

MICRO SMALL MEDIUM ENTERPRISE IN INDIA-AN ANALYSIS**R. Senthilkumar**

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Abstract

The Micro Small and Medium enterprises play a vital role in the Indian economic structure due to its significant contribution in terms of output, exports and employment. For a developing nation like India, where the labour is abundant and capital is scarce, the small sector is a major source of employment for millions of people. Keeping in view the importance of SMEs, the Indian government has included this sector in its five-year plans. The MSMEs are still hampered by the problems of finance, marketing and low quality. Taking into account the enormous potential of the small sector, the entrepreneurs and the policy-makers must act collectively to facilitate growth in this sector.

Keywords: *MSMEs, entrepreneurs, market demand, industrial economy, exports, employment*

Introduction

Micro Small Medium Enterprises is an integral part of the Indian industrial sector. The distinctive feature of Micro Small and Medium Enterprises (MSMEs) are less capital investment and high labour absorption which has created unprecedented importance to this sector. As per the Development Commissioner of Micro, Small and Medium Enterprises (2001), the sector has the credit of being the second highest in employment, which stands next to agricultural sector. The nature of the businesses in this sector plays an important role to alleviate poverty and propel sustainable growth and equitable distribution of income in India. The MSMEs play an important role in efficiently allocating the enormous labour supply and scarce capital by implementing labour intensive production processes. MSME triggers private ownership, boosts entrepreneurial skills and their flexibility in responding quickly to changing market demand and supply conditions are noteworthy.

Growth and development of Micro, Small, and Medium Sized Enterprises (MSMEs) in India is a major priority given the crucial role that these enterprises play in the country's industrial economy. One rupee of investment in fixed assets in the MSME sector, for example, produces an estimated 4.6 rupees of goods and services with an incremental 10 percent in value addition. 1 According to the Ministry of MSMEs, over 12.8 million MSMEs collectively employ about 31million people, produce 39 percent of India's manufacturing output, and make up 95 percent of all industrial units. Their output accounts for

approximately 33 percent of total exports and 50 percent of total manufacturing exports. As with other emerging countries, the MSME sector has become an important driver for employment in India. According to the Small Enterprise Finance Centre at the Institute of Financial Management and Research in Chennai, India, the MSME sector is the second largest sector of employment in India, behind agriculture, and makes up about 45 percent of industrial employment.

The India government defines MSMEs based on their total investment in plant, property, and equipment (PPE) as shown in Table 1. This definition was refined by the Micro, Small, and Medium Enterprises Development (MSMED) Act of 2006. Given the crucial role that MSMEs play in the Indian economy and labor market, the Asia Foundation (TAF) seeks to better understand the environment in which these enterprises operate. In doing so, TAF is specifically interested in barriers that MSMEs face in accessing finance and policies created by the Reserve Bank of India (RBI) and the Ministry of Finance (MoF) in order to facilitate access to finance for the MSME sector. Finally, the Foundation hopes to identify areas in which it might undertake future initiatives and find potential partners for programs to promote sustainable growth among MSMEs.

Objectives of the Study

- To analyse the micro, small & medium enterprises in Indian economy
- To know Problems Faced by MSMEs in Indian Economy

Methodology

The present study is based on secondary data which has been collected from the various issues of Annual Reports on MSMEs and Handbook of Statistics on the Indian Economy published by Ministry of MSMEs and Reserve Bank of India (RBI) respectively. The study considers the time period from 2001-02 to 2010-11. To examine the performance of MSMEs in India, the available data have been processed and presented in suitable tables.

Statement of the Problem

The place of sound accounting and internal control systems in any business, irrespective of its scale, cannot be overemphasized. A vast majority of small-scale businesses cannot afford the complexity of a detailed accounting system even if they would have. Hence, the existence of single entries in their books and in some cases incomplete records (Wood, 1979; Onaolapo, et al., 2011).

Audits of small and medium scale enterprises have proven to be among the most worrisome for professional accountants because of the inadequacy of the internal controls. Except for statutory demands, small and medium scale enterprises hardly give serious thoughts to the process of sound accounting, yet the inadequacy and ineffectiveness of accounting processes have been responsible for untimely collapse of a host of them (Mukaila and Adeyemi, 2011)

Review of Literature

Bala Subrahmanya (2004) highlighted the impact of globalization and domestic reforms on small-scale industries sector. The study stated that small industry had suffered in terms of growth of units, employment, output and exports. The Researcher highlighted that the policy changes had also thrown open new opportunities and markets for the small scale industries sector. He suggested that the focus must be turned to technology development and strengthening of financial infrastructure in order to make Indian small industry internationally competitive and contribute to national income and employment.

