

Engines of Growth - A Study of the Growth and Performance of Indian MSMEs in the Present Scenario

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Abstract

The MSMEs contributes extensively to the country's manufacturing output, employment and exports and is accredited with generating the highest employment growth as well as accounting for a major share of industrial production and exports. The labour intensity of the MSME sector is much higher than that of large enterprises. MSMEs comprise more than 80% of total enterprises in most of the economies. In recent years, the MSME sector has consistently registered higher growth rate compared with the overall industrial sector. MSMEs are complementary to large industries as ancillary units. The key focus areas for the growth of MSMEs are finance, technology, infrastructure, marketing, entrepreneurship development, sickness and conducive regulatory environment.

Introduction

MSMEs have been considered universally as an engine of economic growth and a key instrument for promoting equitable development. They have emerged as a vibrant and dynamic sector, and as an engine of growth for the present millennium. The sector has been playing a prominent role in the socio economic development of the country for the past six decades. The sector which forms part of the total industrial sector has direct impact on the growth of the national economy. In fact through the establishment of a more flexible, innovative and competitive structure, the small enterprise sector is being accepted a key to sustainable economic growth. In the context of liberalization as experienced through integration with the global economy in a phased manner, and national and international competitive environment, perspectives and strategies of small and medium enterprises development have undergone a sea change.

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Objective of the Study

1. To analyse the growth and performance of Indian MSMEs in present scenario
2. To find out the contemporary problems faced by MSMEs
3. To evaluate the reason for the sickness of MSMEs
4. To study the present scenario of financing to the MSMEs

Review of Literature

An extensive review of literature forms an important part of the study; a review of few of the studies is discussed below

Prasad (1983) propagated that SSI play a vital role in economic development of a nation. If these enterprises are developed effectively, can solve the problem of large scale unemployment and can raise the income and standard of living of lower income people which could help in reducing disparities in regional development

Maillat (1990) observed that the major problem for SMEs is to create a generation of true entrepreneurs, characterized by qualities of responsibility, spontaneity, imagination, capacity to predict and to adapt to change by detecting new opportunities, development strategies, identifying new resources and relational know-how with people and environment.

Armstrong and Taylor, (2000) assessed that SMEs are able to create a diversified and flexible industrial base by creating a pool of entrepreneurs willing and able to take risks leading to an energetic enterprise culture.

Malgawakar, (1997) has found unavailability of raw material along with insufficient infrastructure facilities as the main problem for hindering growth of small industries in the rural areas. The author concludes that procedural delays in disbursement of loan also added to the woes of the entrepreneurs.

Armstrong and Coyle, (1999) in their study observed that the main hurdle for lack of competitiveness of SMEs is outdated technology, unavailability of in-house human expertise and poor financial resources.

Pawar (2002) viewed that SSI possess a lot of inner strength which needs to be consolidated as the SSI sector survived the sweeping hot winds of globalisation.

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Bhavani (2002) studied the impact of globalization on the different sub-sectors in small enterprises and viewed that, in order to survive SSI should improve productivity, quality, reduce cost and should substantially improve their technology.

Gohill, Mike (2009) evaluated the problems faced by Indian small business sector in this transformation era, and viewed that less than 5 percent of the small businesses are successful remaining continues to function with various problems, prominent among them is lack of managerial experience of entrepreneurs.

MSMEs in the developing world

In much of the developing world, MSMEs are the only realistic employment opportunity for millions of impoverished communities. A significant proportion of MSMEs in developing countries are involved in traditional activities serving small, localized markets with little or no technological dynamism. In reality, few ‘graduate’ into larger or more modern technologies.

Table 1 Comparison of SMEs in Asia-Pacific Region		
Country	SMEs as % of all enterprises	SME employees as % of the total employed population
Hong Kong	98.0	60.0
Japan	98.9	69.2
Malaysia	96.1	45.0 (manufacturing)
Philippines	99.6	70.0
Korea	99.8	86.7
Singapore	99.7	57.0
Taiwan	97.7	68.8
Thailand	99.7	60.0

Source: White Paper on Small and Medium Enterprises in Taiwan, 2006.
<http://www.moeasmea.gov.tw/eng/2006whitepaper/2006white.asp>

The role of MSMEs in the economic growth need not be over-emphasized and their vivacity is a clear pointer to the health of the economy. The importance of small and medium enterprises has not diminished even in the developed economies, in fact it has found to be highly steady in many of them. A composition of small and medium enterprises in different economies in Asia pacific region is shown in Table 1. It is evident that small and medium enterprises are gaining distinction in the global developmental efforts and is not confined to one country or continent.

