



Performance & Challenges of Small Scale Industries in India

* Dr. Ajay Kumar Garg

* Assistant Professor, PGDAV (E) College, University of Delhi, India

ABSTRACT

The Micro, Small & Medium Enterprises (MSMEs) contribute significantly to value addition, employment generation, exports and overall growth and development of the country's economy. It has often been termed as 'engine of growth' for all developing economies including India. MSMEs have been playing a momentous role in overall economic development of a country like India where millions of people are unemployed or underemployed & facing the problems of poverty. The SME sector represents over 90 percent of enterprises in most of the developing countries and contribute 40-60 percent of the total output or value added to the national economy. SME sector in India is the key driver of the nation's economic growth with a contribution of over 40 percent of the country's industrial output and about 35 % of direct exports and another 15 percent of indirect exports. In terms of employment it is a very crucial sector being the second largest sector after agriculture.

Keywords : MSME, Employment, CAGR, IIP, Indian economy

INTRODUCTION

The Micro, Small & Medium enterprises (MSMEs) is one of the most vital sectors of any economy in general and India in particular in ensuring equitable, inclusive & employment friendly economic growth. Worldwide, the micro small and medium enterprises (MSMEs) have been accepted as the engine of economic growth and for promoting equitable development. The major advantage of the sector is its employment potential at low capital cost. 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. In India too, the MSMEs play a pivotal role in the overall industrial economy of the country. MSMEs in India account for more than 80% of the total number of industrial enterprises and produce over 8000 value-added products. It is estimated that in terms of value, the sector accounts for 45% of the manufacturing output and 40% of the total export of the country and employs over 6 crore people.

Further, in recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector. The major advantage of the sector is its employment potential at low capital cost. As per available statistics, this sector employs an estimated 6 crore persons spread over 2.6 crore enterprises and the labour intensity in the MSME sector is estimated to be almost 4 times higher than the large enterprises.

MICRO, SMALL & MEDIUM ENTERPRISES IN INDIAN ECONOMY

SME sector in India is the key driver of the nation's economic growth with a contribution of over 40 percent of the country's industrial output and about 35 % of direct exports and another 15 percent of indirect exports. In terms of employment it is a very crucial sector being the second largest sector after agriculture. The growth recorded by SSI in India is 2% more than any other sector; it accounts for 40% of the country's GDP, 35% of Direct exports, 15% of Indirect Exports (through Merchant Exporters, Trading Houses & Export Houses) and employs more than 20 million people. The SSIs need just Rs. 60, 000 – 70, 000 to generate employment for one man, while for the same a whopping 5-6 lakhs is required for other

sectors. SME sector faces a number of problems - absence of adequate and timely banking finance, limited knowledge and non-availability of suitable technology, low production capacity, ineffective marketing and identification of new markets, constraints on modernization and expansions, non availability of highly skilled labour at affordable cost, follow up with various agencies in solving regular activities and lack of interaction with government agencies on various matters.

The Ministry of Micro, Small and Medium Enterprises, Government of India imposed the Micro, Small and Medium Enterprises Development (MSMED) Act in 2006 which defines MSME for both manufacturing and service sector.

TABLE 1: CLASSIFICATION OF MSMEs BASED ON INVESTMENT SLABS

Manufacturing Sector	
Enterprises	Investment in plant & machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
Service Sector	
Enterprises	Investment in equipments
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

Source: Micro, Small & Medium Enterprises Development Act, 2006

The Micro, Small and Medium enterprise sector has recorded a high growth rate since independence in spite of stiff competition from the large sector and not so encouraging support from the government. Presently, there are around 29.81 million MSMEs in India. The size of the registered MSME sector is estimated to be 1563974. Of the total working enterprises, the proportion of micro, small and medium enterprises are

94.94 per cent, 4.89 per cent and 0.17 per cent respectively. This comprises of 67.10 per cent manufacturing enterprises and 32.90 per cent services enterprises. About 45.23 per cent (7.07 lakh) of the units were located in rural areas.

