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Msmes : an Engine for Sustainable Economic Development

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ABSTRACT

MSMEs play an important role in the sustainable and equitable economic development of any economy. This sector contributes significantly in the GDP. Its contribution is only next to the agricultural sector. The government should frame such a policy for the development of this sector which subsequently leads to balanced and sustainable growth of economy. The goods manufactured by this sector are non-homogenous. Despite of its importance, this sector faces many problems from big industries as well as from financial institutions. The government should take appropriate steps for proper growth of this sector on priority basis.

KEYWORDS: Sustainable, Equitable, Non- homogeneous, Ancillary, Non- Institutional, Priority Sector

MSMEs play an important role in the economic development of any economy. It contributes approximately 40% of manufactured goods and also provides employment to 32 million people. Employment generation contribute to economic development .After agricultural sector, MSMEs is the second largest source of employment. 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 which is next only to the agricultural sector. It is, therefore, only appropriate that public policy has accorded high priority to this sector in order to achieve balanced, sustainable, more equitable and inclusive growth in the country. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost but also help in industrialization of rural & backward areas reducing regional imbalances and equitable distribution of income and wealth. It is estimated that to create one job in the MSME sector, only Rs 72,000 is required as against Rs 5.5 lakh required in the large organized sector.(MSMEs in India – Need to fuel these engines of economic growth Harsh Agarwal). 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. With the increasing global economic integration, international market has become much wider than the domestic market for MSMEs. Globalization and WTO norms make profound impact on the existence as well as market of MSMEs. On the other side, there is a rising domestic market due to rising income, especially the rising rural income. MSMEs need to tap these potential markets by way of aggressive marketing, improved technology and better competitiveness. MSMEs should also devise strategies to counter increasing market invasion by branded products of big corporate, a threat which is looming large on MSMEs.

Definition of MSME: MSMEs are considered as the engine for growth of an economy. It is the important source of goods and services at affordable prices as well as contributes significantly in job creation. Ministry of Micro, Small and Medium Enterprises has classified the industries under Manufacturing sector and Service sector. In 2006, MSMED Act was passed; the definition of MSMED according to the Act is shown in Table1 and Table2 below:

Table 1: Manufacturingw Sector

Enterprise	Investment in Plant and Machinery
Micro	Does not exceed 25 Lakhs rupees.
Small	More than 25 Lakhs but does not exceed 5 crore rupees
Medium	More than 5 crore rupees but does not exceed 10 crore rupees

Table 2: Service Sector

Enterprise	Investment in Equipment
Micro	Does not exceed 10 Lakhs
Small	More than 10 Lakhs rupees but does not exceed 2 Crores
Medium	More than 2 Crores but does not exceed 5 Crores

Objective of the Study: The important objective of the present Paper is:

1. To examine the role of MSMEs in the economic development of India as well as in generation of employment.
2. To study the role of commercial banks in financing credit to MSMEs.
3. To analyze the problems faced by MSMEs due to globalization.

Data and Methodology: Mainly secondary data collected from the Annual Reports published by the Ministry of MSME were used for analysis. Production, employment generation, volume of exports etc, variables was used for analysis. The covered a period of 10 years starting from 2000-01 to 2009-10.

MSMEs and Economic Development: MSME sector is a key to Indian economy. The annual growth rate in terms of for MSME is around 5%. The MSME sector in India is non- homogeneous not only in terms production of goods and services are concerned but also in terms of governance. Its products range from local handcrafts to high-tech industrial goods. Approximately 80.5% of MSMES are managed by proprietary concern and 16.8% units are functioning as partnership and private limited companies. The value addition by this sector to the manufacturing sector is around 40%. Investment in fixed assets registered a growth of 372% during 2000-01 and 2009-10.The amount of fixed investment was Rs.146845 crores in 2000-01 and Rs.693835 crores in 2009-10.

The value of production by this sector shown a growth of 276% during the study period at current prices [Rs. 261297 Crores in 2000-01 to Rs.982919 Crores in 2009-10].MSMEs sector has also contributed significantly in export.