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Definition of MSMEs

The Government of India has revised the definition, of small scale industries over the years, presently as per the enactment of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 in terms of which the definition of micro, small and medium enterprises is as under in Table 2.

Table 2. Micro, Small and Medium Enterprises Development (MSMED) Act, 2006		
Enterprises	Manufacturing	Services
Micro	Upto Rs. 25 lakhs	Upto Rs. 10 lakhs
Small	Between Rs. 25 lakhs to Rs. 5 crores	Between Rs. 10 lakhs to Rs. 2 crores
Medium	Between Rs. 5 crores to Rs. 10 crores	Between Rs. 2 crores to Rs. 5 crores

Source: Ministry of MSME

Reasons for the success of Indian MSMEs

The following factors-strengths coupled with opportunities work in favour MSMEs

- High contribution to domestic production
- Significant export earnings
- Low investment requirements
- Operational flexibility
- Location wise mobility
- Low intensive imports
- Capacities to develop appropriate indigenous technology
- Import substitution
- Contribution towards defense production
- Technology oriented industries
- Competitiveness in domestic and export markets

By the very nature of their operations, industrial units in MSME sector enjoy certain inherent advantages over their larger counterparts. The free economy propel in accessibility to bigger markets, greater linkages for MSMEs with larger companies and marketing outfits, improved manufacturing techniques and processes. In the year 2007–08 the contribution of MSME sector

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alone to Gross Domestic Product was 8 per cent. (DCMSME) During the period 2000-10, the growth rate of MSMEs has been consistently higher than the overall growth rate of the industrial sector, crossing the 12 per cent mark in the terminal year of the Tenth Plan. (Planning Commission)

Growth and Performance of MSMEs in India

MSMEs play a predominant role in Indian economy in terms of employment, production and export potential. These enterprises have grown significantly since 1960, when there were only 12,376 small and medium enterprises, providing employment to 10 lakh people of which, direct employment was 1.85 lakh; annual production level was Rs 875 crore. MSMEs recorded a high rate of growth since liberalization in spite of stiff competition from large scale sector and the multinational corporations.

Employment generation is the prime objective of starting industries. Government considers that, one of the fundamental objects of industrialization is to provide high and stable level of employment. The survey of World Bank conducted as early as in 1978 revealed that a big push to small scale industries is the way to generate employment opportunities in the developing countries like India. In India Small and Medium Enterprises sector provides maximum employment next only to agriculture sector (Sivayya & Dass 1987). It is estimated that Rs. One lakh investment in fixed assets in the small scale sector generates employment for four persons. (DC MSME). The overall performance of MSMEs is shown below in Table 3.

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Table 3 Overall Performance of MSMEs between 1992-93 to 2012-13

