Volume : 3 | Issue : 6 | June 2014 • ISSN No 2277 - 8160

Research Paper Commerce

Micro, Small and Medium Enterprises in India: A Review of Performance

J. Rama devi Ph.D Research Scholar, Department of Commerce, S.V.University, Tirupati-517502.

Prof. B. Ramachandra Reddy Professor, Department of Commerce, S.V.University, Tirupati-517502.

ABSTRACT

Micro, Small and Medium enterprises (MSMEs) play a key role in the development of economies with their effective, efficient, flexible and pioneering entrepreneurial spirit. It is one of the most vital sectors of the Indian economy in terms of employment generation, the strong entrepreneurial base that helps to create its share in production and mass employment. There is enough evidence to suggest that a strong and vibrant Small and Medium Enterprises sector is one the key elements responsible for attaining 'financial inclusive growth'. Creation of higher levels of employment per capital invested, addressing the issue of employment to a large number of the under-privileged and disadvantaged sections of society, overcoming the obstacles for rural and semi-urban prosperity, optimizing utilization of locally available resources, providing an enabling environment for the millions of young Indians to participate in the nation-building task are areas of foremost concern in India's agenda for development. There are different size of the enterprises, variety of products and services and level of technology. It helps in the industrialization of rural and backward areas. It reduces regional imbalances. It provides equitable distribution of national income and wealth. MSMEs have the advantages of generating gainful employment with low investment, diversifying the industrial base, reducing regional disparities through dispersal of industries into rural, semi – urban and backward areas.

KEYWORDS :

1. INTRODUCTION

Small and medium enterprises contribute about 90% of the business worldwide. They employ over 50% of the world's workforce. They have played a crucial role in the development of manufacturing and export sector of China, Sri Lanka, Thailand, Indonesia, Vietnam and Egypt. In India, micro and small enterprises in agriculture, industry and service sector have a key role in equitable distribution of national income, value addition, employment generation, export earnings, regional dispersal of industries, productive utilization of entrepreneurial skill and capital. The Micro and Small Enterprises sector includes diverse type of units ranging from traditional crafts to modern high tech industries and ancillaries that supply components to most modern large-scale industries.

The major advantage of this sector is its generating employment at low cost. The MSME sector is highly heterogeneous. There are different size of the enterprises, variety of products and services and level of technology. It helps in the industrialization of rural and backward areas. It reduces regional imbalances. It provides equitable distribution of national income and wealth.

2. DEFINITION OF MSME

MSME are the engines of growth of any country's economy. In accordance with the provision of Micro, Small and Medium Enterprises Development Act 2006 the micro, small and medium enterprises are classified into two classes.

A. Manufacturing Enterprises

The Enterprises engaged in the manufacturing or production of goods pertaining to any industry specified in the first schedule to the industries (Development and Regulation Act 1951) the manufacturing enterprises are defined in the terms of investment in plant and machinery.

B. Service Enterprises

a. The enterprises engaged in providing or rendering of services and are defined in the terms of investment in equipment.
b. The limit of investment in plant and machinery/equipment for manufacturing/ Service Enterprises as notified.

Table 1
Classification of MSMEs

Enterprises	Manufacturing Sector	Service Sector
	Investment in Plant and Machinery	Investment in Equipments
Micro	Less than Rs. 25 lakhs	Less than Rs. 10 lakhs
Small	Over Rs. 25 lakhs but not exceeding Rs. 5 crore	Over Rs. 10 lakhs but not exceeding Rs 2 crore
Medium	Over 5 Crore but less than Rs 10 crore	Over Rs. 2 crore but not exceeding Rs. 5 crore

MSMEs are producing wide range of products, from simple traditional crafts and consumer goods to highly sophisticated products like micro–processors, mini computers, electronic components, electro–medical devices, etc. The growth of MSME sector can be shown through following table 2

3. PERFORMANCE OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES) ININDIA

It can be observed from Table 2 that the number of MSMEs have increased from 109.49 lakh units in 2002-03 to 447.73 lakh units in 2011-12. There has been a steady growth in investments production during 2011-12 over 2002-03. The investment and production increased from Rs.162317 crore and 314850 core in 2002-03 to Rs. 117693 crore and Rs. 183433 crore in 2011-2012 respectively at current prices.

