



## MSME SECTOR: A MAJOR CONTRIBUTOR TO INDUSTRIALIZATION IN INDIA

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### ABSTRACT

The Micro, Small and Medium Enterprises today constitute a very important segment of the Indian economy. The development of this sector came about primarily due to the vision of our late Prime Minister Jawaharlal Nehru who sought to develop core industry and have a supporting sector in the form of small scale enterprises. MSME sector has emerged as a dynamic and vibrant sector of the economy. Today, it accounts for nearly 35% of the gross value of output in the manufacturing sector and over 40% of the total exports from the country. The MSME sector has grown rapidly over the years. The growth rates during the various plan periods have been very impressive. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural and backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of National Income and wealth. The inclusiveness of the MSME sector is highlighted by the fact that around 50.0 per cent of MSMEs in India are owned by underprivileged groups. Due to its low capital structure, coupled with high labour absorbing power, the sector has played a noteworthy role in achieving rural industrialisation as well. The MSME sector remains a key driving force for India's complete transition from an agrarian economy to an industrialised one. Subsequently, MSMEs have been awarded a host of incentives by governments across India. A number of other organisations in the private and non-profit domain have also been aiding MSMEs to remain competitive in a more globalised economic order. This is set to continue in the coming decade as well, with MSMEs requiring access to credit, technological know-how and training centres for bridging the skill gap. The researcher tries to analyze the contribution of MSMEs in the Industrialization of Indian Economy. The

paper has been prepared on the basis of available literatures. The present research paper reveals that MSMEs have a crucial role in the GDP growth of our nation over the last two decades.

**KEYWORDS:** MSME, GDP, Growth, Economy, Employment, Industrialization, Rural Development.

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## **INTRODUCTION**

MSMEs are defined in different ways in different parts of the world. In some countries, they are defined in terms of assets, while few countries use employment as a parameter for defining MSMEs. The MSME sector is responsible for about 40 per cent of the exports and 45 per cent of the total manufacturing output of the country (MSME Annual Report, 2012). This sector is the nursery of entrepreneurship and has been recognised as the engine of growth. The MSMEs also have a vital role in the dispersal of industries and generation of employment opportunities. The main advantage of this sector is that it provides a large employment at a low capital cost.

In the last few years, the MSME sector has reflected a higher growth compared to the overall industrial sector. With its quick responsiveness, adaptability and innovative approaches in the recent years, this sector has shown a commendable endurance to survive the effects of recession.

Micro, Small and Medium Enterprises (MSMEs) in India have evolved considerably since independence. From being referred to merely as the Small Scale Industries (SSI) sector in the 60s and 70s, the MSME sector has progressed in scale and in the scope of business activities over the years. Today, MSMEs are present across sectors (manufacturing, trade and services) in India, thereby constituting a formidable component of the country's outstanding economic growth. While a key achievement of MSMEs over time has been their talent in utilising available domestic resources to deliver quality products and services, these

firms have made their presence felt across India's key sectors as well as in prominent export markets. MSMEs have made an impact on a range of issues, from industrial progress to entrepreneurship and from job creation to economic empowerment.

The inclusiveness of the MSME sector is highlighted by the fact that around 50.0 per cent of MSMEs in India are owned by underprivileged groups. Due to its low capital structure, coupled with high labour absorbing power, the sector has played a noteworthy role in achieving rural industrialisation as well. The MSME sector remains a key driving force for India's complete transition from an agrarian economy to an industrialised one. Subsequently, MSMEs have been awarded a host of incentives by governments across India. A number of other organisations in the private and non-profit domain have also been aiding MSMEs to remain competitive in a more globalised economic order. This is set to continue in the coming decade as well, with MSMEs requiring access.

## **REVIEW OF LITERATURE**

MSMEs are considered as a driving force of innovation and employment, and thus they are an important factor in fostering general economic performance (Carree and Thurik, 2008). Recent empirical studies suggest that the creation or development of small and medium enterprises was decisive in economic growth (Beck et al, 2005).

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 (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 MSMEs output, exports, employment, number of MSMEs 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 MSMEs output and India's GDP.