Sl. No.	Year	Total MSMEs(lakh numbers)	Fixed Investment (Rs. Crore)	Production (Rs. Crores)		Employment (lakhs persons)	Exports (Rs. Crores)
				Current prices	Constant prices (1993-94)		
1	1992-93	73.51	109623	84413	92246	174.84	17784
		(4.07)	(9.24)	(4.71)	(5.6)	(5.33)	(28.10)
2	1993-94	76.49	115795	98796	98796	182.64	25307
		(4.07)	(5.63)	(17.04)	(7.1)	(4.46)	(42.30)
3	1994-95	79.60	123790	122154	108774	191.40	29068
		(4.07)	(6.9)	(23.64)	(10.1)	(4.79)	(42.30)
4	1995-96	82.84	125750	147712	121175	197.93	36470
		(4.07)	(1.58)	(20.92)	(11.40)	(3.42)	(25.46)
5	1996-97	86.21	130560	167805	134892	205.86	39248
		(4.07)	(3.82)	(13.60)	(11.32)	(4.00)	(7.62)
6	1997-98	89.71	133242	187217	146262.9	213.16	44442
		(4.07)	(2.05)	(11.57)	(8.43)	(3.55)	(13.23)
7	1998-99	93.36	135482	210454	157525.1	220.55	48979
		(4.07)	(1.68)	(12.41)	(7.7)	(3.46)	(10.21)
8	1999-00	97.15	139982	233760	170379	229.10	54200
		(4.07)	(3.32)	(11.07)	(8.16)	(3.88)	(10.66)
9	2000-01	101.1	146845	261297	184401.4	238.73	69797
		(4.07)	(4.90)	(11.78)	(8.23)	(4.21)	(28.78)
10	2001-02	105.21	154349	282270	195613	249.33	71244
		(4.07)	(5.11)	(8.03)	(6.06)	(4.44)	(2.07)
At 2001-02 prices							
11	2002-03	109.49	162317	314850	306771	260.21	86013
		(4.07)	(5.16)	(11.54)	(8.68)	(4.36)	(20.73)
12	2003-04	113.95	170219	364547	336344	271.42	97644
		(4.07)	(4.87)	(15.78)	(9.64)	(4.31)	(13.52)
13	2004-05	118.59	178699	429796	372938	282.57	124417
		(4.07)	(4.98)	(17.90)	(10.88)	(4.11)	(27.42)
14	2005-06	123.42	188113	497842	418884	294.91	150242
		(4.07)	(4.07)	(5.27)	(15.83)	(12.32)	(4.37)
15	2006-07	361.76	868543	1198817	1351383	805.23	182538
		(193.11)	(361.71)	(140.80)	(222.61)	(173.04)	(101.62)

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16	2007-08	377.36	920459	1322960	1435179	842.00	202017
		(4.31)	(5.97)	(10.35)	(6.20)	(4.59)	(10.67)
17	2008-09	393.70	977114	1375898	1524235	880.84	NA
		(4.16)	(5.80)	(4.00)	(6.20)	(4.62)	
18	2009-10	410.80	1038546	1488390	1519356	921.79	NA
		(4.36)	(6.15)	(8.17)	(-0.32)	(4.66)	
19	2010-11	428.73	1105934	1655680	1721553	965.15	NA
		(4.41)	(6.28)	(11.2)	(13.3)	(4.72)	
20	2011-12	447.66	1183332	1790804	1834332	1011.80	NA
		(4.42)	(6.99)	(8.16)	(6.55)	(4.86)	
17**	2012-13	467.56	1269338	NA	NA	1061.52	NA
		(4.44)	(7.28)			(4.91)	

Source: Ministry of MSME, Annual Report 2009-10, p13-14 & Annual Report 2013-14, p 15

*The figures in brackets show the % growth over the previous year. The data for the period up to 2005-06 is only for small scale industries (SSI). Subsequent to 2005-06, data with reference to micro, small and medium enterprises are being compiled.**Projected*

The sharp increase in the number of small and medium enterprises in the year 2005-06 is attributed mainly on account of change in the definition of the small scale enterprises and defining of the Micro, Small and Medium Enterprises Act by the government of India in 2006.

In a capital scarce country like India, it is worth to point out that though small scale industries are capital intensive, they require very little capital compared to large scale industries. An analysis of data collected by annual survey of industries (conducted during 1985-86) revealed that the cost of a creation of job in large scale industries is nearly Rs. 1,26,000 as against Rs. 13,000 in small scale sector. It is estimated that an investment of Rs 10 lakh in fixed assets in the small sector produces goods or services worth Rs 46.2 lakh with an approximate value addition of 10 percentage points. The Micro, Small and Medium Enterprises not only generate the highest employment per capita investment, but they also provide employment to villagers and people living in isolated areas so that they do not migrate to the urban areas.

The growth in production of MSMEs has been one of the most encouraging features of Indian industrial economy since independence. There has been a twenty fold increase in production for MSMEs which indicates that MSMEs have faced the global challenges bravely and have performed tremendously in the present scenario. The MSME share in the gross industrial output and the production per employee is shown in Table 4.

