

Growth, performance of MSMEs and its role in make in India

Mahaboobu Basha Shaik¹

Abstract: *“Make in India” a striving campaign was launched by Prime Minister, Narendra Modi on 25th September 2014, with an aim to turn the country into a global manufacturing hub. He has launched this campaign to encourage companies to manufacture their products in India, aiming to redesign manufacturing sector as a key engine for India’s economic growth. The study focuses on highlighting the role of Micro, Small and Medium Enterprises (MSMEs) in the “Make in India” initiative. In the 21st century, MSMEs are acting as specialist and soul of economic growth in India as well as in the world. The MSMEs play a main role in the economic development of a country. The MSMEs have been largely recognized as a foundation stone for the industrial development of any country. These enterprises contribute about 90 per cent of the business worldwide. The MSMEs can be the backbone for the existing and future growth businesses with both domestic and foreign companies investing in the ‘Make in India’ initiative and make significant impact in the area of indigenization. ‘Make in India with zero defect and zero effect’, is a significant opportunity. The ‘Digital India’ revolution also provides a great opportunity to promote MSME participation in the Information, Communication and Telecommunication (ICT) sector, in line with the government vision. It is equally important that the MSME segment develops in all areas of agriculture, manufacturing and services sectors because each of these sectors will continue to be very relevant to the overall GDP growth as well as employment generation.*

Keywords: Growth, MSMEs, Make in India, Digital India, ICT and GDP.

Introduction

Micro, Small and Medium Enterprises (MSMEs) are acting as specialist and soul of economic growth in India as well as in the world. In the 21st century, MSMEs play a main role in the economic development of a country. The MSMEs have been largely recognized as a foundation stone for the industrial development of any country. These enterprises contribute above 90 per cent of the business worldwide. The MSMEs can be the backbone for the existing and future high growth businesses with both domestic and foreign companies investing in the ‘Make in India’ initiative and make significant impact in the area of indigenization. ‘Make in India with zero defect and zero effect’, is a significant opportunity. The ‘Digital India’ revolution also provides a great opportunity to promote MSMEs participation in the Information, Communication and Telecommunication (ICT) sector, in line with the government vision. The “Make in India” campaign aims to transform India as a manufacturing powerhouse by promoting exports, encouraging Foreign Direct Investment (FDI), improving industrial productivity, and by lowering the barriers to doing business.

¹Asst. Professor, Department of Economics, Dr. Abdul Haq Urdu University, Kurnool, Andhra Pradesh.

Corresponding author: Mahaboobu Basha Shaik can be contacted at: mahaboob1246@gmail.com

Any remaining errors or omissions rest solely with the author(s) of this paper

Micro, Small and Medium Enterprises (MSMEs) play a significant role in the development of the industrial economy of the country. The MSMEs contribute close to 8 percent of the country's GDP, 45 percent of the manufacturing output. The major aspect of the sector is its immense employment potential at reasonable rate after agriculture. The MSMEs have a wide charisma across the country with production capacity of around 6000 diverse products and meeting needs of local as well as international markets.

The MSMED Act, 2006

The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 seeks to facilitate the development of these enterprises as also enhance their competitiveness. It provides the first-ever legal framework for recognition of the concept of "enterprise" which comprises both manufacturing and service entities. It defines medium enterprises for the first time and seeks to integrate the three tiers of these enterprises, namely, micro, small and medium. The Act also provides for a statutory consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly the three classes of enterprises; and with a wide range of advisory functions. Establishment of specific funds for the promotion, development and enhancing competitiveness of these enterprises, notification of schemes/programmes for this purpose, progressive credit policies and practices, preference in Government procurement to products and services of the micro and small enterprises, more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and assurance of a scheme for easing the closure of business by these enterprises are some of the other features of the Act.

Definitions of MSMEs in India

In India, the enterprises have been classified broadly into two categories:

- Manufacturing; and
- Those engaged in providing/rendering of services.