Bargal et al. (2009) examined the causal relationship among the three variables GDP, SSI output and SSI exports and also have compared the performance parameters of SSIs in the pre and post liberalization era. The study found that the annual average growth rate of different parameters of SSIs have declined in the period of nineties vis-à-vis the pre-reform years. There is an absence of any lead-lag causal relationship between exports and production in small-scale sector and GDP of Indian economy.

Dixit and Pandey (2011) applied co integration analysis to examine the causal relationship between SMEs output, exports, employment, number of SMEs and their fixed investment and India's GDP, total exports and employment (public and private) for the period 1973-74 to 2006-07. Their study revealed the positive causality between SMEs output and India's GDP.

Singh et al. (2012) analyzed the performance of Small scale industry in India and focused on policy changes which have opened new opportunities for this sector. Their study concluded that SSI sector has made good progress in terms of number of SSI units, production & employment levels. The study recommended the emergence of technology development and strengthening of financial infrastructure to boost SSI and to achieve growth target.

Venkatesh and Muthiah (2012) found that the role of small & medium enterprises (SMEs) in the industrial sector is growing rapidly and they have become a thrust area for future growth. They emphasized that nurturing SME sector is essential for the economic well-being of the nation. The above literature highlights the various aspects viz. performance, growth & problems of MSMEs in Indian economy and induces for continuous research in this field.

Micro, Small & Medium Enterprises in Indian Economy

The Micro, Small and Medium Enterprises (MSME) or Small and Medium enterprises (SMEs) or also known as small scale industries (SSIs) are defined on the basis of their investment in plant and machinery (for manufacturing enterprise) as well as in equipments for service enterprises. The Ministry of Micro, Small and Medium Enterprises, Government India imposed the Micro, Small and Medium Enterprises Development (MSMED) Act in 2006 which defines MSME for both manufacturing and service sector.

In case of manufacturing sector, micro enterprise is where the investment in plant and machinery does not exceed twenty five lakh rupees; small enterprise is that enterprise in which the investment in plant and machinery is more than twenty five lakh rupees but does not exceed five crore rupees; medium enterprise is that having investment in plant and machinery more than five crore rupees but does not exceed ten crore rupees.

In case of the enterprises engaged in providing or rendering of services, micro enterprise is that one in which the investment in equipment does not exceed ten lakh rupees; small enterprise is where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees; medium enterprise is where the investment in equipment is ranging between two crore rupees and five crore rupees.

The ceilings on investment for the micro, small and medium enterprises both in manufacturing sector and service sector can be summarized in the following table 1

Table 1: Classification of MSMEs based on Investment Slabs Manufacturing Enterprises

| Manufacturing Enterprises | |
|----------------------------------|---|
| Enterprises | Investment in Plant & Machinery |
| Micro | Upto Rs. 25 lakhs |
| Small | More than Rs. 25 lakhs and upto Rs. 5 crores |
| Medium | More than Rs. 5 crores and upto Rs. 10 crores |
| Service Enterprises | |
| Enterprises | Investment in Equipments |
| Micro | Upto Rs. 10 lakhs |
| Small | More than Rs. 10 lakhs and upto Rs. 2 crores |
| Medium | More than Rs. 2 Crores and upto Rs. 5 crores |

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

Table 2: Growth Rate of MSMEs in Indian Economy

| Year | Total MSMEs (In lakh) | Fixed Investment (Rs. Crore) | Production (Rs. Crore) |
|---------|-----------------------|------------------------------|------------------------|
| 2001-02 | 105.21 | 154349 | 282270 |
| 2002-03 | 109.49 | 162317 | 314850 |
| 2003-04 | 113.95 | 170219 | 364547 |
| 2004-05 | 118.59 | 178699 | 429796 |
| 2005-06 | 123.42 | 188113 | 497842 |
| 2006-07 | 261.12 | 500758 | 709398 |
| 2007-08 | 272.79 | 558190 | 790759 |
| 2008-09 | 285.16 | 621753 | 880805 |
| 2009-10 | 298.08 | 693835 | 982919 |
| 2010-11 | 311.52 | 773487 | 1095758 |
| CAGR | 16.1% | 24.1% | 17.6% |