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Table 4 MSME sector share in Gross Output of Overall Industry and Production per employee between 1992-93 to 2012-13

S.no.	Year	MSME Production(at current prices)	Gross Industrial Output (at current prices)	% share of MSME	Production (at constant prices 1993-94)	Production per employee (Rs. thousand at constant prices)
1	1992-93	84,413	3,68,614	22.90	92,246	53
2	1993-94	98,796	4,25,744	23.20	98,796	54
3	1994-95	1,22,154	5,17,987	23.58	1,08,774	57
4	1995-96	1,47,712	6,70,514	22.04	1,21,175	61
5	1996-97	1,67,805	7,41,808	22.62	1,34,892	66
6	1997-98	1,87,217	8,36,336	22.38	1,46,262.9	69
7	1998-99	2,10,454	7,83,771	26.85	1,57,525.1	71
8	1999-00	2,33,760	8,97,938	26.03	1,70,379.0	74
9	2000-01	2,61,297	9,26,902	28.19	1,84,401.4	77
10	2001-02	2,82,270	9,62,457	29.32	1,95,613	112
11	2002-03	3,14,850	11,30,561	27.84	3,06,771	116
12	2003-04	3,64,547	12,87,401	28.31	3,36,334	122
13	2004-05	4,29,796	16,72,561	25.69	3,72,938	130
14	2005-06	4,97,842	19,08,355	26.08	4,18,884	140
15	2006-07	1198817	NA	NA	1351383	NA
16	2007-08	1322960	NA	NA	1435179	NA
17	2008-09	1375898	NA	NA	1524235	NA
18	2009-10	1488390	NA	NA	1519356	NA
19	2010-11	1655680	NA	NA	1721553	NA
20	2011-12	1790804	NA	NA	1834332	NA
21	2012-13	NA	NA	NA	NA	NA

Source: 1) Ministry of MSME, Annual Report 2009-10, p13-14

2) Handbook of Statistics on Indian Economy, RBI, 2008-09, Annual Survey of Industries, Table-33

3) Handbook of Statistics on Indian Economy, RBI, 2008-09, Performance of SSI sector Table-35

One of the most significant achievements of the MSMEs has been its contribution in the exports for the country. The share of MSME exports in overall exports of the country increased rapidly from 15.6 per cent in 1973-74 to 33.12 per cent in the year 1992-93. The exports from this sector has increased from Rs. 17,784 crores in 1992-93 to Rs. 2,02,017 during the year 2007-08,

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showing more than eleven fold increase. Moreover it is a fact that even after allowing MNCs due to globalization of economy; the MSMEs were able to compete with them even in the export market. It shows that MSMEs sector is able to face the competition boldly, and had best utilized the opportunities available on account of liberalization. The export performance of the MSME sector could also be judged from the point that the quality of exports have improved, as the present industrial scenario in India compels an organization to be quality conscious.

Table 5 MSME and total industrial Exports between 1992-93 to 2008-09				
S.no.	Year	Total exports(Rs. Crores)	MSME Exports(Rs. Crores)	% share of MSMEs Exports
1	1992-93	53688	17784	33.12
2	1993-94	69751	25307	36.28
3	1994-95	82674	29068	35.15
4	1995-96	106353	36470	34.29
5	1996-97	118817	39248	33.03
6	1997-98	130100	44442	34.16
7	1998-99	139752	48979	35.04
8	1999-00	159561	54200	33.96
9	2000-01	203571	69797	34.28
10	2001-02	209018	71244	34.08
11	2002-03	255137	86013	33.71
12	2003-04	293367	97644	33.28
13	2004-05	375340	124417	33.14
14	2005-06	456418	150242	32.91
15	2006-07	571779	182538	31.92
16	2007-08	655864	202017	30.80
17	2008-09	840755	NA	NA

Source: 1) Ministry of MSME, Annual Report 2009-10, p13-14 2) Economic Survey 2009-10, p-A80

As evident the MSME exports had maintained a steady rate of more than 30 per cent throughout the period, not only that there is a gradual increase in exports from MSME sector, but also an increase in the percentage share of MSME sector in the exports of the country. Though the share of MSME units contributing to direct exports is 30 per cent of the total exports', nearly 15 per cent exports are indirectly contributed by them. (TANSTIA, 1995)

This advancement is very impressive in view of the fact that from the year 1992-93, the economy on account of the liberalization, privatization and globalization has become an open economy

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and the SMEs were exposed to the global environment. According to a study by the ASSOCHAM, the MSME sector contribution will increase to 44 per cent of the total exports if the modernized technology is taken up. Since economic reforms started in 1991, the MSMEs have achieved a consistently higher rate of growth than the large sector. (Business India)