Classification	Investment Ceiling for Plant, Machinery or Equipments* @	
	Manufacturing Enterprises	Service Enterprises
Micro	Upto ` 25 lakh (\$50 thousand)	Upto ` 10 lakh (\$20 thousand)
Small	Above ` 25 lakh (\$50 thousand) & upto ` 5 crore (\$1 million)	Above ` 10 lakh (\$20 thousand) & upto ` 2 crore (\$0.40 million)
Medium	Above ` 5 crore (\$1 million) & Upto ` 10 crore (\$2 million)	Above ` 2 crore (\$0.40 million) & upto ` 5 crore (\$1 million)

*Fixed costs are obviously higher

Definitions before 2nd October 2006

Classification	Investment Ceiling for Plant, Machinery or Equipments*	
	Manufacturing Enterprises	Service Enterprises
Micro	Upto ` 25 lakh (\$50 thousand)	Upto ` 10 lakh (\$20 thousand)
Small	Above ` 25 lakh (\$50 thousand) & upto ` 1 crore (\$0.20 million)	–
Medium	Not defined	Not defined

*Excluding land and building; @ \$1 = ` 50 (April 2009)

Growth, performance of MSMEs and its role in make in India

Both categories of enterprises have been further classified into micro, small and medium enterprises based on their investment in plant and machinery (for manufacturing enterprises) or on equipments (in case of enterprises providing or rendering services). The present ceiling on investment to be classified as micro, small or medium enterprises is as under:

Features of the Act

The Act provides for a statutory consultative mechanism at the national level with wide representation of all sections of stakeholders, particularly the three classes of enterprises, and with a wide range of advisory functions. The following are the major features of the Act:

- Establishment of specific funds for the promotion, development and enhancement of competitiveness of these enterprises.
- Notification of schemes/programmes for the above purpose.
- Preference in government procurement to products and services of the micro and small enterprises.
- More productive mechanisms for mitigating the problems of delayed payments to micro and small enterprises.
- Simplification of the process of closure of business by all three categories of enterprises.

Review of Literature

According to Shiralashetti (2012), absence of adequate and timely supply of bank finance, limited capital and knowledge, lack of power, low quality inputs, low return, non-availability of suitable technology, low production capacity, ineffective marketing strategies are the main problems of MSMEs in India. Singh (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.

Ministry of MSMEs (2013), published the Inter Ministerial Committee for Accelerating Manufacturing in MSMEs' paper reporting slow down in the overall growth of MSMEs in recent years, especially post 2009. It highlighted the significance of MSMEs, changing trends in employment growth in this sector and addressed concerns regarding establishing an enterprise and running it successfully. It also recommended support systems for encouraging start ups, doing and expanding business and eases of closure and exit and also drew light on the need to do so.

Srinivas (2013), studied the performance of micro, small and medium enterprises, their contribution in India's economic growth, identified the number of enterprises, employment in MSMEs and concluded that MSMEs play a significant role in inclusive growth of Indian economy.

Abdul Naser (2013), critically evaluated the contributions made by the micro, small and medium enterprises in the balanced growth of the Indian economy. The study says that since 55

per cent of the total enterprises operate in the rural areas they promote inclusive growth and regional equity. They play a very important role in employment generation and contribute a commendable portion to the GDP, industrial production and export of the country. The paper also highlights the challenges faced by the sector and its need for structural support.

Majumdar (2013), highlights on two major considerations namely growth planning in small organization as entrepreneurial as well as strategic activity. In his studies, a conceptual model on growth strategy in small entrepreneurial organizations is presented. Three propositions are based on the theoretical framework are: one is personal ambition and vision of the entrepreneurs drive the growth of small organizations, second is the entrepreneurs of small organization search for strategic fit in the market and the environment, and third is the entrepreneurs of small organization continue to search better fit in the market. The propositions need to be validated with the help of empirical work. He takes an integrated view on all these aspects of small business management while explaining the growth strategy. The propositions made in his studies reflect strategic and entrepreneurial dimensions of growth and takes a view that entrepreneurial motivation is different from growth motivation.

Sangita & Chaudhari (2014), studied problems of small industries in India and they found Problems of skilled manpower, inadequate credit assistance, irregular supply of raw material, absence of organized marketing, lack of machinery and equipment, absence of adequate infrastructure and competition from large-scale units and imported articles. They also studied problems like– poor project planning, managerial inadequacies, old and orthodox designs, high degree of obsolescence, transportation problems, lack of power, and lack of adequate warehousing, lack of information. Due to all these problems the development of small-scale industries could not reach a prestigious stage.

