



Growth and Development of MSMEs in India: Prospects and Problems

KEYWORDS

MSMEs, Growth and development, Prospects and Problems

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ABSTRACT *The Micro, Small and Medium Enterprises (MSME) sector has been recognized as engine of growth all over the world. The MSME sector plays a very significant role in terms of balanced and inclusive growth and contributes to the process of economic development, equitable distribution of national income and regional dispersal of enterprises by way of mobilization of capital and entrepreneurial skills. The present paper deals with Micro, Small and Medium Enterprises (MSMEs) and their growth and development in India and also this paper states the problems and prospects in India.*

Introduction

The Micro, Small and Medium Enterprise (MSME) sector is crucial to India's economy. There are 29.8 million enterprises in various industries, employing 69 million people. In all, the MSME sector accounts for 45 percent of Indian industrial output and 40 percent of the exports. Although 94 percent of MSMEs are unregistered, the contribution of the sector to India's GDP has been growing consistently at 11.5 percent a year, which is higher than the overall GDP growth of 8 percent.

The Micro, Small and Medium Enterprises sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play significant role in providing employment opportunities at comparatively lower cost of capital than large scale industries but also help in establishment of industrialization of rural and backward areas, which leads to reduce regional imbalances and assure equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and contribute enormously to the socio-economic development of the country. MSMEs of India has to face many challenges and utilise the opportunities in the fast changing global markets. Now, MSMEs are required to make use of consultancy services to upgrade their competencies in various fields like marketing, finance, business development operations, technology etc.

Objectives of the study:

The main objectives of the present study are:

- To examine the growth and performance MSMEs,
- To reveal the contribution of MSMEs to the growth of the GDP and
- To understand the various problems of MSMEs and give conclusion.

Data and Methodology

The Data required for the study has been collected from secondary sources. The Data Collection includes (i) Annual Reports of Ministry of Micro, Small and Medium Enterprises, Government of India, (ii) Various Websites connected with the relevant topics of MSMEs (iii) Journal papers (iv) Articles and (v) other relevant sources for MSMEs. Data collected for a period of seven years from 2005-06 to 2011-12 for which the relationship tested. The relevant data of MSMEs' growth and performance collected and presented, which belongs to the after the introduction of MSMED act, 2006 only.

Definition of MSMEs

Recognizing the contribution and potential of the sector,

the definitions and coverage of the Small Scale Industry (SSI) sector were broadened significantly under Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 which recognized the concept of "enterprises" to include both manufacturing and services sector besides, defining the medium enterprises. The MSMEs of Manufacturing Enterprises and Service enterprises have been classified into micro, small and medium enterprises based on the amount of investment in Plant & Machinery and based on the amount of investment in Equipment respectively as given in Table 1:

Table 1: Classification of MSMEs

De-scription	Manufacturing Enterprises		Service Enterprises	
	Investment in Plant & Machinery		Investment in Equipment	
	INR	USD(\$)	INR	USD(\$)
Micro Enterprises	up to Rs.25 lakhs	up to \$62500	up to Rs.10 lakhs	up to \$25000
Small Enterprises	above Rs.25 lakh & up to Rs.5 crores	Above \$62500 & up to \$ 1.25million	above Rs.10 lakh & up to Rs.2 crore	Above \$25000 & up to \$ 2.5 million
Medium Enterprises	Above Rs.5 crores & up to Rs.10 crores	above \$1.25 million & up to \$2.5 million	Above Rs.2 crores & up to Rs.5 crores	above \$ 0.5 million & up to \$ 1.5 million

Source: from secondary data

Growth and Performance

The micro, small and medium enterprises (MSMEs) sector contributes significantly to the manufacturing output, employment and exports of the country.

Table 2: Growth and Performance of MSMEs in India : MSME units, Investment, Production, Employment and Exports

Year	Total MSMEs (Lakh Numbers)	Fixed Investment (in Crore)	Production (Rupees in Crore)	Employment (lakh persons)	Exports (Rupees in Crore)
2005-2006	123.42	188113	497842	294.91	150242
2006-2007	261.12 (111.57)	500758 (166.20)	709398 (42.49)	595.66 (101.98)	182538 (21.50)
2007-2008	272.79 (4.47)	558190 (11.47)	790759 (11.47)	626.34 (5.15)	202017 (10.67.)

2008-2009	285.16 (4.53)	621753 (11.39)	880805 (11.39)	659.35 (5.27)	NA
2009-2010*	298.08 (4.53)	693835 (11.59)	982919 (11.59)	695.38 (5.46)	NA
2010-2011#	311.52 (4.52)	773487 (11.48)	1095758 (11.48)	732.17 (5.29)	NA
2011-2012#	447.73 (43.72)	1176939 (52.16)	1834372 (67.40)	1012.59 (38.24)	NA

The figures in brackets () show the percentage growth over the previous year.