Table 3: Performance of MSME sector

Year	Total MSMEs [No. in lakhs]	Fixed Investment [Rs. in crores]	Production [Rs. in crores in current price]	Employment [Lakhs person]	Export [Rs. in crores]
2000-01	101.01	146845	261297	238.73	69797
2001-02	105.21	154349	282270	249.33	71244
2002-03	109.49	162317	314850	260.21	86013
2003-04	113.95	170219	364547	271.42	97644
2004-05	118.59	178699	429796	282.57	124417
2005-06	123.42	188113	497842	294.91	150242
2006-07	261.01	500758	709398	594.61	182538
2007-08	272.79	558190	790768	626.34	202017
2008-09	285.16	621753	880805	659.35	NA
2009-10	298.08	693835	982919	695.38	NA

The reason for growth of this sector is;

1. Lower capital requirement as most of the units are labour intensive.
2. Both central and stare governments sponsored various training programmes for skilled and unskilled workers.
3. Overall growth in the economy increases the demand for goods and services globally as well as domestically.
4. Ancillary units are the backbone for the growth of big industries. Growth in demand for large manufacturing units ultimately helps to grow the MSMEs.
5. Advancement in technology contributed significantly in the growth of this sector.

MSME sector has been recognized as one of the key sector for employment generation and overall economic development of a country. This sector's contribution to employment is the second highest next to agriculture. This sector employed 238.73lakh people in the year 2000-01 which rose to 695.38 lakh people in the year 2009-10, a significant 191% growth in employment generation.

The MSMED Act, 2006 seeks to industrial cluster for efficient and economical use of resources. Stable policy and stable operating environment is necessary for successful growth of this sector.

Role of Banks: The growth and performance of MSMEs depends to large extent on the timely and adequate flow of credit. Over the years thee has been a significant increase in the flow of credit to this sector by schedule commercial banks. The total outstanding credit to MSMEs by schedule commercial banks stood at Rs. 4785.27 billion as on 31st March, 2011.The RBI has formulated policy for lending credit to this sector under Priority sector lending not only for Indian Banks but also for foreign banks.

Loan outstanding against MSME sector from Schedule Commercial Banks as on 31st March, 2011 is given in Table4 [Rs. In Billion]

Table 4:

Year	Public sector banks	Private Banks	Foreign Banks	Total
March,2008	1511.374	469.118	154.892	2135.386
March,2009	194.083	466.563	180.634	2561.280
March,2010	2763.189	648.247	211.470	3622.907
March,2011	3694.30	881.16	209.81	4785.27

Trends and Progress

The total credit to MSMEs by schedule Commercial banks has been increasing as revealed by the above table but still it is not at all adequate.

As per Fourth Census of MSMEs [September,2009], only 5.18% of the MSMEs units availed finance through institutional sources, 2.05% from non-institutional sources and 92.77% had no finance or depended on self finance.

Therefore, financial institution like commercial banks has to play a significant role to provide credit to this sector to facilitate balanced economic growth of the Indian economy.

Challenges for MSMEs in India: During the last decade, the growth and performance of MSMEs is quite impressive but to exploit its potentiality in full, some barrier and problems faced by this sector are to be resolved in priority basis.

Though RBI has taken several steps to lend credit to MSMEs under priority sector lending scheme but MSMEs can not reap its full benefit due to accommodation of housing loan, education loan, etc under the ambit of Priority sector and large amount of loan are disbursed by banks as housing and education loan instead of distributing the loan to MSMEs sector.

Arrangement of collateral securities and maintaining proper documentation poses difficulties to MSMEs to avail bank credit.

As majority of MSMEs units are operated and managed by sole proprietors. They do not have sufficient money to invest in market research. Poor rural artisans mostly depend on agents/middlemen for selling of their products leading to poor prices for their products. This demotivates them in the long run. Governments both Central and States as well as NGO's should adopt proper steps for marketing of products both domestically and globally. Through resolving these issues, not only the gap between rich and poor be bridged but also it put a check on the migration of people from rural to urban areas.

The recent global recession poses a challenge to this sector due to recession in the demand goods and services but this can be overcome by creating demand for goods and services in the local market.

Conclusion:

MSMEs will continue to play a vital role in our country where poverty and unemployment is a serious problem. MSMEs are the engine that not only contributes to high rate of economic growth but also creates demand for goods and services that leads to inclusive and balanced growth of the economy. It also helps to reduce social imbalances and foster sustainable development.MSMEs of today may be the MNCs of tomorrow. Therefore, top most priority should be given to this sector.

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