Objectives of Study

Present study focuses on the “Make in India” campaign in turning the country into global manufacturing hub. Author has also focused his attention on the growth and performance of MSMEs in “Make in India” initiative and increase in financial contribution towards MSME’s under “Make in India” campaign.

Methodology

This paper examined the role of Make in India in MSMEs growth and making India a global manufacturing hub. Secondary sources include different census reports, economic surveys, journals, newspapers, government and non-government organizations (NGOs) associated with the industrial sector especially the Directorate of Industries, Directorate of Economics and Statistics, Development Commissioner, Ministry of Micro, Small and Medium Industries, New Delhi.

Growth and Performance of MSMEs

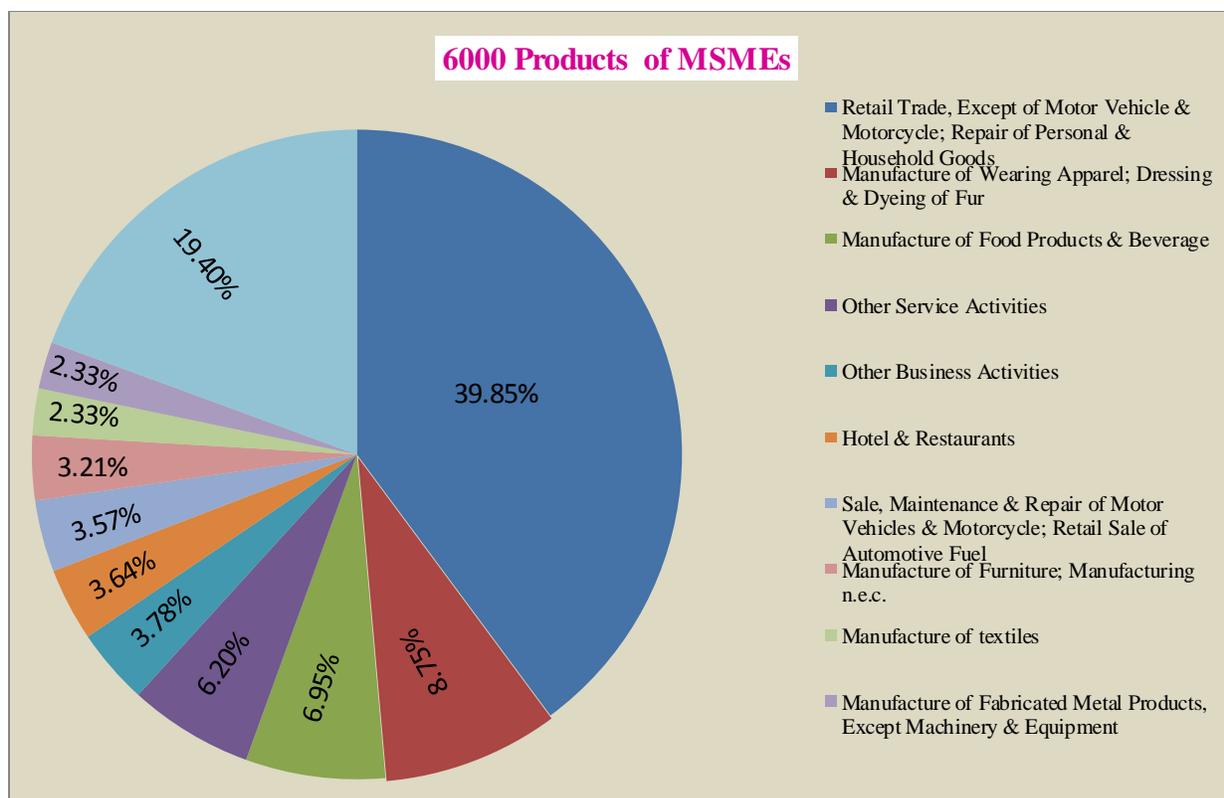
The Micro, Small and Medium Enterprises Development (MSMED) Act was notified in 2006 to address policy issues affecting MSMEs as well as the coverage and investment ceiling of the sector. The Act seeks to facilitate the development of these enterprises as also enhance their competitiveness. It provides the first-ever legal framework for recognition of the concept of “enterprise” which comprises both manufacturing and service entities. It defines medium enterprises for the first time and seeks to integrate the three tiers of these enterprises, namely, micro, small and medium. The Act also provides for a statutory consultative mechanism at the