Mali (1998) observed that Micro, small and medium enterprises (MSMEs) have to face increasing competition in the present scenario of globalization; they have to specifically improve themselves in the fields of management, marketing, product diversification, infrastructural development, technological up gradation.

Moreover, new small and medium enterprises may have to move from slow growth area to the high growth area and they have to

form strategic alliance with entrepreneurs of neighbouring countries. Data bank on industries to guide the prospective entrepreneurs including investors from abroad is also needed.

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.

The extensive literature indicates that many industrial enterprises belong to the MSME category and they play a vital role in the economy and are a major source of various economic contributions (Nguyen, Alam, and Prajogo 2009).

Gentry and Hubbard (2004) found that entrepreneurs comprise just fewer than 9% of households in the U.S., but they hold 38% of household assets and 39% of the total net worth. Not only are entrepreneurs wealthier, but also the wealthy are more likely to become entrepreneurs.

## **OBJECTIVES**

- ✧ To analyze the contribution of MSMEs and Industrialization in Indian Economy.
- ✧ To analyze the effect of MSME Act 2006 on Industrialization in India.

## **METHODOLOGY**

The study is primarily based on qualitative literature survey method. It facilitates in depth analysis of the issues related to MSMEs, Industrialization and Indian Economy. Extensive review of the literature

provided useful insight about the major contribution of MSMEs in Indian Economy. The present study is exclusively 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 2011-12.

## CONTRIBUTION OF MSMEs AND INDUSTRIALIZATION IN INDIAN ECONOMY

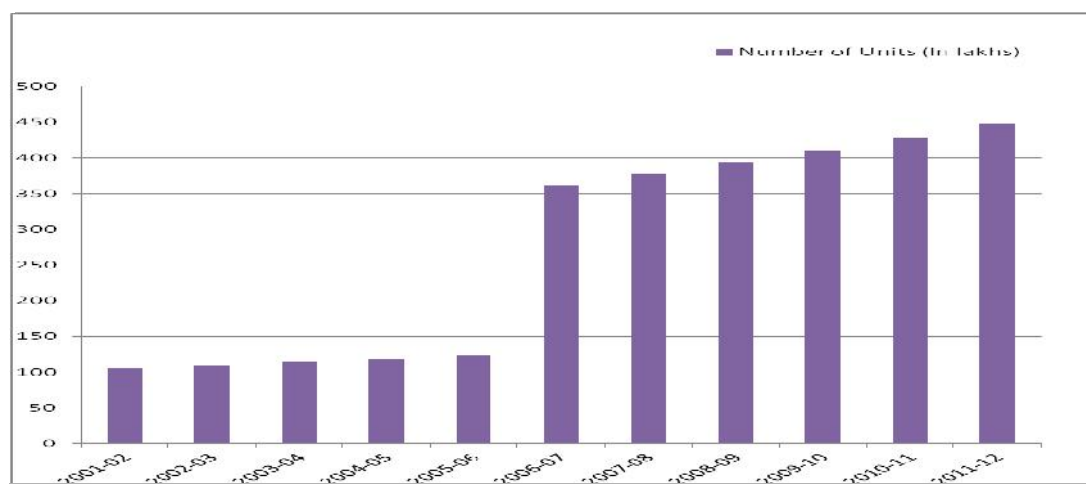
MSMEs play a pivotal role in the economy of our country. Table-1 highlights the performance of MSMEs in India over the last decade.

**Table-1 Growth of MSMEs in the last decade**

Sl. No.	Year	Total Working Enterprise (In Lakh)	Employment (In Lakh)	Market Value of Fixed Assets (In Crore)	Gross Output (In Crore)
1	2001-02	105.21	249.33	154349.00	282270.00
2	2002-03	109.49	260.21	162317.00	314850.00
3	2003-04	113.95	271.42	170219.00	364547.00
4	2004-05	118.59	282.57	178699.00	429796.00
5	2005-06	123.42	294.91	188113.00	188113.00
6	2006-07	361.76	805.23	868543.79	1351383.45
7	2007-08	377.37	842.23	917437.46	1435179.26
8	2008-09	393.70	881.14	971407.49	1524234.83
9	2009-10	410.82	922.19	1029331.46	1619355.53
10	2010-11	428.77	965.69	1094893.42	1721553.42
11	2011-12	447.73	1012.59	1176939.36	1834332.05