* Provisional

Projected

Source: Ministry of Micro, Small and Medium Enterprises, Annual Reports 2011-12 and 2012-13

Analysis of prospects of MSMEs in India

From the above table 2 it is cleared that:

- The total numbers of MSMEs have increased from 261.12 lakhs in 2006-07 to 447.73 in 2011-12. The MSMEs have grown around two times in a span of 6 years. However, they grow consistently till 2010-2011 but in 2011-12 growth rate was significant (43.72 per cent).
- The fixed investments in these industries have gone up from Rs.500758 to Rs.1176939 in 2011-12. Like the growth rate in number of industries, the fixed investment in these industries grow at consistently till 2010-11 but in 2011-12 growth rate was 52.16 per cent. This indicates that large amount of investment has been made in MSMEs to increase their development in the interest of nation.
- The production from these industries has gone by around one fourth times from 2006-07 to 2010-11. Further, these industries contributed lot in providing employment opportunities to unemployed workforce.
- The number of persons employed in these industries have increased from 595.66 lakhs in 2006-07 to 1012.59 lakhs in 2011-12 growth rate was 38.24 per cent, which indicates that there has around two time increase in employment in a span of 6 years. The growth rate in employment except 2006-07 and 2011-12 has been consistent over a period of the study. In addition, these industries also contributed in earning foreign exchange to India.
- The exports from these industries have increased from Rs.182538 crores in 2006-07 to Rs.202017 crores in 2007-08. This is also signifies that there has an around 10.67 per cent increase in exports over previous year.

Contribution of MSME sector in total industrial production and GDP

It can be witnessed from table 3 that the contribution of the MSME sector to overall industrial production has increased from 45.32 per cent in 2006-07 to 44.86 per cent in 2008-09. The contribution of the MSME sector to the Gross Domestic Product (GDP) has increased from 7.20 per cent in 2006-07 to 8.72 per cent in 2008-09. This indicates that there is significant growth and development of MSMEs in Indian economy.

Table 3: Contribution of MSME sector (%) at 1999-2000 prices in total industrial production and GDP

Year	% share in total industrial production	% share in total GDP
2006-07	45.32	7.20
2007-08	45.24	8.00
2008-09	44.86	8.72

Source: Annual Reports, 2011-12 & 2012-13, Ministry of Micro, Small and Medium Enterprises

Comparison of the MSMEs with overall Industrial Sector

The MSE sector has maintained a higher rate of growth vis-à-vis the overall industrial sector as would be clear from the

comparative data on growth rates of production for both the sectors during last few years as shown in the table 4 given below:

Table 4: Comparative Growth Rates

Year	Growth Rate of MSMEs (%)	Overall Industrial Sector (%)
2006-07	12.60	11.90
2007-08	13.00	8.70
2008-09	13.56	3.20
2009-10	**	10.50
2010-11	**	7.80

Source: Annual Reports, 2011-12 & 2012-13, Ministry of Micro, Small and Medium Enterprises,

The MSME sector has maintained a higher rate of growth vis-a-vis the overall industrial sector. It is clear from the data of table 3 that the growth rate of MSMEs has increased from 12.60 per cent in 2006-07 to 13.56 per cent in 2008-09 where as the growth rate in overall industrial sector has declined from 11.90 per cent in 2006-07 to 7.80 per cent in 2010-11 with many fluctuations during the period. This indicates that the contribution of MSME sector has been much higher as compared to over industrial sector in India. Therefore, the Central Government and the State governments should take initiatives by giving much priority for the development of MSMEs in making them more competitive.

Problems of MSMEs in India

There are some evidences that the MSMEs contributions prominently to the Indian economy through creating employment opportunities, generating production volumes and exports, introducing innovations and development of entrepreneur skills. However, the MSMEs faces many problems in India. Some of the main problems of MSMEs are:

- Unduly delayed payments by large industry players
- Absence of adequate and timely affordable bank credit
- Lack of infrastructure inputs and banking support
- Limited capital and knowledge
- Low managerial capability,
- Low return on investment,
- Lack of suitable technology,
- Low production and productivity
- Ineffective marketing strategies,
- Non-Identification of new markets,
- Hurdles in expansions, modernisation and innovations,
- Inadequate power supply, water supply, transportation facilities
- Lack of adequate warehousing facilities,
- Lack of information timely,
- Lack of skilled labour and training
- Ruthless competition,
- Declining exports of total exports

Conclusion

The micro, small and medium (MSMEs) enterprises play a significant role in contribution to the development of Indian economy in terms of production system, employment generation, GDP etc. MSMEs also have an aptitude for innovation, creativity, and flexibility which enabling them to respond with more quickly to structural changes and to adapt the dynamic demand patterns of consumers. It is also clear that MSMEs has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and development. In view of the above problems of MSMEs, it is time to put emphasis on formulation of friendly policies, favourable operating environment, and improvement of proper infra-

structure, arranging proper finance facilities, efficient managerial capabilities and arranging suitable modern technology. If government initiations and policies towards MSMEs are closer towards its various problems and prospect it can be nearer contributors with agriculture in all respect in future.

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