national level with balanced representation of all sections of stakeholders, particularly the three classes of enterprises and with a wide range of advisory functions. The function of the Ministry of MSME and its organizations is to assist the States in their efforts to encourage entrepreneurship, employment and livelihood opportunities and enhance the competitiveness of MSMEs in the changed economic scenario.

Among the total working MSMEs, there is steep pyramid as 94.94 per cent are micro enterprises, 4.89 per cent are small enterprises and 0.17 per cent are medium sized enterprises. This comprises of 67.10% manufacturing enterprises and 32.90% services enterprises and about 45.23 per cent of enterprises are located in rural areas. The employment potential of micro enterprises is 70.19 per cent, small enterprise is 25.17 per cent and medium enterprise is 4.64 per cent. This sector comprises of more than 80 per cent of the total industrial units in the country and produces over 6000 products. The Figure shows pie diagram of 6000 products of MSMEs in India. Further, this sector has consistently registered a higher growth rate than the rest of the industrial sector. Its contribution in total industrial production in 2008-09 (at 1999-2000 prices) was 44.86 per cent and its share in GDP was 8.72 per cent (Annual Report 2011-12). The major advantage of this sector is its employment potential at low capital cost. It provides good opportunities for both self-employment and wage-employment. As per available statistics, the labour intensity of MSME sector is almost four times higher than the large enterprises. Although there is steady increase in the contribution of SSI/MSMEs in the total industrial production as well as labour productivity at constant price since 1973-74 till 1989-90.

The MSME sector produces over 6000 products ranging from traditional to high-tech items and provides the maximum opportunities for both self-employment and jobs after agriculture sector above diagram also observed that manufacturing jobs are ideal for the workers transitioning out of agriculture sector. The Indian manufacturing sector has the potential to elevate Indian population above the poverty line by absorbing the huge amount of work force out of agriculture sector. This sector has emerged as India's engine of growth in the past few years due to its contribution in Gross Domestic Product (GDP), employment generation, production and exports.

The growth in the coverage of MSME Sector followed performance of Micro, Small and Medium Enterprises Act, 2006. As per the results of Fourth All India Census of Micro, Small & Medium Enterprises (MSME), the sector contributes significantly to the number of enterprises, employment and output of the country. Based on the data sets of 3rd and 4th All India Census of SSI/MSMEs, augmented with data sets of EC, 2005 and growth rate observed during Fourth (1998) and Fifth (2005) Economic Census, the growth and performance of SSI/MSME Sector is shown in following table.