SIGNIFICANCE OF SMALL AND MEDIUM ENTERPRISES

- SMEs are considered the engine of economic growth in both developed and developing countries as they:
- Provides low cost employment since the unit cost of persons employed is lower for SMEs than for large sized units.
- Assists in regional and local development since SMEs accelerate rural industrialization by linking it with more organized urban sector.
- Help achieve fair and equitable distribution of wealth by regional dispersion of economic activities.
- Contribute significantly to export revenues because of the low cost labour intensive nature of its products.
- Have a positive effect on the trade balance since SMEs generally use indigenous raw materials, reducing dependence on imported machinery, raw material or labour.
- Assist in fostering self-help and entrepreneurial culture by bringing together skills and capital through various lending and skill enhancement schemes.
- Impart the resilience to withstand economic upheavals and maintain a reasonable growth rate since being indigenous is the key to sustainability and self-sufficiency.
- Converts the raw material within the country into semi-finished items and later pass it on the LSEs that have capital, skill and equipment to process these into finished goods.
- Provide rural people an opportunity for income generation and personal growth since they can work at home. This helps to achieve fair and equitable distribution of wealth by creating nation wide non-discriminatory job opportunities.

REVIEW OF LITERATURE

This paper reviews the existing microeconomic evidence on whether SMEs boost growth and reduce poverty. A growing body of work suggests that SMEs do not boost the quantity and quality of employment. Initially, Birch (1979) argued that small firms are particularly important in job creation. He reports that over the 1970s, firms with fewer than 100 employees generated eight out of ten new jobs in America. However, a wide array of evidence rejects the view that small firms are the engines of job formation (Dunne, Roberts, and Samuelson, 1989; Leonard, 1986; Brown, Hamilton, and Medoff, 1990). For instance, Davis, Haltiwanger and Schuh (1993) show that while gross rates of job creation and destruction are higher in small firms; there is no systematic relationship between net job creation and firm size. In Sub-Saharan Africa, Biggs and Shah (1998) find that large firms were the dominant source of net job creation in the manufacturing sector.

CHALLENGES OF SMALL AND MEDIUM SCALE ENTERPRISES IN INDIA:

In the current economic slowdown SME sector has been hit very hard due to raising interest rates and financial crunch. The small size and capacity of the firms and their lack of awareness have bred many hindrances to their growth such as Under-utilization of capacity, Inadequate and untimely credit flows, Inability in technology upgradation. Insufficient raw-material procurement Inability to market finished goods and Ineffective monitoring and feedback mechanism. The problem which continues to be a big hurdle for the development of the sector is the lack of access to timely and adequate credit.

However, since the early 1990's Indian SMEs have been exposed to intense Competition due to increasing globalization. This has made survival and growth of this sector difficult.

FINANCE PROBLEMS

Finance is the major concern for each and every SMEs. Every SME keep finding the various sources of finance and their alternatives.

INFRASTRUCTURE DEVELOPMENT

The quality of the infrastructure affects the growth prospects of SMEs to a great extent, especially in a developing country like India. Here, 77% of the population lives in villages. Many rural areas still suffer due to the deplorable state of basic infrastructure like transport, telecommunications and electricity.

TECHNOLOGICALLY HANDICAPPED

Technology plays a crucial role in the development of SMEs. Technology not only helps in evolving a multi-pronged strategy but also in maximizing business opportunities for these enterprises. Technologies for SMEs should aim at fuelling innovation and business agility.

NEW PRODUCT DEVELOPMENT

The SME market requires a strong new product development base. In India, most SMEs work on the designs given to them by domestic or foreign buyers. There is very little innovation in product design development, and even the technology used by the SMEs in India is Outdated. This has direct implication on the profit margins, and a dip in productivity levels. The use of traditional tools, old techniques, poor labour productivity, they have not been used to a large extent, resulting in no substantial effect on the output.

MARKETING PROBLEMS:

The nature of marketing is ever changing so does the problems associated with the marketing. The Indian SMEs are facing a lot of problems related to marketing in the national and international arenas. This is mainly due to the fact that these organizations belong to rural or semi urban areas where the resources are easily available to them and cheap labour are associated with.

CONCLUSION:

There is an unprecedented importance of Small and medium Enterprises in the country. This is because the number of units is maximum in the country. This sector, contributes a major amount in the development and employment. This sector does the work of providing employment to minorities, backward class people and also to women. This sector is rife with problems like shortage of electricity and development of basic infrastructure along with the problems related to market. In order to solve these problems and develop the SME sector, major efforts have been done in the eleventh plan. However these efforts are not enough. For the development of rural and farm group, different departments should be formed. Similarly, in the development of industrial ministry for urban Micro and Small and Medium Industries specific efforts should be done. SMEs always represented the model of socio-economic policies of Government of India which emphasized judicious use of foreign exchange for import of capital goods and inputs; labour intensive mode of production; employment generation; no concentration of diffusion of economic power in the hands of few (as in the case of big houses); discouraging monopolistic practices of production and marketing; and finally effective contribution to foreign exchange earning of the nation with low import-intensive operations. SMEs are the growth engine of the economy and help sustain other sectors such as services.

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