Year	SME growth rate	Industrial sector growth rate
1993-94	5.65	6.00
1994-95	10.44	9.10
1995-96	11.49	13.00
1996-97	11.29	6.10
1997-98	9.19	6.70
1998-99	7.84	4.10
1999-00	7.09	6.70
2000-01	8.04	5.00
2001-02	6.06	2.70
2002-03	8.68	5.70
2003-04	9.64	7.00
2004-05	10.88	8.40
2005-06	12.32	8.10
2006-07	12.60	11.5
2007-08	13.00*	8.0

*Source: ministry of MSME Annual report 2009-10, p-15, * Projected*
Note: Growth rates from 2002-03 onwards are as per the Index of Industrial Production (IIP) base 2001-02 =100 and those for earlier years are as per IIP base 1992-93=100.

The MSME sector constitutes a major share in total value added in Gross Domestic Product and there has been a structural relationship between the MSME sector's growth and overall growth of the industry and the economy as shown in Table 6.

Year	Contribution of MSMEs (%) at 1999-2000	
	% of Total industrial production	% of GDP
1999-00	39.74	5.86
2000-01	39.71	6.04

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2001-02	39.12	5.77
2002-03	38.89	5.91
2003-04	38.74	5.79
2004-05	38.62	5.84
2005-06	38.56	5.83
2006-07	42.02	7.44
2007-08	41.98	7.81
2008-09	40.79	7.52
2009-10	39.63	7.49
2010-11	38.48	7.42
2011-12	37.52	7.26

Source: Ministry of MSME Annual Report 2009-10, p-16

*** The data for the period up to 2005-06 is only for small scale industries (SSI), Subsequent to 2005-06, data with reference to micro, small and medium enterprises are being reflected*

According to the survey carried by the ASSOCHAM, the Small and medium enterprises contribution to the Gross Domestic Product would increase to 22 per cent in the next 3years, on account of increased production owing to technological up gradation. The GDP contribution of MSME sector and total industrial sector is shown below in Table 7.

Accordingly, the Government initiated the policy of de-reservation and the number of reserved items declined from 836 in 1991 to 21 in 2009. This policy has helped the segment in enlarging the scale of operations and also paved the way for entry of large enterprises in the manufacture of these products in keeping with the global standards.

MSMEs according to 4th Census

The Development Commissioner, Micro Small Medium Enterprises (DC MSME) had so far conducted four censuses on MSMEs. The latest 4th estimates for the census are presented below in Table 8.

Table 8 Ownership Pattern of Micro, Small and Medium Enterprises sector				
Enterprises by Type of organization	Registered MSME sector		Un registered MSME sector	
	Enterprises total	% to total	Enterprises total	% to total
Proprietary	14,21,548	91.57	2,32,40,914	94.67
Partnership	63,283	4.08	1,15,207	0.47
Private Company	30,102	1.94	1,06,743	0.43
Public Ltd. Company	7,346	0.47	66,074	0.27
Co-operatives	4,583	0.30	1,28,945	0.53
Others	25,630	1.65	8,90,422	3.63
Total	15,52,492	100.00	2,45,48,305	100.00
<i>Source : MSME annual report, 2009-10, p-175</i>				

Problems faced by MSMEs

The MSME problems could be broadly classified into internal and external. The internal problems are those which are the outcome of internal course of management of an enterprise and are related to a single unit whereas external problems are those which are generally faced by all enterprises in the industry and are beyond their control (Desai, V. 2006). The internal and external problems as assessed from different studies is shown below in Table 9.

Table 9 Internal and External Problems of MSMEs		
Problems	External	Internal
Finance	Non availability of finance Access to finance Excessive collateral security	High cost of borrowings Inadequate finance Recovery from debtors Low promoters contribution

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Managerial	Locational disadvantage Government price controls.	Lack of technical know-how Absence of long term planning Lack of management skills
Marketing	Market saturation. Weak market demand Competitive environment of market	Lack of sales promotion Limited local market Price of the product is high Dependency on large scale industries Lack of marketing research
Raw material	Raw material not available Imports are difficult	Poor inventory management
Technological	Delay in delivery of machines	Obsolete Plant and Machinery Poor capacity utilization. Inadequate maintenance Transport bottleneck
Labour	Unavailability of skilled Labour	Labour Absenteeism / turnover High rates of wages / salaries Inefficient handling of labour problems

The problem of sickness in industries has become very acute in India. It has adversely affected the health of the industrial sector in particular and the economy in general. The major causes of sickness of the SSI sector, as per the Third Census of SSI is shown in Table 10.