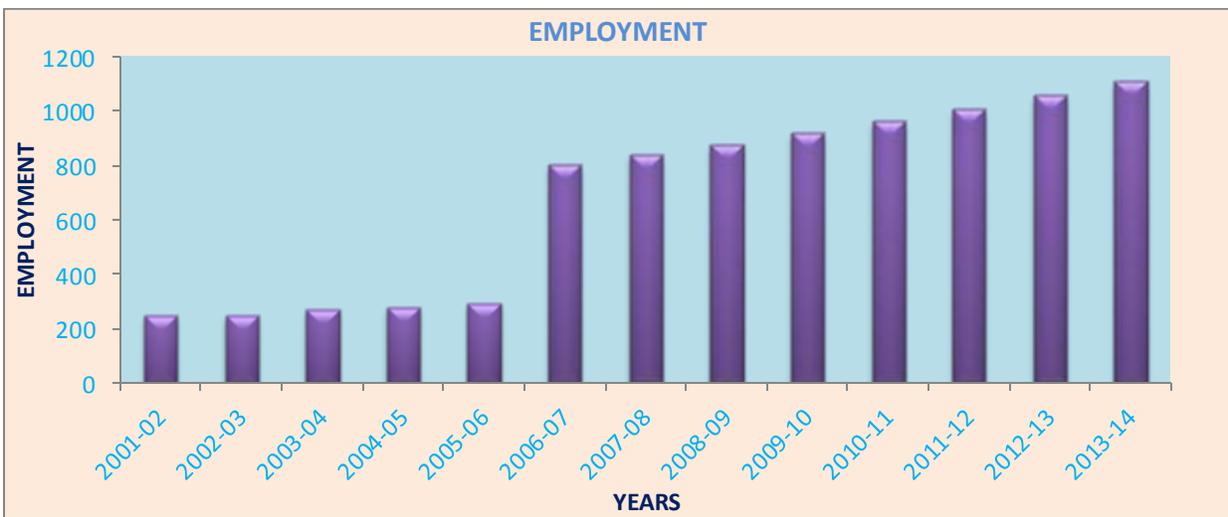
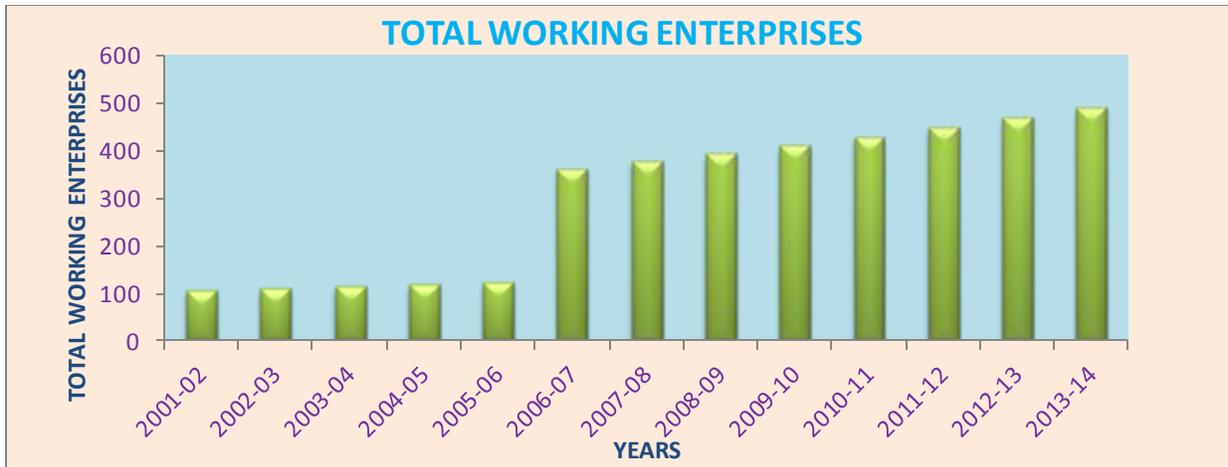


Growth of SSI/MSME: Employment & Fixed Assets

Year	Total Working Enterprises (in Lakh)	Employment (in Lakh)	Market Value of Fixed Assets (₹. in Crore)
2001-02	105.21	249.33	154,349.00
2002-03	109.49	249.33	162,317.00
2003-04	113.95	271.42	170,219.00
2004-05	118.59	282.57	178,699.00
2005-06	123.42	294.91	188,113.00
2006-07	361.76	805.23	868,543.79
2007-08	377.36	842.00	920,459.84
2008-09	393.70	880.84	977,114.72
2009-10	410.80	921.79	1,038,546.08
2010-11	428.73	965.15	1,105,934.09
2011-12	447.66	1,011.80	1,183,332.00
2012-13	467.56	1,061.52	1,269,338.02
2013-14	488.46	1,114.29	1,363,700.54

Source: Annual Report 2013-14, Ministry of Micro, Small and Medium Enterprises, GOI, New Delhi.

Growth, performance of MSMEs and its role in make in India



Role of MSMEs in ‘Make in India’ Campaign

PM Modi thundered “Start-up India, Stand up India” during August 15th, 2014 his Independence Day speech in Delhi, in order to inspire more Indians into entrepreneurship. The best part is that, the talks are transforming into concrete action. MSME can be the backbone for the existing and future high growth businesses with both domestic and foreign companies investing in the ‘Make in India’ initiative and make significant impact in the area of indigenization. ‘Make in India with zero defect and zero effect’, is a significant opportunity.