Source: Annual Reports of MSMEs (2012)

**Figure-1 Number of Units (In Lakhs)**

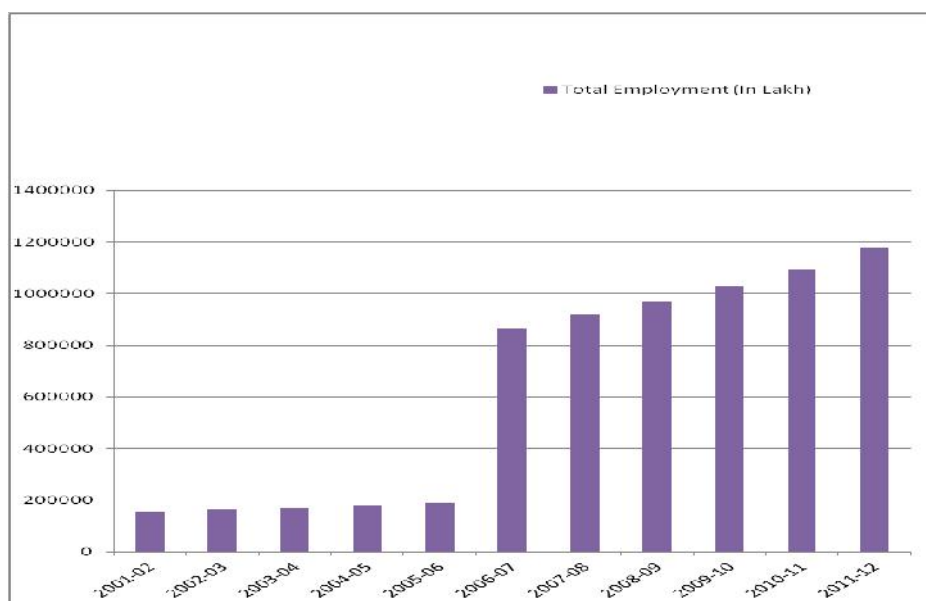


Source: Compiled from MSME Annual Report (2012)

Figure-1 displays an increase in number of units from 105.21 lakh in 2001-02 to 447.73 lakh in 2011-12, reflecting an increase of 325.55% over the last decade. MSMEs have

shown an immense increase in the numbers in last ten years. The growth in numbers may be associated to various schemes offered by government to promote entrepreneurship in the MSME sector.

**Figure-2 Total Employment (In Lakhs)**

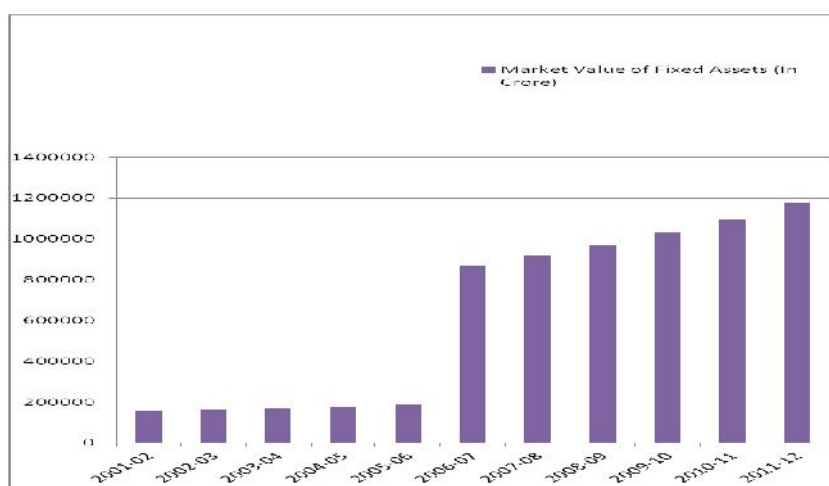


Source: Compiled from MSME Annual Report (2012)

Figure-2 highlights the increase in the total number of employments that comes under the MSME sector. The contribution towards employment by the MSME sector also increased from 249.3 lakh in 2001-02 to 1012.59 lakh in

2011-12, reflecting an increase of 306.17% over the last decade. MSME has now become the second largest source of employment in our country just after agriculture.