S.No.	Reason for sickness/ incipient sickness	Proportion of sick/ incipient sick units*		
		Total SSI Sector	Regd. SSI sector	Unregd. SSI sector
1.	Lack of demand	66 %	58 %	69 %
2.	Shortage of working capital	46 %	57 %	43 %
3.	Non-availability of raw material	12 %	12 %	12 %
4.	Power shortage	13 %	17 %	12 %
5.	Labour problems	5 %	6 %	4 %
6.	Marketing problems	36 %	37 %	36 %

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7.	Equipment problems	11 %	9 %	12 %
8.	Management problems	4 %	5 %	3 %

Source: Third All India Census on SSI 2001-02, Ministry of SSI, Government of India.

MSMEs face a tough competition from their global counterparts due to liberalization, change in manufacturing strategies, technological changes, turbulent and uncertain market scenario. The central issue of concern for the growth of small industry is how to strengthen its competitiveness. To sustain their key role, MSMEs need support in defining their specific technological and organizational needs and in finding the right approach to finance to these needs.

Financing of MSMEs Sector

From a financial institution point of view the purpose of extending developmental credit facility to the MSMEs is to ensure that these enterprises utilize the amount for the productive purposes, generate surplus profits and repay the loans to the banks and financial institutions from the surplus generated. Since the liberalization of the economy in 1991, MSME financing has broadened and its services intensified. With the entry of private banks, local area banks, foreign banks, regional rural banks and cooperative banks, increased competition has led to a rush for lending to small and medium sector. The outstanding credit by the banking sector to the MSMEs is shown in Table 11.

The rapidity and extent of financial assistance granted by banks and financial institutions in meeting the term requirements of industrial sector over the years has become a huge structure of credit arrangement spread over the length and breadth of the country.

Year	Public Sector banks	Private Sector banks	Foreign banks	All Scheduled commercial banks
2005	67800	8592	6907	83498
2006	82434	10421	8430	101285
	(21.6)	(21.3)	(22.1)	(21.3)
2007	102550	13138	11637	127323
	(24.2)	(26.1)	(38.0)	(25.7)
2008	151137	46912	15489	213538
	(47.4)	(257.1)	(33.1)	(67.7)
2009	191408	46656	18063	256127
	(26.6)	(0.0)	(16.6)	(19.9)

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2010	278398	64534	21089	364001
	(45.4)	(38.3)	(16.6)	(42.1)
2011	376625	87857	21535	486017
	(35.3)	(36.1)	(2.2)	(33.5)
2012	396343	110514	21760	528617
	(5.24)	(25.79)	(1.05)	(8.77)
2012 P	500250	152554	31993	684797
	(26.22)	(38.04)	(47.03)	(29.55)
<i>Source: Annual Report 2012-13 ministry of MSME, p-261</i>				

Industrial financing has thus been envisaged as a long term and continuous strategy for channeling the flow of credit for the expansion of the MSME sector. Though, the institutional net work for industrial credit has grown substantially in quantitative terms but not qualitatively.

Conclusion

MSMEs have been playing an increasing role in the development of developed and developing countries. This could be assessed from their enormous contribution in terms of GDP, employment, output, turnover, and exports. Indian economy which was lagging at the time of independence, could gain sufficient momentum on account of the increasingly role of MSMEs. This sector provides employment next to agriculture with 62 per cent of the populace dependent on it. The government of India has given top priority to this sector as visible from the industrial policy resolutions from time to time, the present move of increasing the investment limit and revising the policy of reservations has given a boost to this sector. Sickness of enterprises is a grave problem for this sector with nearly 90 per cent of the units falling sick is from small sector, thereby causing a colossal waste of investment. Though globalization has created numerous opportunities for this sector, but the intense competition has also brought up the threat of survival. One the biggest problem of Indian MSME sector is lack of adequate finance resulting in large sale sickness. It is true that much of the problems of the MSMEs could be healed if finances are available on time to SME sector. The government must initiate more steps for encouragement and development of the MSME sector, as they are labour intensive and their gestation period is short.

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