Table 2
Growth Rate of MSMEs in Indian Economy

Year	Total MSMEs (In lakh)	Fixed Investment (Rs. crore)	Production (Rs. crore)
2002-03	109.49	162317	314850
2003-04	113.95	170219	364547
2004-05	118.59	178699	429796
2005-06	123.42	188113	497842

Year	Total MSMEs (In lakh)	Fixed Investment (Rs. crore)	Production (Rs. crore)
2006-07	361.76	868543	135138
2007-08	377.37	917437	143517
2008-09	393.70	971407	152423
2009-10	410.82	102933	161935
2010-11	428.77	109489	172155
2011-12	447.73	117693	183433

Source: GOI, Ministry of Micro, Small & Medium Enterprises, Annual Report, 2011-12.

4. ROLE OF MSMES IN EMPLOYMENT GENERATION & EXPORTS IN INDIA

The development of MSMEs has been viewed as a powerful instrument for accelerated industrial growth, productive employment opportunities and export earnings in any economy in general and India, in particular. This sector is contributing to the manufacturing output, employment and exports in Indian economy since long time. This sector accounts for about 45 per cent of the manufacturing output and 40 per cent of the total exports of the country. The sector is estimated to employ about 60 million persons in over 26 million events throughout the country.

MSMEs are labour-oriented and labour intensive with relatively high labour-investment ratio. A given amount of capital invested in this sector of industries is likely to provide more employment, at least in short run, than the same amount invested in a large industry. It has been estimated that a lakh rupees of investment in fixed assets in the small scale sector generates employment for four persons. It will not be wrong to say that small scale sector in India creates largest employment opportunities for the Indian populace, next only to agriculture. Similarly, MSMEs play a major role in present export performance of India because about 45-50 per cent of the Indian exports are being contributed by this sector. The role of MSMEs in employment generation as well as in exports in Table 3

Table 3
Role of MSMES In Employment Generation & In Exports In India

Year	Employment (lakh person)	Export (Rs. crore)
2002-03	260.21	86013
2003-04	271.42	97644
2004-05	282.57	124417
2005-06	294.91	150242
2006-07	805.23	182538
2007-08	842.23	202017
2008-09	881.14	219227
2009-10	922.19	229714
2010-11	965.69	230045
2011-12	1012.59	252258

Source: Ministry of Micro, Small & Medium Enterprises, Annual Report, 201-13, GOI

The above Table 3 clearly depicts the critical role of MSMEs in employment generation and in Indian exports during 2002-03 to 2011-12. The number of persons employed in this sector stood at 260.21 lakh in 2002-03 and reached to 1012.59 lakh in 2011-12. Similarly the exports increased by 193.27 per cent during the period crudial study.

5. COMPARISON OF THE MSME SECTOR WITH OVERALL INDUSTRIAL SECTOR

The MSME sector has maintained a higher rate of growth vis-à-vis the overall industrial sector as would be clear from the compound growth rates of production for both the sectors during last five years as incorporated in the Table no.4.

Table 4
Comparative Growth of MSME & Overall Industrial Sector

Year	Growth rate of MSME	Overall Growth rate
2002-03	8.68	5.70
2003-04	9.64	6.90
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	13.96	8.84
2010-11	14.76	9.71
2011-12	15.08	10.43

Source: GOI, Ministry of Micro, Small & Medium Enterprises, Annual Report, 2011-12.

From the Table 4, it is observed that the growth rate of MSMEs was 8.68 during 2002-03 and it reached 15.08 during 2011-12, whereas the overall industrial sector growth rate was 10.43 in 2011-12 compared to 5.7 in 2002-03.