**Figure-3 Market Value of Fixed Assets (In Crore)**

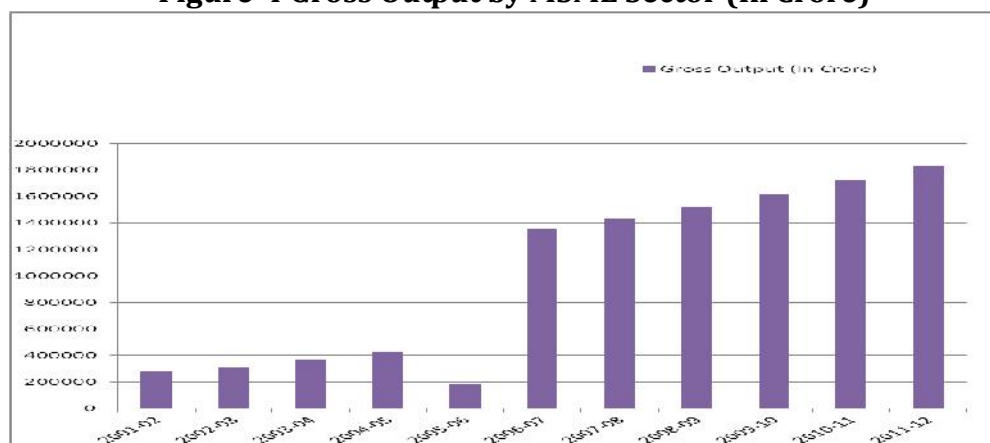


Source: Compiled from MSME Annual Report (2012)

Figure-3 displays the increase in total market value of fixed assets of the MSME sector. The market value of fixed assets of MSMEs increased from Rs. 154349 crore in 2001-02 to Rs. 1176939.36 crore in 2011-12, reflecting an increase of 725.57% over the last decade. MSME

no longer are operated through handlooms or small machines. Science and technology had a deep impact on MSMEs as well and slowly they have started using heavy machines for the production process.

**Figure-4 Gross Output by MSME Sector (In Crore)**



Source: Compiled from MSME Annual Report (2012)

Figure-4 highlights the increase in gross output of the MSME sector over the last ten years. The gross output by MSMEs increased from Rs. 282270 crore in 2001-02 to Rs. 1834332.05 crore in 2011-12, reflecting an

increase of 549.85% over the last decade. Due to the support provided by the government and use of heavy equipments for production, the gross output by MSME sector has shown a tremendous increase over the last ten years.

**EFFECT OF MSME ACT 2006 ON INDUSTRIALIZATION IN INDIA**

**Table-2 Classification of Industries in MSME Act 2006**

Particulars	Investment in Plant & Machineries in case of Manufacturing Enterprises	Investment in Equipment in case of Service Sector Enterprises
<b>Micro Enterprises</b>	Up to Rs. 25/- lacs	Up to Rs.10/- lacs
<b>Small Enterprises</b>	Above Rs. 25/- lacs and up to Rs.500/- lacs	Above Rs.10/- lacs and up to Rs.200/- lacs
<b>Medium Enterprises</b>	Above Rs.500/- lacs and up to Rs.1000/- lacs	Above Rs.200/- lacs and up to Rs.500/- lacs

Source: Compiled from MSME Annual Report (2012)

**Quality Management Standards (QMS):-**

The scheme aims at improving the quality of the product in the MSME sector and inculcating quality consciousness among units of the sector as per global standards.

**Credit Guarantee Fund Scheme:-**

The objective of making available credit to micro and small enterprises without collateral/third party guaranties. The scheme is being operated through the credit guaranty fund trust for MSMEs setup jointly by the government of India and SIDBI.

**Microfinance programme:-**

Under the scheme, the government of India provides funds to SIDBI under a ‘portfolio risk fund’ (PRF), which is utilized for security deposit requirement of the loan amount the MFIs/NGOs.

**Different Programmes for MSMEs:-  
Entrepreneurship Development Programme:-**

Entrepreneurship development programs are being organized regularly to nurture the talent of youth by enlightening them on various aspects of industrial activity required

for setting up MSMEs. These programs are generally conducted in DICs where they are motivated towards self-employment. The course contents of such programs are designed to provide useful information on product process design, manufacturing practices involved, testing and quality control, selection and usage of appropriate machinery and equipments, project profile preparation, marketing and pricing techniques.