New policies were framed under “Make in India” campaign to facilitate the expansion of Micro Small and Medium Enterprises (MSME) and increase the focus on innovation. It includes the launch of INR 10,000 crores venture capital fund dedicated to MSMEs. The government has made strategic visits overseas to drive increased investment (including a visit to Japan, where the government has committed to investments in India of USD 35 billion, and to the US where a US-India business body has committed to a USD 42 billion investment in India over the next two to three years).

Another key area of progress for India would be the development of its SMEs to achieve and manage scale effectively. Our supply chains are over-dependent on MSMEs. The MSME sector employs over 80 million people in 36 million units, and contributes 45 percent of the manufacturing output. Issues connected with credit availability - adequacy, timely availability, cost and mortgages -remain a continuing concern for MSME associations. This is not surprising because, with little promoter’s capital, a small unit is entirely dependent on credit to set up its enterprise.

The “Make in India” campaign aims to transform India as a manufacturing powerhouse by promoting exports, encouraging Foreign Direct Investment (FDI), improving industrial productivity, and by lowering the barriers to doing business. The government hopes to create 100 million jobs by 2022 and to increase the share of manufacturing in GDP to 25%.

Conclusion

To conclude, the MSME sector of India is today at the gateway of global growth on the strength of competitive and quality product range. However, facilitation from the Government is required to minimize the transaction costs of technology up gradation, market penetration, modernization of infrastructure etc. In this paper we have looked at growth of Indian Micro Small and Medium Enterprise Sector over the last ten years. The MSME sector has often been termed the ‘engine of growth’ for developing economies.. We begin with an overview of this sector in India and look at some recent trends which highlight the development and significance of this sector vis-à-vis the Indian economy. We have analyzed the growth of MSMEs in fixed investment, production performance, employment generation and export contribution. The MSME Development Act of 2006 is perhaps the most crucial of these recent policy changes. The policies of interest are state outlays and subsidies targeted towards this sector. ‘Make in India’ is a major national initiative which focuses on making India a global manufacturing hub. This paper analyzed the contributions made by the MSME sector in industrial production and promotion of employment through working enterprises across the country. A US-based Entrepreneurial Finance Lab (EFL) found a credit gap that exists in the MSME finance sector in India. MSMEs segment will play a key role in domestic manufacturing in the coming days and will lead the ‘Make in India’ program towards success.

References

- Venkatesh, S. and Muthiah, K. (2012): 'SMEs in India: Importance and Contribution', *Asian Journal of Management Research*, Vol. 2, No. 2.
- Ministry of MSMEs (2013): published the Inter Ministerial Committee paper, Ministry of Micro, Small and Medium Enterprises, GOI, New Delhi.
- Srinivas, K. T. (2013): Role of Micro, Small and Medium Enterprises in Inclusive Growth. *International Journal of Engineering and Management Research*, Vol-3, Issue-4, August.
- Naser.V Abdul, (2013): A Critical Evaluation of the Contributions made by the Micro, Small and Medium Enterprises in Indian Economy.
- S. Majumdar (2013): "Growth Strategy in Small Entrepreneurial Business Organizations: A Conceptual Model", *Journal of Small Business Management*, Vol.3, April.
- Sangita G.Patil, & Chaudhari, P. T. (2014): Problems of Small Scale Industries in India, *International Journal of Engineering and Management Research*, Volume-4, Issue-2, April.
- Report of Micro, Small & Medium Enterprises 2010-2011, Ministry of MSMEs, GOI, New Delhi.
- Report of Micro, Small & Medium Enterprises 2011-2012, Ministry of MSMEs, GOI, New Delhi.
- Report of Micro, Small & Medium Enterprises 2012-2013, Ministry of MSMEs, GOI, New Delhi.
- Report of Micro, Small & Medium Enterprises 2013-2014, Ministry of MSMEs, GOI, New Delhi.
- Micro, Small and Medium Enterprises Department Policy Note 2013 – 2014, Demand No.44, P. Mohan Minister for Rural Industries, Government of Tamil Nadu 2013.
- Statistical year book 2014, Ministry of Statistics and Program Implementation, Government of India.
- MSME Development Act 2006, Ministry of MSME, Government of India.