6. CONTRIBUTION OF MSMES IN GDP

MSMEs constitute an important and crucial segment of the industrial sector in Indian economy. By contributing to the overall growth of the gross domestic product, employment generation and exports, the sector is emerged as the engine of growth for Indian economy. The performance of MSMEs has a direct impact on the growth of overall economy. The contribution of MSMEs in total industrial production and gross domestic product is highlighted in the Table 5.

Table 5
Contribution of MSMES In GDP In India

Year	Percentage Contribution of MSMEs at 1999-2000 prices in	
	Total industrial production	Gross Domestic Product (GDP)
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	41.67	6.14
2007-08	42.70	7.03
2008-09	43.11	7.11
2009-10	43.84	7.34
2010-11	44.08	7.53
2011-12	45.64	7.85

Source: GOI, Ministry of Micro, Small & Medium Enterprises, Annual Report, 201-13.

It is evident from the above Table 5 that the contribution of the MSME sector to overall industrial production has increased from 38.89 per cent in 2002-03 to 45.64 per cent in 2011-12. Similarly, the contribution of the MSME sector to the gross domestic product (GDP) has increased from 5.91 per cent in 2002-03 to 7.85 per cent in 2011-12 which justifies the need for continuous efforts to sustain the progress of MSME sector.

7. PROBLEMS FACED BY MSMEs IN INDIAN ECONOMY

The small and medium scale enterprises are suffered with many severe problems, which are mainly depending on the level of economic and social development of the country. India as a developing country

is not an exceptional one to the above condition. Though, there are unlimited problems connected with MSMEs, some of them are given below. They are:

- ❖ Difficulties in obtaining credit, competing with imported products, identifying appropriate technology & technical assistance, investment promotion and maladjusted project preparation and evaluation.
- ❖ Inability to offer liberal credit terms in the sale of their products, obscene of management expertise, under capitalization and bureaucratic red tapism and regulations.
- ❖ Lack of industrial training & skill formation, quality control & testing facilities, proper market promotion both domestic & export, scientific & industrial research, lack of management & reorganization of small & medium scale enterprises through various schemes and productivity increase through modernization.

Thus, MSMEs are facing multi-dimensional problems. However, this sector in India has been confronted with an increasingly competitive environment due to:

i. Liberalization of the investment regime in the 1990s, favouring foreign direct investment at the international level, particularly in socialistic and developing countries;
ii. The formation of the World Trade Organizations (WTO) in 1995, forcing its member- countries (including India) to drastically scale down quantitative and non quantitative restrictions on imports, and
iii. Domestic economic reforms.

The cumulative impact of all these developments is a remarkable transformation of the economic environment in which MSMEs operate, implying that this sector has no option but to 'compete'.

8. CONCLUSION

The conclusions drawn from the study are as follows:

- The MSME sector is an imperative comprise of India's industrial sector. It contributes significantly India's gross domestic products and export earnings besides meeting the social objectives including that of providing employment opportunities 2 millions of people across the country.
- Most of the sample entrepreneurs felt that "infrastructure" and "technical assistance" are significant facilitating factors. Hence, due to attention must be paid to these factors to help entrepreneurs.
- Level of success of MSME units may be enquired by District Industries Centre periodically and deficiencies may by indentified and training may be arranged for rectifying the defects and removing the deficiencies in the organisation/management.
- The government should set up a special institution or agency in order to eliminate middlemen and to ensure the supply of good quality of raw materials at reasonable prices. It has to procure and distribute both local and non local raw materials as and when required.
- There is need to strengthen training and development programmes. Apathy towards training programmes should be overcome by proper identification of prospective entrepreneurs and by providing needed training inputs in an effective manner.

The measures suggested above, if implemented sincerely, can ease out the problems of MSME units and help their development to a large extent. What is required most is a positive approach on the pat of the government and financial and other institutions towards the growth of Micro, Small and Medium Enterprises in India.

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