### **Management Development Programme:-**

The objective of imparting training on management practice system is to improve the decision making capabilities of existing and potential entrepreneurs resulting in higher productivity and profitability.

### **Technology Up gradation Programme:-**

In general, MSMEs lack access to technology due to poor consultancy support/service for technological information, non availability of skilled man power, lack of awareness among entrepreneurs about emphasis on production and production cost, lack of managerial skill and poor adoptability to change trade trends. For technology up gradation DIC provide capital subsidy and other assistance to strengthen MSME Sector.

### **CONCLUSION**

MSMEs are likely to experience a more conducive landscape going forward, with the government committed to provide momentum to the sector by including it as an integral part of industrial policy. Experts opine the share of MSMEs in the country's GDP would touch double-digits by the end of this decade from the current 8.0 per cent. MSMEs' contribution to the country's GDP is expected to increase to 22.0 per cent by 2020. The anticipated rise can be attributed to policymakers' focus on boosting the country's manufacturing sector and promoting greater role of entrepreneurial

activity across sectors. This could lead to a wide range of lucrative opportunities for domestic and international investors.

The MSME landscape has matured over time and moved up the value chain. The MSME sector has evolved from the manufacturing of traditional products to much more hybrid products to the value-added services segment. This transition has been majorly fuelled by the consortium approach adopted by MSMEs. Firms in the MSME sector that were earlier facing difficulties in achieving economies of scale, specialisation and innovation due to their small size are now increasingly benefitting from the advent of industrial clusters. Clusters and associated networks enable small firms to combine the advantages of running a small unit with the benefits of scale and specialisation provided by large units. Currently, there are more than 600 industrial SMEs clusters and over 7,000 artisan/micro enterprise clusters operating in India.

Different studies have indicated that MSMEs act as an engine for growth of any economy and their role in the development of nation cannot be overlooked. The study reveals that there has been a drastic increase in the number of MSME units over the last ten years. The employability of the MSME sector has also increased tremendously and it has now become the second largest employer after agriculture. MSMEs have also increased their market share in last 10 years. MSMEs are no longer operated through only handlooms and manual labour. Various Technology Up gradation schemes had a positive impact on the production output of MSMEs. Now, MSMEs make use of power looms and various automated machines for their production process.

Government has also realized the importance of Skill development for the budding entrepreneurs and has come up with

various Entrepreneurship Development Programmes for nurturing the entrepreneurial skills of the budding entrepreneurs. Various institutes have been setup and they are involved imparting the required skills needed to survive and progress in this era of globalization. Marketing the products through proper channels has always been a tough challenge for the MSME Sector, but government has come up with various Marketing Assistance Programmes to give MSMEs a helping hand.

MSMEs have shown a commendable progress over the last decade and have now become a major contributor for facilitating industrialization in our country. Now, they have a major share in economic development of our country. MSMEs assume much more importance because they use the local resources, provide employment to the people of nearby areas and thus are responsible for balanced regional development of our country.

MSMEs have been coordinating with private sector players in upgrading skills and delivering quality. Large industrial firms (such as those in automotive sector) often tend to be the end-customer for MSMEs. To ensure product quality, these firms often coordinate with smaller suppliers to impart the requisite skills and ensure adherence to standardised processes. The government as well as NGOs have been actively involved in this endeavour. With improving skills, better coordination with bigger firms and greater technological access, MSMEs in India have moved into a higher trajectory of success. The sector currently produces more than 6,000 quality products, ranging from handloom saris, carpets and soaps to pickles and machine parts, for huge industries targeting domestic and international markets.

Availability of funds at competitive rates is considered to be an important factor to fund

long-term growth plans and short-term working capital needs of MSMEs. Small Industries Development Bank of India (SIDBI)'s contribution to the sector so far has been remarkable. Furthermore, with an aim to streamline the funding process, SIDBI, in collaboration with various major public and private sector banks in India, launched a dedicated rating agency called SME Rating Agency of India in 2005. The rating agency provides a third-party rating for the overall condition of a specific MSME before granting loans.

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