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

The above table 2 highlights the growth performance of MSME sector during 2001-02 to 2010-11. It is cleared that the total numbers of MSMEs have increased from 105.21 lakh in 2001-02 to 311.52 lakh i.e. in 2010-11 at the compound annual growth rate (CAGR) of 16.1 per cent. The fixed investment in this sector have also raised in a considerable manner from Rs 154349 crore in 2001-02 to Rs 773487 crore in 2010-11 with a significant CAGR of 24.1 per cent. The value of production of MSMEs has grown at the compound rate of 17.6 per cent during the period of ten years. A major point to be noted here that is the explosive growth of MSMEs in the year 2006-07. Despite, the global meltdown, MSME sector registered a considerable growth rate in terms of units, production, and investment etc. However, MSME sector has maintained a higher rate of growth vis-à-vis the overall industrial sector which can be observed from the comparative growth rates of production over the period of time for both the sectors as describes in the following table 3

Table 3: Comparative Growth of MSME & Overall Industrial Sector

| Year | Growth rate of MSME (In terms of IIP, base 2001-02) | Growth rate of Over all Industrial Sector (In terms of IIP, base 2001-02) |
|---------|--|--|
| 2002-03 | 8.68 | 5.70 |
| 2003-04 | 9.64 | 7.00 |
| 2004-05 | 10.88 | 8.40 |
| 2005-06 | 12.32 | 8.00 |
| 2006-07 | 12.60 | 11.90 |
| 2007-08 | 13.00 | 8.70 |
| 2008-09 | N.A. | 3.20 |
| 2009-10 | N.A. | 10.50 |
| 2010-11 | N.A. | 7.80 |

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

The table 3 indicates that the growth rate of MSME sector, in terms of index of industrial production (IIP) (base 2001-02) reached to 13 per cent in 2007-08. While the overall industrial sector achieves only 8.70 per cent growth rate in terms of IIP for the same year. It is also cleared that MSME sector has also consistently attained a higher growth rate as compared to the overall industrial sector in each year during 2002-2003 to 2007-08. Another important point here is that the sharp decline in the growth rate of industrial sector in the year 2008-09, which may be due to the impact of global economic crises. 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.

Table 4: Sickness in MSMEs in Indian Economy

| Year | Total MSMEs (In lakh) | Sick Units (In lakh) | Investment (Rs. Crore) | Investment in Sick Units (Rs. Crore) |
|---------|--------------------------|-------------------------|---------------------------|---|
| 2001-02 | 105.21 | 1.77(1.68) | 1546349 | 4819(3.12) |
| 2002-03 | 109.49 | 1.67(1.53) | 162317 | 5706(3.52) |
| 2003-04 | 113.95 | 1.43(1.25) | 170219 | 5285(3.10) |
| 2004-05 | 118.59 | 1.38(1.16) | 178699 | 5380(3.01) |
| 2005-06 | 123.42 | 1.26(1.02) | 188113 | 4981(2.65) |
| 2006-07 | 261.01 | 1.14(0.43) | 500758 | 5267(1.05) |
| 2007-08 | 272.79 | 0.85(0.31) | 558190 | 3083(0.55) |
| 2008-09 | 285.16 | 1.04(0.36) | 621753 | 3620(0.58) |

Soruce: Ministry of MSMEs, Annual Report, 2010-11, GOI; Hand book of Statistics on Indian Economy, 2009-10, RBI

Note: The figures in brackets show the percentage growth over the previous year.

It is cleared from the above table 6 that the number of sick units among MSMEs has declined to 0.85 lakh in 2008-09 from 1.77 lakh in 2001-02. Their percentage in total MSMEs

is also reduced from 1.68 per cent in 2001-02 to 0.36 per cent in 2008-09. The total investment in MSME units was stood at Rs. 154349 crore in 2001-02 out of which 3.12 per cent of investment was incurred on sick units of MSME sector. The percentage of investment on sick units is ranging from 0.55 per cent to 3.52 per cent over the years. The investment in sick units is decreased in 2008-09 in both absolute as well as in percentage terms, in comparison to the year 2001-02.

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 redtapism 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, favoring 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 domestic economic reforms.

Conclusion

It is clear that the government's policy of FDI in retail do not hold any water. This policy is not just detrimental for traditional small shopkeepers but also to a wider section of population, including MSME. With the onset of FDI in retail, gradually, Indians will lose its command over internal trade and manufacturing. The situation is not exactly the repetition of history, though in modified form, where we have a resourceful and rich foreign trader, offering glittered goods and services to Indian consumers. From trader, the same people turned in manufacturer and importer of cheaper goods manufactured at different countries. All these eventually mean a Self-reliant country and economy to become dependent economy which gets impacted by the whims and fancy of a mega investor, besides leading to mass unemployment, destruction of indication traditional industry base, death of local

and tradition knowledge regarding manufacturing and extension of many current goods from the shelves in the names of standards, quality and quantity. Do we want such things to happen in India? We must ensure that the back bone of India which is trade by small shopkeepers and the supply by the MSME remains intact, in order to keep the nation's interest and sovereignty.

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