway of global growth on the strength of competitive and quality product range. However, facilitation from the Government is required to minimize the transaction costs of technology upgradation, market penetration, modernisation of infrastructure etc. In this paper we have looked at growth of Indian Micro Small and Medium Enterprise Sector over the last ten years. The MSME sector has often been termed the ‘engine of growth’ for developing economies. We begin with an overview of this sector in India and look at some recent trends which highlight the development and significance of this sector vis-à-vis the Indian economy. We have analyzed the growth of MSMES in fixed investment, production performance, employment generation and export contribution. The MSME Development Act of 2006 is perhaps the most crucial of these recent policy changes. The policies of interest are state outlays and subsidies targeted towards this sector. More specifically, we have discussed about Employment opportunities, Infrastructure Development, Testing laboratories, Foreign direct investment policy, De-reservation, Competitive technology, Export promotion within the MSME sector. We have also analyzed the opportunities given in the Indian economy for betterment of MSMEs. The factors like export promotion, reservation policy, tooling & technology, manpower training, technology and managerial skills gave enormous opportunities for growth and better performance in the economy. The core working area of the 12<sup>th</sup> five year plan also discussed in the paper. It is concluded that MSMEs in the Indian Economy have shown tremendous growth and excellent performance with the contribution of policy framework and efficient steps which had been taken by the Government time to time for the growth and development of the MSMEs.

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